LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

State Insurance Fund Corporation

(A Component Unit of the Commonwealth of Puerto Rico)

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June 30, 2014 and 2013

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Independent Auditors' Report

To the Board of Directors of
State Insurance Fund Corporation:

Report on the Financial Statements

We have audited the accompanying basic financial statements of State Insurance Fund Corporation (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2014 and 2013, and the related notes to the basic financial statements, which collectively comprise the Corporation basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2014 and 2013, and the respective statements of revenues, expenses and changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 thru 17, the Ten-Year Claims Development Information and the Schedules of Funding Progress and Employer Contributions for Pension Costs and Postemployment Benefits Other than Pensions on pages 82 thru 84, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated December 10, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Landa Umpierre PSC

San Juan, Puerto Rico
December 10, 2014

Stamp number E100603 of the Puerto Rico Society
of CPA's was affixed to the record copy of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

INTRODUCTION

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. 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 Act provides that the Corporation's administrative expenses shall not exceed 22% of the total insurance premiums collected during the previous fiscal year. Administrative expenses exclude depreciation and amortization expense, provision for (recoveries of) uncollectible accounts, interest expense and investment managers' fees. The Corporation complied with this requirement of the Act for the years ended June 30, 2014 and 2013.

This section presents a narrative overview and analysis of the financial performance of the Corporation as of and for the years ended June 30, 2014 and 2013. The information presented here should be read in conjuction with the basic financial statements, including the notes thereto.

FINANCIAL HIGHLIGHTS

- Increase in total assets of $67.1 million in 2014 when compared to 2013. Decrease in total assets of $24.7 million in 2013 when compared to 2012.
- Increase in total liabilities of $1.6 million in 2014 when compared to 2013. Decrease in total liabilities of $30.5 million in 2013 when compared to 2012.
- Decrease in operating revenues of $36.7 million in 2014 when compared to 2013. Increase in operating revenues of $14.8 million in 2013 when compared to 2012. The historical trend of premium collections for the last years, presents a significant reduction of revenues, which resulted in a decrease of approximately 4% in 2014. As a result of the downturn in the Puerto Rico economy it is expected that this adverse trend will continue in the upcoming years, therefore, resulting in a negative impact in the cash flows necessary for the Corporation to comply with all its obligations.
- Decrease in operating expenses of $53.6 million in 2014 when compared to 2013. Decrease in operating expenses of $64.2 million in 2013 when compared to 2012.
- At June 30, 2014 the Corporation's unfunded liabilities in connection with the Pension and Other Postemployment plans amounted to $28,302,844, ($29,634,360 at June 30, 2013) and $33,584,691, ($38,363,662 at June 30, 2013), respectively. Currently, the Corporation does not have specific assets set aside to cover these liabilities.
- The Corporation had an increase of $17 million in its operating income for 2014 when compared to 2013. The Corporation had operating income of $23.4 million in 2013 as compared to an operating loss of $55.7 million in 2012. The positive results are mainly driven by adjustments to actuarially determined reserves.

- The actuarially determined credit for compensation benefits, medical benefits and benefit adjustment expenses increased by $9.7 million in 2014 ($16.2 million) when compared to 2013 ($6.5 million). It went from a provision of $23.8 million in 2012 to a credit of $6.5 million in 2013.
- Transfers to other governmental agencies amounted to $107.9 million in 2014, $67.8 million in 2013 and $51.3 million in 2012. These transfers of funds have an adverse impact in the Corporation's resources in order to comply with its obligations and social responsibility.
- The change in net position for the years ended June 30, 2014 and 2013 amounted to $65.5 million and $5.7 million respectively. The positive results are mainly driven by net gains in investment activities of the Corporation and adjustments to actuarially determined reserves.
- The Corporation is evaluating the impact of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GAS 68), which is effective for periods beginning after June 15, 2014. GAS 68 establishes among other things that employers participating in defined benefit cost-sharing multiple employer pension plans will be required to recognize their proportionate share of the "collective" net pension liability on the face of their statements of net assets. The implementation of this pronouncement may adversely impact the Corporation's net position.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

The statements of net position provide information on the Corporation's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) with the residual of all elements presented in a financial position statement reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

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

The statements of cash flows show changes in cash and cash equivalents, resulting from operating, non–capital and capital financing and investing activities, which include cash receipts and cash disbursements information.

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

The required supplementary information consists of three schedules concerning the following: (1) the ten–year claims development information required by the Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, (2) the supplementary information of the Corporation's Pension Costs as required by GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and, (3) the supplementary information of the Corporation's Postemployment Benefits other than Pensions Program as required by the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.*

FINANCIAL ANALYSIS

The following is the condensed financial position of the Corporation as of June 30, 2014, 2013 and 2012:

Condensed Statements of Net Position

	June 30,		Change	
	2014	2013	Amount	Percent
Assets:				
Cash and cash equivalents	$ 142,334,247	161,162,902	(18,828,655)	-11.68%
Accounts receivable - net	101,399,353	84,028,502	17,370,851	20.67%
Investments	1,580,329,990	1,509,755,383	70,574,607	4.67%
Capital assets - net	101,604,705	103,561,862	(1,957,157)	-1.89%
Other assets	3,567,381	3,609,385	(42,004)	-1.16%
Total assets	$ 1,929,235,676	1,862,118,034	67,117,642	3.60%
Liabilities:				
Current liabilities	$ 548,817,902	503,715,024	45,102,878	8.95%
Non-current liabilities	977,814,742	1,021,302,038	(43,487,296)	-4.26%
Total liabilities	1,526,632,644	1,525,017,062	1,615,582	0.11%
Net position:				
Net investment in capital assets	44,503,796	40,427,830	4,075,966	10.08%
Restricted	67,760,000	72,600,000	(4,840,000)	-6.67%
Unrestricted	290,339,236	224,073,142	66,266,094	29.57%
Total net position	402,603,032	337,100,972	65,502,060	19.43%
Total liabilities and net position	$ 1,929,235,676	1,862,118,034	67,117,642	3.60%

	June 30, 2013	June 30, 2012	Change Amount	Change Percent
Assets:				
Cash and cash equivalents	$ 161,162,902	159,248,401	1,914,501	1.20%
Accounts receivable - net	84,028,502	81,216,370	2,812,132	3.46%
Investments	1,509,755,383	1,536,840,586	(27,085,203)	-1.76%
Capital assets - net	103,561,862	106,212,872	(2,651,010)	-2.50%
Other assets	3,609,385	3,353,991	255,394	7.61%
Total assets	$ 1,862,118,034	1,886,872,220	(24,754,186)	-1.31%
Liabilities:				
Current liabilities	$ 503,715,024	506,853,255	(3,138,231)	-0.62%
Non-current liabilities	1,021,302,038	1,048,653,660	(27,351,622)	-2.61%
Total liabilities	1,525,017,062	1,555,506,915	(30,489,853)	-1.96%
Net position:				
Net investment in capital assets	40,427,830	37,965,293	2,462,537	6.49%
Restricted	72,600,000	72,600,000	—	0.00%
Unrestricted	224,073,142	220,800,012	3,273,130	1.48%
Total net position	337,100,972	331,365,305	5,735,667	1.73%
Total liabilities and net position	$ 1,862,118,034	1,886,872,220	(24,754,186)	-1.31%

- **The Corporation's total assets increased by $67.1 million in 2014 (or 3.60%) and decreased by $24.7 million in 2013 (or 1.31%)**

Increase in total assets of the Corporation to $1,929 million in 2014 from $1,862 million in 2013 is mainly driven by the Corporation's investment activities. On December 2013, the Board of Directors of the Corporation approved an amended Statement of Investment Policy, Guidelines and Objectives (SIPGO). As part of the policy changes, the Corporation restructured the composition and allocation of assets of its investment portfolio, seeking for better risk coverage and returns, as well as, redistributed the portfolio and invested funds among existing and new investment managers.

On December 19, 2013 the Corporation entered into a Note Purchase Agreement with the Government Development Bank (GDB) whereby the Corporation agreed to purchase from GDB Senior Guaranteed Notes (the Notes) in an aggregate amount of $110,000,000 which are guaranteed by the Commonwealth of Puerto Rico. These notes are part of the Corporation's municipal obligations outstanding at June 30, 2014. Also during the last quarter of 2014, the Corporation invested in new limited partnerships and alternative investments as part of its new investment policies. Approximately $97 million were invested in these new instruments at June 30, 2014.

Another factor driving the increase in total assets in 2014 is an increase in accounts receivable from investment brokers as a result of securities sold not yet delivered at June 30, 2014.

Decrease in total assets of the Corporation to $1,862 million in 2013 from $1,887 million in 2012 is mainly due to a decrease in the Corporation's investments of approximately $27 million. Such decrease is directly related to the increase in cash and cash equivalents and is mainly attributed to a decrease in the investments portfolio resulting from retirements of approximately $69 million made during the year from investments (principally stocks) to the operational cash for payment of the Corporation's debt (interest only) and to cover other cash needs of the Corporation. The Corporation also recorded an impairment loss on capital asset of $2.8 million in 2013, thus decreasing capital assets-net.

- **The Corporation's total liabilities increased by $1.6 million in 2014 (or 0.11%) and decreased by $30.5 million in 2013 (or 1.96%)**

Increase in total liabilities to $1,526 million in 2014 from $1,525 in 2013 is mainly due to the net effect of an increase in accounts payable related to the intergovernmental accruals of approximately $23 million resulting from the enactment of Act No. 66 of June 17, 2014 (Act No. 66-2014), "The Fiscal Sustainability Act", and the enactment of Act No. 32 of June 25, 2013 (Act No. 32-2013), decreases in certain accruals (as a result of the same Act No. 66-2014), decrease in the actuarially determined liability for incurred but unpaid benefits and benefit adjustment expenses, and payments made to note payable, other notes payable, and capital lease obligation.

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014, the "Fiscal Sustainability Act". The Fiscal Sustainability Act is a fiscal emergency law enacted to address the fiscal pressures on the Commonwealth imposed by excessive leverage, persistent budgetary deficits, sluggish economic growth, and fiscally challenged public corporations, among others, as exacerbated by the credit rating downgrades that occurred in February of 2014. The Fiscal Sustainability Act will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met.

The principal corrective measures adopted by the Fiscal Sustainability Act include the following: (i) the freezing of benefits under collective bargaining agreements and the reduction of certain non-salary compensation; (ii) the contribution of the savings generated by certain public corporations to support certain General Fund expenses; (iii) the freezing of formula appropriation increases to the University of Puerto Rico and the municipalities; (iv) the freezing and reduction of formula appropriations to the Judicial Branch, the Legislative Assembly and certain other entities; (v) the reduction in school transportation costs; (vi) the reduction of rates for professional and purchased services; (vii) the freezing of water rates for governmental entities; and (viii) the implementation of a payment plan system for legal judgments, among others. In addition, the Fiscal Sustainability Act imposes substantial additional managerial and administrative controls on the operations of the Executive Branch, including hiring and contracting requirements and procedures, savings targets for rent and utilities, fines to public employees for unauthorized transactions, and overall strengthening of oversight by the Commonwealth's Office of Management and Budget (OMB).

After the enactment of the Act No. 66-2014, the Corporation entered into certain negotiations with the unionized groups within the Corporation, specifically in relations to the payment of certain benefits. As a result of the enactment of this Act, the Corporation reported decreases in the compensated absences accruals and Christmas bonus accrual, and recorded an intergovernmental transfer of approximately $17 million representing the certified savings from the enactment of the Act. The Corporation is required to transfer the aforementioned savings of approximately $17 million to the "Fund of Services and Therapies for Special Education Students", in equal monthly installments during fiscal year 2015, and an equal amount shall be transferred during fiscal years 2016 and 2017.

Act No. 32-2013, required the Corporation to accrue at June 30, 2014 approximately $6 million related to an additional uniform contribution to the Employee Retirement System of the Commonwealth of Puerto Rico (ERS) to improve its liquidity and solvency. The Act provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries.

Another contributing factor in the increase of liabilities during 2014 is an increase in accounts payable to investment brokers as a result of securities purchased not yet received at June 30, 2014.

Decrease in total liabilities to $1,525 million in 2013 from $1,555 million in 2012 is mainly due to payments on other notes payable, decrease in the account payable to investment manager for trades not settled at year end, decrease in the accrual for reimbursement of premiums and a decrease in pension and postemployment benefits other than pension obligations, among other. It should be noted that the total liability for incurred but unpaid compensation and medical benefits, including benefit adjustment expenses, remained on line with prior year, although there were significant fluctuations in the present value of estimated outstanding losses by individual benefit type. The liability for incurred but unpaid compensation and medical benefits, experienced decreases in temporary total outstanding losses and in returned premiums, which were nearly offset by an increase in permanent total losses.

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

The liability for incurred but unpaid compensation and medical benefits, including benefit adjustment expenses, has decreased from $820.9 million as of June 30, 2013 to $812 million as of June 30, 2014. The main factor driving the fluctuation is the consistent decrease in the temporary total outstanding losses. The aforementioned liability did not have a significant fluctuation from 2012 to 2013.

As a result of a decreasing trend in settled premiums experienced by the Corporation, the actuarially determined accrual for reimbursement of premiums has consistently decreased from $118.6 million as of June 30, 2012 to $113.8 million as of June 30, 2013 and to $ 101.9 million as of June 30, 2014.

The pension and postemployment benefits other than pension obligations experienced a decrease of $3.2 million as compared to obligations as of June 30, 2013 and a decrease of $6.8 million when comparing the obligations as of June 30, 2013 to June 30, 2012, mainly as a result of changes established by Act No. 3-2013, which represents a comprehensive reform of the ERS, and the effect of Act No. 66-2014 (the Fiscal Sustainability Act). The pension obligation increased slightly from $7.1 million as of June 30, 2013 to $7.3 million as of June 30, 2014 and decreased from $10.2 million as of June 30, 2012 to $7.1 million as of June 30, 2013. The postemployment benefits other than pension obligation have been consistently decreasing from $9.8 million as of June 30, 2012 to $6.1 million as of June 30, 2013 and to $2.7 million as of June 30, 2014. Contributions made during the fiscal year 2014 were lower than 2013, while contributions made in 2013 were significantly higher than in 2012.

- **The Corporation's net position increased by $65.5 million in 2014 (or 19.43%) and by $5.7 million in 2013 (or 1.73%)**

As of June 30, 2014, the Corporation had $290.3 million in unrestricted component of net position, $67.8 million in restricted component of net position (which decrease from 2013 is directly related to the decrease in the note payable of the Corporation), and $44.5 million invested in capital assets-net of related debt, for a total net position of $402.6 million. In fiscal year 2014, net position increased by $65.5 million or 19.43%, from $337.1 million as of June 30, 2013, due to the net effect of a decrease in operating revenues of 5.63%, a decrease in operating expenses of 8.54%, which resulted in operating income of $40.4 million, together with a significant increase in non-operating revenues of 165.50%, and net of transfers to other governmental agencies of $107.9 million.

As of June 30, 2013, the Corporation had $224.1 million in unrestricted component of net position, $72.6 million in restricted component of net position and $40.4 million invested in capital assets-net of related debt, for a total net position of $337.1 million. In fiscal year 2013, net position increased by $5.7 million or 1.73%, from $331.3 million as of June 30, 2012, due to an increase in operating revenues of 2.33%, a decrease in operating expenses of 9.29%, together with non-operating revenues of $50.1 million, operating income of $23.4 million and net of transfers to other governmental agencies of $67.8 million.

The following summarizes the condensed changes in net position of the Corporation for the years ended June 30, 2014, 2013 and 2012:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30, 2014	June 30, 2013	Change Amount	Change Percent
Operating revenues	$ 614,693,131	651,380,216	(36,687,085)	-5.63%
Operating expenses:				
Compensation and medical benefits	433,645,628	483,032,162	(49,386,534)	-10.22%
General and administrative	140,647,219	144,905,844	(4,258,625)	-2.94%
Total operating expenses	574,292,847	627,938,006	(53,645,159)	-8.54%
Operating income	40,400,284	23,442,210	16,958,074	72.34%
Non-operating revenues - net	133,005,598	50,095,927	82,909,671	165.50%
Transfers to other governmental agencies - net	(107,903,822)	(67,802,470)	(40,101,352)	59.14%
Change in net position	65,502,060	5,735,667	59,766,393	1042.01%
Net position- beginning of year	337,100,972	331,365,305	5,735,667	1.73%
Net position- end of year	$ 402,603,032	337,100,972	65,502,060	19.43%

	June 30, 2013	June 30, 2012	Change Amount	Change Percent
Operating revenues	$ 651,380,216	636,540,869	14,839,347	2.33%
Operating expenses:				
Compensation and medical benefits	483,032,162	551,859,381	(68,827,219)	-12.47%
General and administrative	144,905,844	140,365,761	4,540,083	3.23%
Total operating expenses	627,938,006	692,225,142	(64,287,136)	-9.29%
Operating income (loss)	23,442,210	(55,684,273)	79,126,483	-142.10%
Non-operating revenues - net	50,095,927	59,999,155	(9,903,228)	-16.51%
Transfers to other governmental agencies - net	(67,802,470)	(51,342,373)	(16,460,097)	32.06%
Change in net position	5,735,667	(47,027,491)	52,763,158	-112.20%
Net position- beginning of year	331,365,305	378,392,796	(47,027,491)	-12.43%
Net position- end of year	$ 337,100,972	331,365,305	5,735,667	1.73%

The Corporation recognizes as income the subscribed premiums, which represent the preliminary premiums assessed at the beginning of the fiscal year plus additional premiums imposed or expected to be imposed as a result of the final settlement of premiums under the insurance policy or reduced by any unearned or reimbursable portion or provision for uncollectible accounts, as determined. Premiums are based on individual employers' reported payroll ledgers using predetermined insurance rates based on the employers' risk classifications. The regular policies are issued for a one–year period consistent with the Corporation's fiscal year, which runs from July 1 to June 30. Incidental policies are issued to cover special risks over a pre-determined period of time. Unearned premiums represent the remaining portion at the end of the fiscal year, which is attributed to the unexpired term of the incidental policies issued during the fiscal year.

Policy costs consist mainly of salaries and certain underwriting expenses. Benefits are recorded on an accrual basis, which includes benefits paid and a liability to cover estimated incurred but unpaid benefits and benefit adjustments expenses based on the ultimate settling cost, as determined by the independent actuary.

- **Operating revenues decreased by $36.7 million in 2014 (or 5.63%) and increased by $14.8 million in 2013 (or 2.33%)**

Operating revenues decreased by $36.7 million in 2014 as compared to 2013. The decrease in operating revenues results from a decrease of $45.2 million in insurance premiums earned, a decrease of $3.8 million in revenues from uninsured employers, an increase of $3.7 million in the reimbursement of insurance premiums, and a decrease in the annual provision for uncollectible insurance premiums of $16 million. The Corporation has experienced a reduction in new policies subscribed (approximately 8% from prior year), as well as, in preliminary premiums assessed, and final settled premiums (resulting from reductions in preliminary payrolls informed by employers versus the final payrolls). The downturn in the economy, which has affected the construction and employment levels, has caused such a decrease, as well as, a decrease in incidental premiums. The Corporation experienced significant decreases in final payrolls reported by the Department of Education and the Police Department of Puerto Rico, among other employers.

The decrease in the final payrolls reported by employers, as compared to the preliminary payrolls, caused also the increase in reimbursement of insurance premiums for 2014. Also, the decrease experienced by the Corporation in collection of premiums during 2014, has resulted in an increase in the allowance for uncollectible premiums and a decrease in the estimate for additional premiums not yet imposed at June 30, 2014.

Operating revenues increased by $14.8 million in 2013 as compared to 2012. The increase in operating revenues results from an increase of $23.3 million in insurance premiums earned offset by an increase of $13.3 million in the provision for uncollectible insurance premiums and an increase of only $2 million in the reimbursement of insurance premiums. The increase is also a result of an adjustment made in 2012 to operating revenues of approximately $13 million decreasing the additional premium estimate and an adjustment made in 2013 of approximately $7 million reducing the unearned premiums at year end. It also should be noted that although the number of new formalized policies slightly decreased from 42,543 for 2012 to 40,115 in 2013, premiums imposed in 2013 corresponding to prior years increased by 8.5% as compared to 2012. The Corporation also experienced an increase of $8.9 million in income from uninsured employers.

Increase in the provision for uncollectible premiums in 2013 was mainly driven by an administrative order (No. 12-02) issued by the Corporation at the end of fiscal year 2012, establishing an incentive plan for employers with unpaid premiums incurred prior to fiscal years ended on or before June 30, 2010, to facilitate the payment of such debt due to the Corporation (see Note 5). Discounts under the incentive plan amounted to approximately $32.9 million in fiscal year 2013, as compared to $2.8 million in fiscal year 2012. There were no incentive plans outstanding during fiscal year 2014.

- **Compensation and medical benefits decreased by $49.4 million in 2014 (or 10.22%) and by $68.8 million in 2013 (or 12.47%)**

Compensation benefits for the year ended June 30, 2014 amounted to $128.1 million, a decrease of $16.1 million or 11.16% when compared to $144.2 million in 2013. As in prior year, the decrease is principally attributed to short term disability (per diem) payments, which decreased by approximately $18.8 million, as a result of the effect of the implementation of the Global 360 program described below.

Compensation benefits for the year ended June 30, 2013 amounted to $144.2 million, a decrease of $27.9 million or 16%, when compared to $172.1 million for the prior year. Decrease is principally attributed to short term disability (per diem) payments for 2013, which experienced a decrease of approximately $19 million because the Corporation started a pilot program named Global 360, in which the Official Disability Guidelines of the Work Loss Data Management would be used to determine short term disability (per diem) payments. These guidelines provide minimum and maximum time limits in which cases can remain in resting period, thus shortening significantly the days for which per diem payments are made.

Medical benefits for the year ended June 30, 2014 amounted to $321.8 million, a decrease of $23.5 million or 6.82%, when compared to $345.3 million for the prior year. Such decreasing trend in medical expenses is a result of continued efforts of management to decrease the controllable costs like contracted services. Salaries also experienced a decrease as a result of the effect in 2014 of Act No. 3 of 2013, which represented a comprehensive reform of the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (The Retirement System) and which resulted in a high number of retirees during 2013.

Medical benefits for the year ended June 30, 2013 amounted to $345.3 million, a decrease of $10.6 million or 3%, when compared to $355.9 million for the prior year. Such lower expenses are mainly due to efforts of management to decrease the controllable costs like contracted services. The Corporation experienced decreases from 2012 in practically all medical services offered to the injured, thus decreasing medical expenses in 2013.

Another driver in the decrease in compensation and medical benefits in 2014 and 2013 was the credit for compensation benefits, medical benefits and benefit adjustment expenses which increased by $9.7 million in 2014 when compared to 2013 resulting from the adjustments made to the liability for incurred unpaid benefits and benefit adjustment expenses to conform it with the actuarially determined present value of estimated outstanding losses as of June 30, 2014. The charge changed from a provision of $23.8 million in 2012 to a credit of $6.5 million in 2013 and a credit of $16.2 million in 2014. The main driver in the decrease of this liability has been the temporary total outstanding losses (per diem) which amounts paid have been in much lower levels in 2013 and 2014 than in prior years as a result of the implementation of the program named Global 360, in which the Official Disability Guidelines of the Work Loss Data Management would be used to determine short term disability (per diem) payments.

In relation to the pension and postretirement benefits other than pension obligations, these have consistently decreased from 2012 by 34% and from 2013 by 24% as compared to 2014, as a result of Act No. 3 of 2013 which was signed into law by the Governor of Puerto Rico on April 4, 2013. This Act represents a comprehensive reform of the Employee Retirement System of the Commonwealth of Puerto Rico. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS (See Note 17). The effect of Act No. 66-2014 (the Fiscal Sustainability Act) are also considered in the determination of these obligations at June 30, 2014.

- **General and administrative expenses (excluding depreciation and amortization) decreased by $4.3 million in 2014 (or 3.16%) and increased by $3.1 million in 2013 (or 2.3%)**

General and administrative expenses (excluding depreciation and amortization) decreased by 3.16% in 2014 when compared to 2013, mainly because of a decrease in salaries, as a result of the effect in 2014 of Act No. 3 of 2013, and in the compensated absences accruals and Christmas bonus accrual as a result of the enactment of Act No. 66 of 2014.

General and administrative expenses (excluding depreciation and amortization) increased only by 2.3% mainly as a result of an increase in retirees during 2013, as a result of recent changes in the Employees Retirement System of the Commonwealth of Puerto Rico. There was also an increase in the contributions made to the retirement plan for 2013.

- **Non–operating revenues-net increased by $82.9 million in 2014 (or 165.50%) and decreased by $9.9 million in 2013 (or 16.51%)**

Net non–operating revenues represent principally interest and dividend income, net change in fair value of investments, including derivative instruments, and interest expense. Government accounting policies require that investments be carried at fair value; thus realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are recorded through operations.

Net increase in fair value of investments, including derivative instruments, amounted to $108.1 million in 2014, a significant increase of $79.6 million or 279.13% when compared to an increase in fair value of investments of $28.5 million in 2013. On the other hand, interest and dividend income, net of costs (investment managers' fees) amounted to $35.6 million in 2014, a slight decrease of $.2 million or .72%, when compared to $35.8 million in 2013.

The significant increase experienced in the net increase in fair value of investments is principally reflected in the realized gains reported by the Corporation for the year ended June 30, 2014, which resulted from the investment portfolio redistribution process and assignment of new investment managers during the last quarter of fiscal year 2014. During the process of redistribution of funds, the amount of transactions increased significantly since the transition manager liquidated many of the investment securities in order to transfer cash to the new investment managers. During the repositioning process the new managers also sold a significant amount of investment securities, resulting in an increase in realized gains on investments sold. By the end of the fiscal year 2014, the portfolio experienced a favorable appreciation in its market value due to an improvement in the performance of equity securities (as a result of measures taken towards economic prosperity) and fixed income bonds (as a result of continued decreases in interest rates), principally. The significant volume of sale transactions during a favorable period for the market resulted in higher realized gains for the Corporation.

Net increase in fair value of investments, including derivative instruments, amounted to $28.5 million in 2013, a slight decrease of $.5 million or 1.7% when compared to an increase in fair value of investments of $29.0 million in 2012. On the other hand, interest and dividend income, net of costs (investment managers' fees) amounted to $35.8 million in 2013, a decrease of $6.9 million or 16.16%, when compared to $42.7 million in 2012. The decrease in interest and dividend income is principally attributed to lower interest rates experienced in the fixed income portfolio when compared to prior year and the withdrawal of approximately $69 million from investment securities to the operational cash and for payment of the Corporation's debt.

Interest expense amounted to $10.7 million in 2014, a slight decrease of $.7 million or 5.94% from 2013. Interest expense amounted $11.4 million in 2013, a slight decrease of $.3 million or 3%, when compared to $11.7 million in 2012.

During 2013, management of the Corporation expressed their intention to demolish part of the Kupey building which was acquired during fiscal year 2012, thus recording an asset impairment loss of $2.8 million, representing the portion of the asset that management believes is not recoverable, which is part of non-operating revenues-net for the year ended June 30, 2013. The Corporation did not record any asset impairment losses during the year ended June 30, 2014.

- **Transfers to other governmental agencies-net increased by $40.1 million in 2014 (or 59.14%) and by $16.5 million in 2013 (or 32.06%)**

The Corporation is required by legislation, to transfer to other governmental agencies funds for programs related to injured employees and their families. Increase in transfers to other governmental agencies-net in 2014 was mainly due to a transfer made in 2014 of $40 million to the "Budgetary Support Fund of 2013-2014" under the custody of the OMB required by Act No. 43 of June 30, 2013, the accrual of approximately $17 million to the "Fund of Services and Therapies for Special Education Students" representing the certified savings from the enactment of Act No. 66-2014 and of approximately $6 million representing the additional uniform contribution to the ERS as a result of the enactment of Act No. 32-2013.

During the year ended June 30, 2013, the Corporation transferred funds to the Industrial Commission of Puerto Rico, the Department of Labor and Human Resources, the Department of the Family, Puerto Rico Housing Finance Authority and the Labor Affairs Office amounting to $67.8 million compared to $51.3 million in 2012. Increase was mainly experienced as a result of Act #134 of July 2, 2012, which required a one-time transfer of $24 million from the Corporation to the "Budgetary Support Fund of 2012-2013" under the custody of the Office of Management and Budget. Such transfer was made on September 7, 2012.

CAPITAL ASSETS AND LONG-TERM DEBT

- **Capital assets-net decreased by $1.9 million in 2014 (or 1.89%) and by $2.6 million in 2013 (or 2.5%)**

Capital assets are comprised of land, construction in progress, buildings used to render services to workers, medical and offices' equipment, motor vehicles and assets under capital lease. Decrease in capital assets, net of depreciation and amortization in 2014 is mainly due to the net effect of additions related to the remodeling project of the Industrial Hospital and depreciation and amortization. The Corporation has a capital commitment of $35 million at June 30, 2014 related to the remodeling and expansion project of the Industrial Hospital. The Corporation entered into an interagency assistance contract with the Infrastructure Financing Authority of Puerto Rico, a public corporation of the Commonwealth of Puerto Rico, for the development and management of this project in all its phases. The term of the contract ends on June 30, 2016.

During the year ended June 30, 2013 capital assets, net of depreciation and amortization, decreased by $2.6 million mainly as a result of an impairment loss recorded on a Corporation's building of $2.8 million. The Corporation had no significant capital commitments at June 30, 2013. Refer to Note 7 to the basic financial statements for further information regarding the Corporation's net capital assets.

- **Note payable decreased by $16.1 million in 2014 (or 7.14%) and did not change in 2013**

On May 11, 2011, the Corporation entered into a loan agreement (the Loan) with a private financial institution for the amount of $242,000,000. The Loan matures on May 1, 2028 and carries a variable interest rate of 30 day LIBOR plus a 2.25% spread. First principal payment was made in 2014, thus resulting in the decrease in note payable balance from 2013. This loan requires the Corporation to comply with certain restrictive covenants, which, in the event of non–compliance, provide the financial institution the right to declare the outstanding debt as due and payable in cancellation of the loan agreement. One of the covenants requires the Corporation to pledge 130% of the outstanding principal on the loan in securities in its investment portfolio. Proceeds of the loan were used to repay a note payable and interest payable to the Government Development Bank for Puerto Rico ($220,000,000 principal and $3,273,000 in interest), purchase of two buildings ($8,490,000 for building purchased before June 30, 2011 and $10,100,000 for building purchased after June 30, 2011) and other purposes ($137,000).

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Position

June 30, 2014 and 2013

Assets

		2014	2013
Current Assets:			
Cash and cash equivalents	$	142,334,247	161,162,902
Accounts receivable, net		101,399,353	84,028,502
Inventories		3,276,786	3,556,922
Prepaid expenses		290,595	52,463
Investments		823,008,920	474,340,341
Total current assets		1,070,309,901	723,141,130
Non current assets:			
Investments		463,694,402	720,815,042
Restricted investments		293,626,668	314,600,000
Capital assets-net of accumulated depreciation/amortization:			
Land		18,532,166	18,532,166
Construction in progress		2,782,700	—
Depreciable assets, including software		80,289,839	85,029,696
Total non current assets		858,925,775	1,138,976,904
Total assets	$	1,929,235,676	1,862,118,034

Liabilities and Net Position

		2014	2013
Current liabilities:			
Liability for incurred but unpaid benefits and benefit adjustment expenses	$	183,668,576	191,614,058
Accounts payable		135,368,240	78,554,749
Accrued liabilities		33,766,360	33,501,973
Unearned premiums		21,193,012	21,858,128
Accrual for reimbursement of premiums		49,522,507	53,645,472
Securities lending obligations		103,107,404	102,689,084
Current portion of:			
Other notes payable		5,293,055	5,026,926
Obligation under capital lease		765,416	691,302
Liabilities payable from restricted assets:			
Note payable-current portion		16,133,332	16,133,332
Total current liabilities		548,817,902	503,715,024

(Continued)

See accompanying notes to basic financial statements.

State Insurance Fund Corporation

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Position

June 30, 2014 and 2013

	2014	2013
Non current liabilities:		
Liability for incurred but unpaid benefits and benefit adjustment expenses	628,327,023	629,319,899
Accrued liabilities	36,331,119	48,542,848
Accrual for reimbursement of premiums	52,380,826	60,156,819
Other notes payable	22,527,377	28,135,327
Obligation under capital lease	28,515,061	29,280,477
Liabilities payable from restricted assets:		
Note payable-due in more than one year	209,733,336	225,866,668
Total non current liabilities	977,814,742	1,021,302,038
Total liabilities	1,526,632,644	1,525,017,062
Commitments and Contingencies (Notes 20 and 21)		
Net Position:		
Net investment in capital assets	44,503,796	40,427,830
Restricted	67,760,000	72,600,000
Unrestricted	290,339,236	224,073,142
Total net position	402,603,032	337,100,972
Total liabilities and net position	$ 1,929,235,676	1,862,118,034

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2014 and 2013

		2014	2013
Operating revenues:			
Insurance premiums earned	$	658,575,968	703,813,260
Miscellaneous income, net		6,112,064	9,925,732
Less:			
Reimbursement of insurance premiums		(41,138,500)	(37,432,436)
Provision for uncollectible insurance premiums		(8,856,401)	(24,926,340)
Total operating revenues		614,693,131	651,380,216
Operating expenses:			
Compensation benefits		128,094,145	144,179,537
Medical benefits and legal fees		321,771,287	345,326,959
Credit for compensation benefits, medical benefits, and benefit adjustment expenses		(16,219,804)	(6,474,334)
Administrative expenses		132,958,547	137,299,038
Depreciation and amortization		7,688,672	7,606,806
Total operating expenses		574,292,847	627,938,006
Operating income		40,400,284	23,442,210
Non operating revenues (expenses):			
Loss on impairment of capital asset		—	(2,767,992)
Interest and dividend income, net		35,576,646	35,835,611
Net increase in fair value of investments		108,072,335	28,505,361
Rebate (cost) of securities lending transactions		68,460	(88,500)
Interest on notes payable and obligation under capital lease		(10,711,843)	(11,388,553)
Total non operating revenues, net		133,005,598	50,095,927
Revenue before transfers to other governmental agencies		173,405,882	73,538,137
Transfers to other governmental agencies		(107,903,822)	(67,802,470)
Change in net position		65,502,060	5,735,667
Net position at beginning of year		337,100,972	331,365,305
Net position at end of year	$	402,603,032	337,100,972

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Excess of collections over reimbursements of insurance premiums	$	606,211,384	639,816,067
Payments of compensation benefits		(119,536,718)	(139,936,673)
Payments of medical benefits and legal fees		(322,741,161)	(342,573,236)
Payments of administrative expenses		(146,839,332)	(132,803,423)
Net cash provided by operating activities		17,094,173	24,502,735
Cash flows from non capital financing activities:			
Transfers to governmental agencies		(84,526,000)	(67,802,470)
Increase (decrease) in securities lending obligations		418,320	(9,370,721)
Rebates (payments) of securities lending transaction costs		68,460	(88,500)
Net cash used in non capital financing activities		(84,039,220)	(77,261,691)
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(5,731,515)	(7,592,769)
Other capital assets transaction		—	(131,020)
Payments of note payable		(16,133,332)	—
Payments of other notes payable, net of imputed interest		(5,341,821)	(4,489,182)
Payments of obligation under capital lease		(691,302)	(624,365)
Payments of interest on notes payable and obligation under capital lease		(10,796,108)	(11,388,553)
Net cash used in capital and related financing activities		(38,694,078)	(24,225,889)
Cash flows from investing activities:			
Proceeds from sales and redemptions of debt and equity securities		3,197,496,842	1,610,027,779
Purchases of debt and equity securities		(3,139,596,211)	(1,572,522,767)
(Decrease) increase in investments held under securities lending transactions		(9,490,534)	2,956,266
Collections of interest and dividend income		37,743,581	38,001,486
Collections in excess of originations of employees loans		656,792	436,582
Net cash provided by investing activities		86,810,470	78,899,346
Net (decrease) increase in cash and cash equivalents		(18,828,655)	1,914,501
Cash and cash equivalents at beginning of year		161,162,902	159,248,401
Cash and cash equivalents at end of year	$	142,334,247	161,162,902

(Continued)

See accompanying notes to basic financial statements.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	40,400,284	23,442,210
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		7,688,672	7,606,806
Provision for uncollectible accounts		8,856,401	24,926,340
Changes in assets and liabilities that increase (decrease) cash flows from operating activities:			
Accounts receivable		(4,774,074)	(28,920,113)
Inventories		280,136	(331,463)
Prepaid expenses		(238,132)	76,069
Liability for incurred but unpaid benefits and benefit adjustment expenses		(8,938,358)	921,769
Accounts payable		(1,753,605)	5,605,070
Accrued liabilities		(11,863,077)	(1,253,577)
Unearned premiums		(665,116)	(2,770,099)
Accrual for reimbursement of premiums		(11,898,958)	(4,800,277)
Net cash provided by operating activities	$	17,094,173	24,502,735
Summary of non-cash transactions:			
Securities purchased but not yet received	$	41,069,597	5,880,323
Securities sold but not yet delivered	$	31,438,472	7,161,567
Net increase (decrease) in the fair value of investments (unrealized gains/losses)	$	16,989,969	(6,259,830)
Accretion of discount on investments	$	—	20,229
Loss on impairment of capital asset	$	—	2,767,992
Retirement of fully depreciated capital assets	$	715,604	1,315,327
Transfers to other governmental agencies	$	23,377,822	—

See accompanying notes to basic financial statements.

(1) 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 employers' responsibility to insure its employees;
- establish the type of insurance coverage; and
- regulate the insurance coverage to make it mandatory for employers.

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

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting policies.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GAS 62), which is effective for periods beginning after December 15, 2011. GAS 62 applies to accounting and financial reporting for governmental, business-type activities, and proprietary funds, except as identified in the Statement. GAS 62 incorporates in the GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, and codifies all sources of GAAP for state and local governments so that they derive from a single source. The Codification does not change GAAP. Instead, it takes many of the individual pronouncements that currently comprise GAAP and reorganizes them by accounting Topics, and displays all Topics using a consistent structure. The order in which the Topics are presented corresponds to the order of the primary locations within the GASB Codification of Governmental Accounting and Financial Reporting Standards

(Codification). This Statement supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* There was no material impact on the Corporation's financial statements as a result of the implementation of GAS 62.

For the year ended June 30, 2013, the Corporation implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GAS 63). The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets that is applicable to a future reporting period. The Statement also amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The impact on the Corporation's basic financial statements was limited to replacing "Net Assets" with "Net Position" and "Invested in capital assets, net of related debt" with "Net investment in capital assets".

For the year ended June 30, 2014, the Corporation implemented GASB 65, *Items Previously Reported as Assets and Liabilities* (GAS 65). The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GAS 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. There was no material impact on the Corporation's financial statements as a result of the implementation of GAS 65.

The Corporation follows GASB Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements.

Following is a description of the most significant accounting policies:

(a) Reporting Entity

The Governmental Accounting Standards Board (GASB) establishes the criteria used in determining which organizations should be included in these financial statements.

The GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, requires the inclusion of government organizations for which the Corporation is financially accountable. Financial accountability is defined as 1) appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or (2) fiscal dependency on the primary government. The Corporation does not have component units for which it is financially accountable.

The Corporation is a component unit of the Commonwealth of Puerto Rico.

(b) Basis of Accounting

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

(c) Basis of Presentation

The Corporation's financial statements use the economic resources measurement focus and the accrual basis of accounting.

The statements of net position and the statements of revenues, expenses, and changes in net position report information on all activities of the Corporation. The statements of net position present the Corporation's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any), with the residual of all elements presented in a financial position statement reported as net position. Net position is reported in three categories:

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

- Restricted component of net position consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. As of June 30, 2014 and 2013, the Corporation's restricted net assets amounted to $67.8 million and $72.6 million, respectively. Refer to Note 12 for restrictions related to note payable.

- Unrestricted component of net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

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

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

(d) Revenue Recognition and Unearned Premiums

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

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

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

The accrual for reimbursement of premiums was discounted to reflect the present value of future reimbursable premium payments using a discounting factor of 3.85% and 3.78% at June 30, 2014 and 2013, respectively. Management believes that discounting such liability results in a better matching of costs and revenues since reimbursable premiums have a long payment cycle.

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

(e) Policy Acquisition Costs

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

(f) Reinsurance

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

(g) Incurred but Unpaid Benefits and Benefit Adjustment Expenses

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

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

The liabilities for incurred but unpaid benefits and benefit adjustment expenses were discounted to reflect the present value of future benefit payments using a discounting factor of 3.83% and 3.78% at June 30, 2014 and 2013, respectively. Management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle.

Management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2014 and 2013, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

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

(h) *Securities Purchased under Agreements to Resell*

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

(i) *Investments*

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

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

(j) *Securities Lending Transactions*

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

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

(k) Allowance for Doubtful Accounts

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

(l) Inventories

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

(m) 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 Lives
Buildings and improvements	3-50 years
Medical and office equipment	3-10 years
Software	3 years
Motor vehicles	5 years
Assets under capital leases	Lease term

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

The Corporation capitalizes interest cost incurred in the construction of significant real estate projects, which consist primarily of facilities for its own use. The amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided if outlays for the assets had not been made. The interest rate for capitalization purposes is based on the rates applicable to borrowings outstanding during the period. Interest cost capitalized for the year ended June 30, 2014 (none in 2013) amounted to $19,768.

(n) 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 impairments of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. 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 circumstances are outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Corporation should be reported at the lower of carrying value or fair value.

(o) 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 position's date. The employees of the Corporation are granted 30 days of vacation and 18 days of sick leave annually. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days. As a result of Act No.66 of June 17, 2014, some of these excess accumulations are no longer going to be payable to the employees (see notes 9 and 17 for further discussion).

(p) Termination Benefits

The Corporation accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. Pursuant to this Statement, the Corporation should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. At June 30, 2014 and 2013, no formal voluntary termination benefits were incurred.

(q) 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.

(r) Postemployment Benefits Other Than Pensions

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

(s) Income Taxes

The Corporation, as a component unit of the Commonwealth, is exempt from the payment of income taxes.

(t) Statements of Cash Flows

The accompanying statements of cash flows are 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 governmental accounting standards require that the direct method be used to present the funds inflows and outflows of the Corporation. For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

(u) Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements that have effective dates after June 30, 2014:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.
- GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which is effective for periods beginning after June 15, 2014.

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

(v) Risk Management

The Corporation is exposed to the risk of loss from torts, theft, damages to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, environmental and other losses. Commercial insurance coverage is obtained for claims that may arise from such matters. The commercial insurance coverage is negotiated by the Treasury Department of the Commonwealth of Puerto Rico, and the cost is paid by the Corporation. No additional payments were made after the annual insurance costs were determined.

(w) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. The accounts requiring the use of significant estimates include certain receivables, reserve for future benefits, unearned premiums reserve, returned premiums, pension and OPEB liabilities and useful lives of property and equipment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(3) Cash and Cash Equivalents

The Corporation's cash and cash equivalents as of June 30, 2014 and 2013 are comprised of the following:

Description		2014	2013
Cash on hand	$	844,697	1,015,512
Cash in commercial banks		34,757,365	9,373,140
Total cash on hand and in banks		35,602,062	10,388,652
Interest bearing deposit accounts (IBA's) with GDB:			
Due on demand		26,144,333	23,123,408
Cash equivalents-investments (see Note 4)		80,587,852	127,650,842
Total	$	142,334,247	161,162,902

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the Corporation's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance ($250,000 at June 30, 2014 and 2013). At June 30, 2014 and 2013, all securities pledged by depository institutions as collateral are held by a trustee of the Treasury Department of the Commonwealth. As of June 30, 2014 and 2013, the Corporation had approximately $33.1 million and $8.2 million, respectively, in depository balance with financial institutions, which were insured and/or collateralized.

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

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a deposit. Cash in foreign currency present minimal foreign currency risk at June 30, 2014 and 2013.

See Note 4 for additional information related to credit risk, foreign currency risk and custodial credit risk on cash equivalent investments.

(4) Investments

The Board of Directors (BOD) of the Corporation has enacted the Statement of Investment Policy, Guidelines and Objectives (the SIPGO) (amended on December 3, 2013), with the objective of providing general and specific guidance for the maximization of resources available for the payment of benefits to injured workers as the pervasive goal of the workers' compensation coverage of its insurance program. SIPGO sets as the primary objective for the available funds, to maximize the yield of invested assets, while having the adequate liquidity to pay obligations as they become due. The strategic objective is accomplished through a proper mix of adequate time horizon, risk tolerance and return expectation, and is achieved through strategic assets allocation. SIPGO provides guidance for the strategic assets allocation including the internally managed short term funds, securities selection and related restrictions; sets the responsibilities of the BOD, the Corporation's management, investment consultants, portfolio managers, and custodians. The SIPGO establishes standards for review and communication of compliance with the prevailing policies and procedures. The SIPGO also provides that the Finance Committee of the BOD (the Finance Committee) is responsible for implementing and monitoring the investment program of the Corporation. The Finance Committee meets on a quarterly basis.

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

- United States Government and agencies obligations
- Obligations of the Commonwealth, its agencies, municipalities, public corporations and instrumentalities
- Government National Mortgage Association (GNMA)
- Mortgage pass–through guaranteed by United States Government agencies other than GNMA, such as Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA), among others
- Mortgage and asset–backed securities
- Common and preferred stocks

- Corporate bonds and notes (convertible or non–convertible)
- Money market funds and bank–sponsored short–term investment funds
- Resell agreements
- Commercial paper
- Non-US Government and corporate issues
- Collateralized mortgage obligations (CMOs)
- Senior secured loans
- Certificates of deposit
- Principal protected structured notes
- Obligations of life insurance companies
- Shares in institutional shares of mutual funds
- Fixed income exchange-traded funds (ETFs)
- Options, futures and interest–rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products, which qualify under any of the foregoing investment categories
- Open–end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or AAA by Moody's
- Puerto Rico Government Investment Trust Fund (PRGITF)
- Securities lending transactions

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

The following table summarizes the type and maturity of investments held by the Corporation at June 30, 2014 and 2013. Expected maturities will differ from contractual maturities, because counter parties may have the right to call or prepay obligations with or without call or prepayment penalties. No investment in any one issuer other than the U.S. government and its agencies, represented 5% or more of total investment portfolio at June 30, 2014 and 2013.

	June 30, 2014				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. Treasuries	$ 2,025,320	48,206,414	30,327,041	3,238,290	83,797,065
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Bank (FHLB)	4,481,440	1,128,220	3,038,427	—	8,648,087
Federal Home Loan Mortgage Corporation (FHLMC)	2,005,760	9,913,704	3,637,689	275,828	15,832,981
Federal National Mortgage Association (FNMA)	—	6,749,795	1,388,457	1,452,552	9,590,804
Federal Farm Credit Bank (FFCB)	—	2,485,292	1,786,985	—	4,272,277
Mortgage-backed securities:					
Government National Mortgage Association (GNMA)	—	—	—	9,753,655	9,753,655
FNMA	—	—	—	36,909,259	36,909,259
FHLMC	—	—	184,417	21,010,385	21,194,802
Collateralized Mortgage Obligations (CMO's) issued and/or guaranteed by:					
GNMA	—	—	—	1,202,220	1,202,220
FNMA	—	—	—	22,777,389	22,777,389
FHLMC	—	—	—	18,664,839	18,664,839
Commercial mortgages	—	—	—	3,170,812	3,170,812
Asset-backed securities	—	2,092,160	—	—	2,092,160
Corporate bonds and notes	14,694,664	216,058,899	144,937,101	39,252,764	414,943,428
Foreign government bonds and notes	—	1,874,398	1,671,133	—	3,545,531
Municipal bonds	6,350,500	116,462,394	7,670,550	—	130,483,444
Money market funds	17,980,565	—	—	—	17,980,565
External investments pool and senior secured loans-fixed-income securities	47,539,680	—	—	—	47,539,680
Investments held under securities lending transactions:					
Interest bearing deposits	50,503,234	—	—	—	50,503,234
Resell agreements	49,604,768	—	—	—	49,604,768
Commercial paper	2,999,402	—	—	—	2,999,402
Total debt securities and fixed–income external investment pools	$ 198,185,333	404,971,276	194,641,800	157,707,993	955,506,402
Equity securities					369,602,799
Exchange traded funds					212,733,019
Private equity funds- equity securities and alternative investments:					
Guayacán Private Equity Fund L.P. II					8,075,219
Guayacán Fund of Funds III, L.P.					28,269,009
US Government Properties Income & Growth Fund, L.P					29,291,536
McCoy Investments II, L.P.					6,562,738
Palladium Equity Partners IV, L.P.					3,957,884
Pluscios Fund LLC					46,919,235
Total					$ 1,660,917,842

Investment Type	June 30, 2013 Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasuries	$ 13,714,167	55,099,084	85,980,714	90,858,834	245,652,799
U.S. Treasury Bills	3,559,964	—	—	—	3,559,964
U.S. sponsored agencies bonds and notes:					
Federal Home Loan Bank (FHLB)	1,032,944	8,770,744	2,623,490	—	12,427,178
Federal Home Loan Mortgage Corporation (FHLMC)	2,362,252	4,891,185	16,089,482	265,046	23,607,965
Federal National Mortgage Association (FNMA)	430,516	10,662,609	3,376,226	1,396,352	15,865,703
Federal Farm Credit Bank (FFCB)	—	2,714,150	1,749,080	—	4,463,230
Other	—	—	1,711,777	—	1,711,777
Mortgage-backed securities:					
Government National Mortgage Association (GNMA)	—	—	—	16,906,663	16,906,663
FNMA	150,655	—	137,860	79,057,755	79,346,270
FHLMC	—	—	260,829	24,738,311	24,999,140
Collateralized Mortgage Obligations (CMO's) issued and/or guaranteed by:					
GNMA	—	—	—	1,367,052	1,367,052
FNMA	—	—	10,893	—	10,893
FHLMC	—	—	2,098,278	—	2,098,278
Commercial mortgages	—	—	—	30,102,359	30,102,359
Other	—	—	—	1,254,806	1,254,806
Asset-backed securities	—	17,263,818	8,375,589	—	25,639,407
Corporate bonds and notes	17,946,209	326,537,111	148,331,553	56,592,361	549,407,234
Foreign government bonds and notes	1,738,264	2,068,257	1,359,813	1,864,140	7,030,474
Municipal bonds	—	16,490,202	12,925,569	1,483,049	30,898,820
Money market funds	55,971,630	—	—	—	55,971,630
External investments pool-fixed-income securities	1,039,392	—	—	—	1,039,392
Investments held under securities lending transactions:					
Interest bearing deposits	26,503,895	—	—	—	26,503,895
Resell agreements	63,078,754	—	—	—	63,078,754
Commercial paper	13,106,435	—	—	—	13,106,435
Total debt securities and fixed–income external investment pools	$ 200,635,077	444,497,160	285,031,153	305,886,728	1,236,050,118
Equity securities					342,127,193
Private equity funds -equity securities:					
Guayacán Private Equity Fund L.P. II					8,036,768
Guayacán Fund of Funds III, L.P.					22,055,219
US Government Properties Income & Growth Fund, L.P.					23,392,052
McCoy Investments II, L.P.					5,744,875
Total					$ 1,637,406,225

As of June 30, 2014 and 2013, investments were classified as current and non–current in the accompanying statements of net position as follows:

Description		2014	2013
Current assets:			
Cash equivalents	$	80,587,852	127,650,842
Investments in debt and equity securities		823,008,920	474,340,341
Total current assets		903,596,772	601,991,183
Non-current assets		757,321,070	1,035,415,042
Total	$	1,660,917,842	1,637,406,225

The Corporation's investments presented as cash equivalents as of June 30, 2014 and 2013 are comprised of the following:

Description		2014	2013
Interest bearing deposits held under securities lending transactions:			
Certificates of deposit with other banks, due within three months	$	10,003,117	15,501,870
Investments in debt securities held under securities lending transactions:			
Commercial paper, due within three months		2,999,402	3,098,589
Resell agreements, due overnight		49,604,768	53,078,753
		52,604,170	56,177,342
Investments in:			
Money market funds		17,980,565	55,971,630
Total	$	80,587,852	127,650,842

Investments in fixed–income external investment pools include approximately $1,039,000 (in 2014 and 2013) invested with the Puerto Rico Government Investment Trust Fund (the PRGITF), a government–sponsored pool, which is administered by the GDB. The PRGITF may purchase only high quality securities denominated in U.S. dollars that the investment advisors believe present minimal credit risk. The PRGITF had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year. The Corporation was exposed to custodial credit risk. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the fair value of the pool shares.

The fair value of investments in limited partnerships and alternative investments as of June 30, 2014 and 2013 amounted to approximately $169.6 million and $59.2 million, respectively. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The investments in limited partnerships were as follows:

- During the fiscal year 2014, the Corporation made a contribution of $357,143 (none during fiscal year 2013) to the Guayacán Private Equity Fund L.P. II, a Delaware limited partnership created by Grupo Guayacán, Inc., as General Partner, that has a total amount invested at June 30, 2014 of $7,968,945 ($7,611,802 at June 30, 2013). The Corporation has a total commitment of $10.0 million. The Corporation received a cash distribution of $1,594,203 during the fiscal year 2014 (none during fiscal year 2013). This fund seeks to provide investors with a superior investment return and extensive diversification by investing in nineteen (19) private equity investment partnerships in the United States and Europe. This fund also invests a portion of its assets in a Puerto Rico based private equity investment entity.

- During the fiscal years 2014 and 2013, additional investments of approximately $5,867,000 and $1,956,000, respectively, were made in the Guayacán Fund of Funds III, L.P., a limited partnership organized in April 2007, pursuant to the laws of the State of Delaware, bringing the amount invested at June 30, 2014 to $27,862,220 ($21,994,996 at June 30, 2013). The Corporation has a total commitment of $40.0 million. The Corporation received cash distributions of approximately $3,910,000 during fiscal year 2014 (none during fiscal year 2013). This partnership intends to seek out, invest in, and add value to companies, which will be based or operating in Puerto Rico or in companies whose products or services are targeted at the U.S. Hispanic market, with specific interest in those companies where Advent-Morro's Equity Partners, Inc. Puerto Rico contact, know–how and track record can be leveraged to enhance investment selection and post–investment value-add. Guayacán Private Fund of Funds III, L.P. will strive to have a balanced mix of portfolio investments primarily focusing on later stage opportunities such as: expansion financing, leveraged buyouts, management buyouts, and recapitalizations. This partnership may invest in de–novo companies that are being set up to enter established industries via market consolidation opportunities and/or internal growth.

- During the fiscal years 2014 and 2013, the Corporation invested approximately $586,000 and $312,000, respectively, in the U.S. Government Properties Income & Growth Fund, L.P., a limited partnership organized in August 2011, pursuant to the laws of the State of Delaware. The Corporation has a total commitment of $25.0 million. The Corporation also received a return of capital of approximately $1,318,000 during 2013 (none in 2014), bringing the amount invested at June 30, 2014 to $22,336,851 ($21,751,071 at June 30, 2013). This partnership is a real estate fund that targets investments in assets leased to the U.S. General Services Administration and other federal leases located in the United States to provide current income and potential asset appreciation.

- During the fiscal years 2014 and 2013, the Corporation invested approximately $855,000 and $750,000, respectively, in McCoy Investments II, L.P., a limited partnership organized in August 2011, pursuant to the laws of the State of Delaware, and had a return of capital of approximately $1,829,000 in 2014 (none in 2013), bringing the amount invested to $7,454,755 and $6,600,000 at June 30, 2014 and 2013, respectively. The Corporation has a total commitment of $15.0 million. This partnership was organized to invest in other pooled investment portfolio funds investing primarily in private equity, including investments in U.S. and non-U.S. venture capital, leveraged buyout, distressed, turnaround, expansion capital, mezzanine and special situation funds.

- During the fiscal year 2014, the Corporation invested $4,981,986 in a new limited partnership Palladium Equity Partners IV, L.P. (PEP IV), a partnership established in April 2014 by Palladium Equity Partners, LLC, a private investment firm focused on investments in the fast-growing U.S. Hispanic marketplace. PEP IV will invest in lower-middle market companies – particularly founder-owned enterprises – and with a focus on the U.S. Hispanic market. The Corporation received distributions of $1,263,748 during fiscal year 2014. The Corporation has a total commitment of $31 million at June 30, 2014.

- During the fiscal year 2014, the Corporation made a new alternative investment in senior secured loans managed by Eaton Vance Management. Eaton Vance Institutional Senior Loan Fund (Eaton Vance Fund) is a separate investment fund of Eaton Vance Institutional Funds an exempted company incorporated with limited liability in the Cayman Islands. The Eaton Vance Fund constitutes a separate portfolio of assets held by Eaton Vance Institutional Funds and consists of one or more classes of the Company attributable to the Fund. The Fund's investment objective is to provide a high level of current income as is consistent with the preservation of capital, by investing in a portfolio primarily of senior floating rate loans. The commitment and invested amount in the Eaton Vance Fund amounted to $46,500,000 as of June 30, 2014.

- During the fiscal year 2014, the Corporation made a new alternative investment in a diversified hedge managed by Pluscios Fund LLC, a Delaware limited liability corporation. The commitment and invested amount in the Pluscios Fund LLC amounted to $46,500,000 as of June 30, 2014.

At June 30, 2014 and 2013, the Corporation has variable-rate interest investments, which reset in the frequency shown below, at 100% of an interest rate index plus a spread, as follows:

Investment Type	Reset	2014	2013
Mortgage-backed securities:			
CMO's issued and/or guaranteed by:			
GNMA	Monthly	$ 579,889	639,495
FNMA	Monthly	11,170,507	—
FHLMC	Monthly	11,279,383	—
Other	Monthly	—	1,254,806
Corporate bonds and notes	Quarterly	35,843,541	9,039,850
Corporate bonds and notes	Semiannually	2,219,110	—
Commercial mortgage bonds	Monthly	1,814,120	10,342,148
Government bonds sovereign debt	Annual	—	3,489,897
Government bonds sovereign debt	Semiannually	949,270	—
US Treasury bonds and notes	Semiannually	4,676,459	142,118,295
Investments held under securities lending transactions:			
Interest bearing deposits	Daily	6,000,000	—
Commercial paper	Daily	—	3,000,000
Resell agreements	Daily	—	10,000,000
		$ 74,532,278	179,884,491

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SIPGO is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment grade fixed income and equity securities. As of June 30, 2014 and 2013, the SIPGO had established the optimum or efficient allocation for the total portfolio in accordance with the time horizon, risk tolerance, return expectations, and assets class preferences as follows:

	% Allocation Limits		
Assets Classes	Lower	Target	Upper
Stocks:	**20.0%**	**25.0%**	**25.0%**
Domestic stocks:	20.0%	22.5%	25.0%
International stocks	0.0%	2.5%	5.0%
Fixed income:	**40.0%**	**40.0%**	**50.0%**
Domestic bonds	25.0%	31.5%	50.0%
Selective high yield	6.0%	6.0%	8.0%
Non US Bonds	2.5%	2.5%	5.0%
Cash and cash equivalents	**0.0%**	**0.0%**	**5.0%**
Alternative investments	**25.0%**	**25.0%**	**30.0%**
Private equities	**8.0%**	**10.5%**	**15.0%**

The SIPGO limits its exposure to interest rate risk by setting duration of the investment portfolio of the fixed income assets not to exceed more than 25% 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 changes in the interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. As of June 30, 2014 and 2013 the duration of a fixed income portfolio amounted to 5.36 years and 7.1 years, respectively.

The credit risk related to investments is the risk that debt securities in the Corporation's portfolio will decline in price or fail to make principal and interest payments when due because the issuer of the security experiences a decline in the financial condition. The Corporation limits its credit risk by investing principally in high quality investments (rated BBB or better, according to Standard and Poor's or other equivalent rating agencies when maturities are longer than a year). Up to 20% of the total fixed income portfolio may be invested at any time in Selective High Yield securities (i.e. securities rated below BBB), but never lower than B. BBB is the lowest of investment grade ratings.

A minimum of 10% of all funds shall be placed in Puerto Rico investments such as:

- Certificates of deposit of the GDB, or any other type of deposit with the GDB
- Securities issued by the GDB; or any other investment previously approved in writing by the GDB that is, in the judgment of the GDB, an investment that positively impacts the economic development of Puerto Rico.

In addition, the Corporation restricts investment in certain securities to avoid concentration and/or increase duration.

On December 19, 2013 the Corporation entered into a Note Purchase Agreement (the Agreement) with GDB whereby the Corporation agreed to purchase from GDB Senior Guaranteed Notes (the Notes) in an aggregate amount of $110,000,000 which are guaranteed by the Commonwealth of Puerto Rico full faith, credit and taxing power pursuant to Act No. 12 of the Legislature of Puerto Rico, approved on May 9, 1975, as amended (the Guaranty Act). The notes bear interest, payable monthly, in arrears, on the first day of each month at 8% per annum, commencing on February 1, 2014. The notes mature as follow:

Maturity Date (December 1)		**Principal Amount**
2017	$	40,000,000
2018		30,000,000
2019		40,000,000

The Notes are carried at fair value amounting to $108,292,014 at June 30, 2014 and are presented as municipal obligations. Since the Notes are a private placement between the Corporation and GDB, fair value is not readily available and is estimated on a monthly basis by the investee using as reference the return of the Commonwealth general obligations with similar terms.

All of the Corporation's investments in U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and represent no risk therefore have been excluded from the following table. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage–backed securities guaranteed by GNMA, at June 30, 2014 and 2013 are as follows:

June 30, 2014

Investment Type:	Credit Risk Rating					
	AAA to A-	BBB+ to BB-	B+ to B-	CCC+ to CCC-	Not Rated	Total
U.S. sponsored agencies bonds and notes:						
Federal Home Loan Bank (FHLB)	$ 8,648,087	—	—	—	—	8,648,087
Federal Home Loan Mortgage Corporation (FHLMC)	15,832,981	—	—	—	—	15,832,981
Federal National Mortgage Association (FNMA)	9,590,804	—	—	—	—	9,590,804
Federal Farm Credit Bank (FFCB)	4,272,277	—	—	—	—	4,272,277
Mortgage-backed securities:						
FNMA	36,909,259	—	—	—	—	36,909,259
FHLMC	21,194,802	—	—	—	—	21,194,802
Collateralized mortgage obligations (CMO's) issued and/or guaranteed by:						
FNMA	22,777,389	—	—	—	—	22,777,389
FHLMC	18,664,839	—	—	—	—	18,664,839
Commercial mortgages	3,170,812	—	—	—	—	3,170,812
Asset-backed securities	2,092,160	—	—	—	—	2,092,160
Corporate bonds and notes	240,359,543	91,782,141	34,114,905	2,900,375	45,786,464	414,943,428
Foreign government bonds and notes	949,270	2,596,261	—	—	—	3,545,531
Municipal bonds	15,840,929	114,642,515	—	—	—	130,483,444
Money market funds	—	—	—	—	17,980,565	17,980,565
External investments pool and senior secured loans-fixed-income securities	1,039,680	—	—	—	46,500,000	47,539,680
Investments held under securities lending transactions:						
Interest bearing deposits	50,503,234	—	—	—	—	50,503,234
Resell agreements	20,604,768	—	—	—	29,000,000	49,604,768
Commercial paper	2,999,402	—	—	—	—	2,999,402
Total debt securities and fixed-income external investment pools	$ 475,450,236	209,020,917	34,114,905	2,900,375	139,267,029	860,753,462

June 30, 2013

Investment Type:	Credit Risk Rating AAA to A-	BBB+	BBB	BBB-	Not Rated	Total
U.S. sponsored agencies bonds and notes:						
Federal Home Loan Bank (FHLB)	$ 12,427,178	—	—	—	—	12,427,178
Federal Home Loan Mortgage Corporation (FHLMC)	23,607,965	—	—	—	—	23,607,965
Federal National Mortgage Association (FNMA)	15,865,703	—	—	—	—	15,865,703
Federal Farm Credit Bank (FFCB)	4,463,230	—	—	—	—	4,463,230
Other	1,711,777	—	—	—	—	1,711,777
Mortgage-backed securities:						
FNMA	79,346,270	—	—	—	—	79,346,270
FHLMC	24,999,140	—	—	—	—	24,999,140
Collateralized mortgage obligations (CMO's) issued and/or guaranteed by:						
FNMA	10,893	—	—	—	—	10,893
FHLMC	2,098,278	—	—	—	—	2,098,278
Commercial mortgages	30,102,359	—	—	—	—	30,102,359
Other	1,254,806	—	—	—	—	1,254,806
Asset-backed securities	17,263,818	—	—	—	8,375,589	25,639,407
Corporate bonds and notes	414,479,367	40,508,377	32,915,598	16,903,010	44,600,882	549,407,234
Foreign government bonds and notes	6,587,974	—	—	442,500	—	7,030,474
Municipal bonds	18,409,181	—	—	12,489,639	—	30,898,820
Money market funds	—	—	—	—	55,971,630	55,971,630
External investments pool-fixed-income securities	1,039,392	—	—	—	—	1,039,392
Investments held under securities lending transactions:						
Interest bearing deposits	26,503,895	—	—	—	—	26,503,895
Resell agreements	55,078,754	—	—	—	8,000,000	63,078,754
Commercial paper	13,106,435	—	—	—	—	13,106,435
Total debt securities and fixed-income external investment pools	$ 748,356,415	40,508,377	32,915,598	29,835,149	116,948,101	968,563,640

Interest bearing deposits with other banks held under securities lending transactions (see Note 11) are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

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

As of June 30, 2014 and 2013, investment maturities as a percentage of total debt securities and fixed–income external investment pools are as follows:

Maturity	Maturity % 2014	Maturity % 2013
Within one year	21%	16%
After one to five years	42%	36%
After five years to ten years	20%	23%
After ten years	17%	25%

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Corporation's investment policy permits investing in international stocks to diversify the risks of the investment portfolio. The Corporation limits its exposure to foreign currency risk by limiting the total amount invested to a 10% (the policy was 5% at June 30, 2013) of the portfolio.

As of June 30, 2014 and 2013, the Corporation had the following investments denominated in foreign currency:

Description	Currency	Fair Value 2014	Fair Value 2013
Common stock	Australian Dollar	$ 1,158,759	4,983,262
	Canadian Dollar	—	1,669,273
	Swiss Franc	4,019,505	6,356,373
	Danish Krone	—	585,373
	Euro	12,525,913	12,079,882
	British Pound	8,044,882	7,150,399
	Hong Kong Dollar	875,190	1,359,320
	Indonesian Rupiah	373,372	—
	Japanese Yen	8,545,619	16,549,030
	Norwegian Krone	899,507	1,980,471
	Swedish Krona	943,070	469,659
	Singapore Dollar	2,201,536	1,036,766
	South African Rand	431,308	—
Preferred stock and other equities	Euro	2,498,623	1,402,186
Government and foreign corporate bonds	Euro	—	3,487,717
	Colombian Peso	383,188	—
	Mexican Peso	949,270	—
	Brazilian Real	384,953	—
Total		$ 44,234,695	59,109,711

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the Corporation may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2014 and 2013, all securities held in portfolio were registered in the name of the Corporation and were held in the possession of the Corporation's custodian banks, JP Morgan Chase Bank, N.A. and Santander Bank, except for securities lent (see Note 11).

Interest and dividend income for the years ended June 30, 2014 and 2013, consist of the following:

Description		**2014**	**2013**
Interest income on interest bearing deposits with GDB	$	805,388	87,320
Interest income on investments		30,176,257	31,527,517
Dividend income on investments		8,167,168	7,272,679
Dividend income on investment in PRGITF		288	734
Interest income on investments in cash and non-cash collateral received on securities lending transactions		225,171	317,904
Other interest income		262,467	1,146,498
		39,636,739	40,352,652
Less investment managers' fees		(4,060,093)	(4,517,041)
Total interest and dividend income-net	$	35,576,646	35,835,611

Net increase in the fair value of investments for the years ended June 30, 2014 and 2013, consists of the following:

	2014		
Description	**Investments**	**Derivative Instruments**	**Total**
Gross realized gains	$ 130,481,068	127,830	130,608,898
Gross realized losses	(39,389,077)	(137,455)	(39,526,532)
Net increase in fair value	16,987,142	2,827	16,989,969
Total	$ 108,079,133	(6,798)	108,072,335

	2013		
Description	**Investments**	**Derivative Instruments**	**Total**
Gross realized gains	$ 56,711,558	353,475	57,065,033
Gross realized losses	(21,926,157)	(373,685)	(22,299,842)
Net (decrease)/increase in fair value	(6,327,978)	68,148	(6,259,830)
Total	$ 28,457,423	47,938	28,505,361

(5) Accounts Receivable-Net

Accounts receivable as of June 30, 2014 and 2013, consist of:

Description	2014	2013
Insurance premiums receivable, including estimated additional premiums-net of allowance for uncollectible insurance premiums of $307,497,993 and $302,346,171 in 2014 and 2013, respectively	$ 56,738,812	59,938,140
Interest and dividends receivable	5,336,354	7,503,289
Securities sold but not yet delivered	31,438,472	7,161,567
Employees' accounts receivable, collateralized with motor vehicles-net of allowance for uncollectible accounts of $1,072,025 and $1,125,843 in 2014 and 2013, respectively	5,784,568	6,441,360
Other accounts receivable-net of allowance for uncollectible accounts of $147,354,721 and $143,596,471 in 2014 and 2013, respectively	2,101,147	2,984,146
Total	$ 101,399,353	84,028,502

Insurance premiums receivable include an estimate for additional premiums of $68,694,345 and $76,759,034 as of June 30, 2014 and 2013, respectively. The Corporation follows a policy of not charging–off uncollectible insurance premiums against the related allowance for uncollectible accounts, except as discussed below. Other accounts receivable mainly include the portion of insurance premiums of uninsured employers considered to be collectible.

On June 6, 2012, pursuant to Act No. 13 of January 10, 2012, the Corporation approved an incentive plan for employers with unpaid premiums incurred prior to fiscal years ended on or before June 30, 2010. Employers that meet certain criteria are eligible for a 50% discount on such unpaid premiums. The incentive plan expired on December 6, 2012. Discounts under the incentive plan amounted to approximately $32.9 million for the year ended June 30, 2013.

(6) Inventories

Inventories as of June 30, 2014 and 2013 consist of:

Description		2014	2013
Medicines and medical supplies	$	2,700,203	3,006,310
Office materials and supplies		576,583	550,612
Total	$	3,276,786	3,556,922

(7) Capital Assets-Net

The activity of capital assets for the years ended June 30, 2014 and 2013 is as follows:

Description	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014
Capital assets not subject to depreciation and amortization:				
Land	$ 11,382,166	—	—	11,382,166
Land-under capital lease	7,150,000	—	—	7,150,000
Construction in progress	—	2,782,700	—	2,782,700
	18,532,166	2,782,700	—	21,314,866
Capital assets subject to depreciation and amortization:				
Buildings and improvements	111,490,635	833,472	—	112,324,107
Medical and office equipment	48,810,586	897,063	(704,355)	49,003,294
Software	12,222,719	1,218,280	(11,249)	13,429,750
Motor vehicles	942,921	—	—	942,921
Assets under capital leases:				—
Building and improvements	27,850,000	—	—	27,850,000
	201,316,861	2,948,815	(715,604)	203,550,072
Less accumulated depreciation and amortization:				
Buildings and improvements	(49,948,471)	(3,506,051)	—	(53,454,522)
Medical and office equipment	(41,248,468)	(3,108,956)	704,355	(43,653,069)
Software	(12,153,081)	(113,571)	11,249	(12,255,403)
Motor vehicles	(868,812)	(31,761)	—	(900,573)
Assets under capital leases:				—
Building and improvements	(12,068,333)	(928,333)	—	(12,996,666)
	(116,287,165)	(7,688,672)	715,604	(123,260,233)
Capital assets being depreciated and amortized-net	85,029,696	(4,739,857)	—	80,289,839
Capital assets-net	$ 103,561,862	(1,957,157)	—	101,604,705

Description	Balance June 30, 2012	Increase	Decrease	Reclassifications	Balance June 30, 2013
Capital assets not subject to depreciation and amortization:					
Land	$ 5,860,166	—	—	5,522,000	11,382,166
Land-under capital lease	7,150,000	—	—	—	7,150,000
	13,010,166	—	—	5,522,000	18,532,166
Capital assets subject to depreciation and amortization:					
Buildings and improvements	116,825,152	3,108,140	(2,920,657)	(5,522,000)	111,490,635
Medical and office equipment	45,641,874	4,484,039	(1,315,327)	—	48,810,586
Software	12,222,129	590	—	—	12,222,719
Motor vehicles	942,921	—	—	—	942,921
Assets under capital leases:					
Building and improvements	27,850,000	—	—	—	27,850,000
	203,482,076	7,592,769	(4,235,984)	(5,522,000)	201,316,861
Less accumulated depreciation and amortization:					
Buildings and improvements	(46,756,832)	(3,475,323)	145,684	138,000	(49,948,471)
Medical and office equipment	(39,436,954)	(3,126,841)	1,315,327	—	(41,248,468)
Software	(12,113,196)	(39,885)	—	—	(12,153,081)
Motor vehicles	(832,388)	(36,424)	—	—	(868,812)
Assets under capital leases:					
Building and improvements	(11,140,000)	(928,333)	—	—	(12,068,333)
	(110,279,370)	(7,606,806)	1,461,011	138,000	(116,287,165)
Capital assets being depreciated and amortized-net	93,202,706	(14,037)	(2,774,973)	(5,384,000)	85,029,696
Capital assets-net	$ 106,212,872	(14,037)	(2,774,973)	138,000	103,561,862

As of June 30, 2014 and 2013, the net carrying value of assets under capital leases amounted to $22,003,334 and $22,931,667, respectively. Amortization of assets under capital leases amounted to $928,333 for the years ended June 30, 2014 and 2013.

During 2013, management of the Corporation expressed its intention to demolish a portion of one of its buildings which was acquired during fiscal year 2012, thus denoting the presence of an impairment indicator. After testing for impairment, an impairment loss of $2,767,992 was recorded for the year ended June 30, 2013. The building was demolished in 2014. No impairment on long lived assets was recorded for the year ended June 30, 2014.

(8) Liability for Incurred but Unpaid Benefits and Benefit Adjustment Expenses

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions, and projections as to future events, including claims frequency, severity, persistency and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.83% in 2014 and 3.78% in 2013. The actuarial study for 2014 considered the experience of the Corporation from fiscal years 2000–2001 to 2013–2014, while the actuarial study for 2013 considered the experience of the Corporation from fiscal years 1999–2000 to 2012–2013, and included estimates for cases reported that have not been adjudged and cases incurred but not reported. The assumptions used in estimating and establishing the liability are 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 includes estimates of future payment of benefits and related benefit adjustment expenses.

The liability for incurred but unpaid benefits and benefit adjustment expenses as of June 30, 2014 and 2013 consists of:

Description	2014	2013
Compensation benefits:		
Cases adjudged:		
Long-term partial disability	$ 19,433,445	20,196,371
Long-term total disability	237,820,828	228,284,392
Death	33,780,667	33,996,749
	291,034,940	282,477,512
Cases reported not adjudged and cases incurred but not reported:		
Short-term disability (per diem)	100,834,745	112,422,501
Long-term partial disability	128,704,412	127,512,998
Long-term total disability	96,243,251	96,495,371
Death	(3,110,893)	(1,931,216)
	322,671,515	334,499,654
Total compensation benefits	613,706,455	616,977,166
Medical benefits	129,978,692	134,869,166
Loss adjustment expense, including legal fees	68,310,452	69,087,625
Total	$ 811,995,599	820,933,957

The following provides a reconciliation of the beginning and ending balance for the liability for incurred but unpaid benefits and benefits adjustment expenses for the years ended June 30, 2014 and 2013:

Description	2014	2013
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 820,933,957	820,012,188
Incurred benefits related to:		
Insured events of the current year	364,107,237	294,086,419
Insured events of the prior years	83,801,346	187,656,312
Total incurred benefits	447,908,583	481,742,731
Benefit payments related to:		
Insured events of the current year	(213,371,051)	(293,615,766)
Insured events of the prior years	(243,475,890)	(187,205,196)
Total benefit payments	(456,846,941)	(480,820,962)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 811,995,599	820,933,957

(9) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2014 and 2013, consist of:

Description	2014	2013
Accounts payable:		
Securities purchased not yet received	$ 41,069,597	5,880,323
Due to employers	15,187,495	12,888,570
Suppliers, professional services and others	79,111,148	59,785,856
Total accounts payable	135,368,240	78,554,749
Accrued liabilities:		
Compensated absences-vacations and sick leave	39,202,382	46,409,545
Accruals for Christmas bonus, salary increases, compensatory time and other fringe benefits	11,602,717	15,695,241
Pension and postemployment benefits other than pensions (see Notes 17 and 18)	10,077,257	13,261,249
Accruals for claims and contingencies (see Note 21)	8,296,307	5,675,705
Accrued interest payable	918,816	1,003.081
Total accrued liabilities	70,097,479	82,044,821
Total	$ 205,465,719	160,599,570

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014, the "Fiscal Sustainability Act". This Act requires that all instrumentalities, entities, agencies and public corporations of the Commonwealth of Puerto Rico reduce their operating expenses, specifically those related to payroll, professional services, contracted services and leases, among others. During the effective term of this Act, the excess accumulation of vacation and sick leave will not be paid to employees. The employees should exhaust the excess accumulation by the end of each fiscal year. The Act also establishes that the Christmas bonus paid to eligible employees shall not exceed $600. The Corporation is required to transfer the savings resulting from the enactment of this Act to the "Fund of Services and Therapies for Special Education Students", in equal monthly installments during fiscal year 2015, and an equal amount shall be transferred during fiscal years 2016 and 2017. At June 30, 2014 the Corporation accrued approximately $17 million related to this matter. The amount was recorded within accounts payable in the accompanying financial statements of net position.

After the enactment of the Act No. 66-2014, the Corporation started discussions and entered into certain negotiations with the unionized groups within the Corporation, specifically in relation to the payment of certain benefits, which were affected by the enactment of the Act. After negotiations were finalized, the Corporation still reported decreases in the compensated absences accruals and Christmas bonus accrual, as a result of the enactment of the Act. This Act was effective on June 17, 2014 and the expense reduction and contribution to the special fund will remain in effect until July 1, 2017 or before that date if certain financial and economic metrics are achieved by the Commonwealth of Puerto Rico.

(10) Accrual for Reimbursement of Premiums

As of June 30, 2014 and 2013, the accrual for reimbursement of premiums as determined by the independent actuary was classified as current and non-current in the accompanying statements of net position as follows:

Description		2014	2013
Due within one year	$	49,522,507	53,645,472
Due in more than one year		52,380,826	60,156,819
Total	$	101,903,333	113,802,291

The provision for reimbursement of insurance premiums for the years ended June 30, 2014 and 2013 amounted approximately to $41,138,000 and $37,432,000, respectively, including a current year credit of approximately $11.9 million and $4.8 million for 2014 and 2013, respectively, to reflect changes in the accrual for reimbursement of premiums determined by an independent actuary. A discount rate of 3.85% and 3.78% was used to determine present value at June 30, 2014 and 2013.

(11) Securities Lending Obligations

The Commonwealth statutes and the Corporation's BOD's policies permit the Corporation to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letters of credit.

The Corporation's securities custodian, JP Morgan Chase Bank, N.A., as agent of the Corporation, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Corporation unless the borrower defaults. The collateral requirement is equal to 102 percent for securities issued in the United States and 105 percent for securities issued outside of the United States, of the fair value of the security lent. Additional collateral has to be provided by the next business day if the collateral fair value falls below the fair value of the securities lent. All security loans can be terminated on demand by either the Corporation or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment made with the cash collateral. Such matching existed at year–end.

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

Securities lent as of June 30, 2014 and 2013 had a fair value of $109,592,493 and $231,551,832, respectively and were secured with collateral received with a fair value of $112,103,106 and $236,702,983, respectively.

Securities lent for which cash was received as collateral as of June 30, 2014 and 2013, consist of:

Description	2014	2013
U.S. Treasury notes and bonds	$ 2,597,435	14,424,544
U.S. sponsored agencies bonds and notes	15,626,988	6,560,578
Corporate bonds and notes	6,233,445	34,647,802
Equity securities	76,366,138	44,783,015
Total	$ 100,824,006	100,415,939

Cash collateral received as of June 30, 2014 and 2013 amounted to $103,107,404 and $102,689,084 (see Note 4), respectively, and was invested as follows:

Description	2014	2013
Commercial paper	$ 2,999,402	13,106,435
Resell agreements	49,604,768	63,078,754
Interest bearing deposits:		
Certificates of deposit with other banks	50,503,234	26,503,895
Total	$ 103,107,404	102,689,084

In addition, the Corporation had the following lending obligations as of June 30, 2014 and 2013 for which securities were received as collateral:

		2014 Fair Value	
Description		**Securities Lent**	**Collateral Received**
U.S. Treasury notes and bonds	$	3,937,642	4,031,579
Corporate bonds and notes		778,473	795,101
U.S. sponsored agencies bonds and notes		4,052,372	4,169,022
Total	$	8,768,487	8,995,702

		2013 Fair Value	
Description		**Securities Lent**	**Collateral Received**
U.S. Treasury notes and bonds	$	120,153,793	122,671,644
U.S. Treasury bills		1,199,988	1,242,620
Corporate bonds and notes		2,949,422	3,114,062
U.S. sponsored agencies bonds and notes		6,832,690	6,985,573
Total	$	131,135,893	134,013,899

Net (rebates) cost of securities lending transactions for the years ended June 30, 2014 and 2013 consist of the following:

Description		**2014**	**2013**
Borrower rebates	$	(263,331)	(64,425)
Agent fees		194,871	152,925
Total	$	(68,460)	88,500

(12) Notes Payable

Note payable activity for the years ended June 30, 2014 and 2013, is as follows:

June 30, 2013	Advances	Payments	June 30, 2014
$ 242,000,000	—	(16,133,332)	225,866,668

June 30, 2012	Advances	Payments	June 30, 2013
$ 242,000,000	—	—	242,000,000

On May 11, 2011, the Corporation entered into a loan agreement (the Loan) with a private financial institution for the amount of $242,000,000. The Loan matures on May 1, 2028 and carries a variable interest rate of 30 day LIBOR (0.15% and 0.19% at June 30, 2014 and 2013, respectively) plus a 2.25% spread. This loan requires the Corporation to comply with certain restrictive covenants, which, in the event of non–compliance, provide the financial institution the right to declare the outstanding debt as due and payable in cancellation of the loan agreement. One of the covenants requires the Corporation to pledge 130% of the outstanding principal on the loan in securities in its investment portfolio. Proceeds of the loan were used to repay a note payable and interest payable to the Government Development Bank for Puerto Rico ($220,000,000 principal and $3,273,000 in interest), purchase of two buildings with land ($8,490,000 for building purchased before June 30, 2011 and $10,100,000 for building purchased during fiscal year 2012) and other purposes ($137,000).

The annual debt service requirements to maturity, including principal and interest, for the note payable are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	$ 16,133,332	5,439,412	21,572,744
2016	16,133,332	5.037,733	21,171,065
2017	16.133,332	4,636,053	20,769,385
2018	16,133,332	4,234,373	20,367,705
2019	16,133,332	3,832,694	19,966,026
2020-2024	80.666,660	13,138,274	93.804,934
2025-2028	64,533,348	3,280,386	67,813,734
	225,866.668	39.598,924	265,465,592
Less current portion	(16,133.332)	(5,439,412)	(21,572,744)
	$ 209.733,336	34,159,512	243,892,848

Debt service requirements of this variable-rate debt assume that the interest rate effective at June 30, 2014 and 2013 remains the same throughout the term of the debt.

(13) Other Notes Payable

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

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

The activity of these notes payable for the years ended June 30, 2014 and 2013, is as follows:

Description		Balance June 30, 2012	Payments	Balance June 30, 2013	Payments	Balance June 30, 2014
Note payable (gross):						
Note 1	$	12,744,600	(1,970,285)	10,774,315	(2,029,392)	8,744,923
Note 2		6,907,625	(1,044,237)	5,863,388	(1,085,368)	4,778,020
Note 3		4,900,546	(727,584)	4,172,962	(1,160,789)	3,012,173
Note 4		20,858,442	(2,955,847)	17,902,595	(3,044,543)	14,858,052
Total		45,411,213	(6,697,953)	38,713,260	(7,320,092)	31,393,168
Portion representing interest:						
Note 1		(2,061,327)	612,699	(1,448,628)	519,487	(929,141)
Note 2		(1,126,383)	332,652	(793,731)	283,291	(510,440)
Note 3		(781,858)	229,330	(552,528)	279,607	(272,921)
Note 4		(3,790,210)	1,034,090	(2,756,120)	895,886	(1,860,234)
Total		(7,759,778)	2,208,771	(5,551,007)	1,978,271	(3,572,736)
Principal of note payable:						
Note 1		10,683,273	(1,357,586)	9,325,687	(1,509,905)	7,815,782
Note 2		5,781,242	(711,585)	5,069,657	(802,077)	4,267,580
Note 3		4,118,688	(498,254)	3,620,434	(881,182)	2,739,252
Note 4		17,068,232	(1,921,757)	15,146,475	(2,148,657)	12,997,818
Total	$	37,651,435	(4,489,182)	33,162,253	(5,341,821)	27,820,432

The schedule of payments of these notes payable as of June 30, 2014, is as follows:

Fiscal Year Ending June 30,		Principal	Interest	Total
2015	$	5,293,055	1,459,597	6,752,652
2016		6,235,471	1,152,927	7,388,398
2017		6,912,777	719,706	7,632,483
2018		7,640,404	240,506	7,880,910
2019		1,738,725	—	1,738,725
		27,820,432	3,572,736	31,393,168
Less current portion		(5,293,055)	(1,459,597)	(6,752,652)
Non current portion	$	22,527,377	2,113,139	24,640,516

(14) Obligation Under Capital Lease

In fiscal year 2000, the Corporation acquired under a capital lease agreement the facility where a regional office is located. The agreement requires the Corporation to make total payments of approximately $111.7 million over 30 years. The effective interest rate was determined at 10.23%.

The activity of the obligation under capital lease for the years ended June 30, 2014 and 2013, is as follows:

Description		Balance June 30, 2012	Payments	Balance June 30, 2013	Payments	Balance June 30, 2014
Future payment on assets under capital lease	$	67,047,750	(3,724,875)	63,322,875	(3,724,875)	59,598,000
Portion representing interest		(36,451,606)	3,100,510	(33,351,096)	3,033,573	(30,317,523)
Present value of minimum lease payments	$	30,596,144	(624,365)	29,971,779	(691,302)	29,280,477

The schedule of future minimum lease payments under this lease agreement, together with the present value of such minimum lease payments as of June 30, 2014, is as follows:

Fiscal Year Ending June 30,		Present Value Capital Lease	Interest	Total
2015	$	765,416	2,959,459	3,724,875
2016		847,475	2,877,400	3,724,875
2017		938,332	2,786,543	3,724,875
2018		1,038,930	2,685,945	3,724,875
2019		1,150,312	2,574,563	3,724,875
2020-2024		7,888,030	10,736,345	18,624,375
2025-2029		13,125,510	5,498,865	18,624,375
2030		3,526,472	198,403	3,724,875
		29,280,477	30,317,523	59,598,000
Less current portion		(765,416)	(2,959,459)	(3,724,875)
Non current portion	$	28,515,061	27,358,064	55,873,125

(15) Transfers to Other Governmental Agencies

Transfers to other governmental agencies during the years ended June 30, 2014 and 2013, are as follows:

Description		2014	2013
Industrial Commission of Puerto Rico	$	24,763,000	24,089,470
Department of Labor and Human Resources:			
Occupational Safety and Health Office		8,024,000	12,602,750
Labor Standards Offices		10,989,000	6,410,250
Department of the Family-Vocational Rehabilitation Program		600,000	600,000
Budgetary Support Fund		40,150,000	24,100,000
Fund of Services and Therapies for Special Education Students (Act No. 66-2014)		16,986,490	—
Additional Uniform Contribution to ERS (Act No. 32-2013)		6,391,332	—
Total	$	107,903,822	67,802,470

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

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

The transfers to the Department of the Family are made under the provisions of Law No. 243, of July 23, 1974, which requires the Corporation to transfer to the Vocational Rehabilitation Program an amount not to exceed $600,000 each year for the vocational rehabilitation of injured workers. As of June 30, 2014 and 2013, the amount due under this Program amounted to $600,000.

Act No. 134 of July 2, 2012, required a transfer of $24 million from the Corporation to the "Budgetary Support Fund of 2012-2013" under the custody of the Office of Management and Budget. Such transfer was made on September 7, 2012.

Act No. 43 of June 30, 2013, required a transfer of $40 million from the Corporation to the "Budgetary Support Fund of 2013-2014" under the custody of the Office of Management and Budget, in two payments due on September 30, 2013 and March 31, 2014. The transfers were made in 2014.

As a result of the enactment of Act No. 66-2014, the Corporation recorded an accrual of intergovernmental transfer of approximately $17 million representing the certified savings from the enactment of the Act. The Corporation is required to transfer the aforementioned savings of approximately $17 million to the "Fund of Services and Therapies for Special Education Students", in equal monthly installments during fiscal year 2015, and an equal amount shall be transferred during fiscal years 2016 and 2017.

Act No. 32-2013, required the Corporation to accrue at June 30, 2014 approximately $6 million related to an additional uniform contribution to the Employee Retirement System of the Commonwealth of Puerto Rico (ERS) to improve its liquidity and solvency. The Act provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries.

(16) Investment Derivative Instruments

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

For the years ended June 30, 2014 and 2013, the Corporation recorded within net increase in fair value of investments in the statements of revenues, expenses and changes in net position, a net (loss) gain on investment derivative instrument transactions amounting to approximately $(6,800) and $47,900, respectively. At June 30, 2014 and 2013, there were no significant outstanding investment derivative instruments.

(17) Employees' Retirement Plan

Defined Benefit Pension Plan

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

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

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

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

Commonwealth Legislation requires employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Corporation was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Corporation's contribution was increased to 10.275% for 2012, an additional 1% annually (12.275% and 11.275% for 2014 and 2013) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Retirement System. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the Retirement System, including, but not limited to, the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

- Increases the minimum pension for current retirees from $400 to $500 per month.

- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.

- Eliminates the "merit annuity" available to participants who joined the Retirement System prior to April 1, 1990.

- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

- The employee contribution rate was increased from 8.275% to 10%.

- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated.

- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

- Survivor benefits were modified.

To improve the liquidity and solvency of the Retirement System, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the Retirement System's actuaries.

Defined Contribution Plan

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

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

The Corporation was required by Act No. 305 to contribute 9.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. Pursuant to Act No. 116 of July 16, 2011, the Corporation's contribution was increased to 10.275% for 2012, an additional 1% annually (12.275% and 11.275% for 2014 and 2013) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

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

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the Retirement System benefit structures and programs, as described above.

Total employee contributions for the defined benefit pension plan and the defined contribution plan amounted to approximately $18,519,000 and $234,000 during the year ended June 30, 2014 and $14,229,000 and $2,702,000 during the year ended June 30, 2013. The Corporation's total contributions during the years ended June 30, 2014, 2013 and 2012, amounted to approximately $23,260,000, $22,717,000, and $20,615,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand-alone financial statements for the years ended June 30, 2014 and 2013, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities. P.O. Box 42004, San Juan PR 00940-2004.

Other Retirement Benefits

In addition to the Defined Benefit Plan and to the Defined Contribution Plan, the Corporation provides the following retirement benefits:

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

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

- Retirement payment benefit — Eligibility required at least 15 years of service at the Corporation and at least 30 years of credited service at the Retirement System and the retiree must provide a letter of resignation at least 90 days prior to retirement. Benefit is a lump sum of $8,100.

- Retirement bonus benefit — Same eligibility as for the health benefits. Trust employees receive 21% of final salary as a lump sum and all other employees receive 30% of final salary as a lump sum.

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

As a result of enactment of Act No. 66-2014, certain benefits were reduced or eliminated for the period of effectiveness of the Act, and were negotiated with the different unionized groups within the Corporation with the following maximum amounts:

- Christmas bonus benefit — $600 for management and non-union employees and a maximum ranging from $2,000 to $3,325 for the different unionized groups within the Corporation. The unions will re-negotiate this benefit annually until June 30, 2017.

- Retirement payment and retirement bonus benefits —

Union	Benefits continue or suspended
Hermandad	Continue
Internal auditors	Continue
Physicians	Suspended
Lawyers	Suspended
Accountants	Suspended
Management and non-union	Suspended

The "Hermandad" and internal auditors unions will negotiate this benefit annually until June 30, 2017.

Funding Policy and Annual Pension Cost

The required contribution is based on projected pay–as–you–go financing requirements. Benefits are actuarially calculated by an independent actuary.

The Annual Pension Cost is calculated based on the annual required contribution of the employer (the ARC). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 27. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also impact the ARC.

The following tables show the components of the Corporation's annual pension cost for the fiscal years ended June 30, 2014 and 2013, the amount actually contributed to the Pension Program, the change in the Corporation's net obligation and the funded status of the Pension Program:

Net Pension Obligation Movement:		For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
Annual Required Contribution	$	4,117,973	4,528,775
Interest on the net pension obligation		272,422	390,487
Adjustments to the ARC		(611,291)	(876,218)
Annual pension cost (expense)		3,779,104	4,043,044
Employer contribution		(3,575,456)	(7,141,863)
Increase (decrease) in the net pension obligation		203,648	(3,098,819)
Net pension obligation-beginning of year		7,150,183	10,249,002
Net pension obligation-end of year	$	7,353,831	7,150,183
Percentage of annual pension cost contributed		95%	177%
Funded Status:			
Actuarial valuation date		July 1, 2013	July 1, 2012
Actuarial accrued liability (AAL)	$	28,302,844	29,634,360
Unfunded AAL	$	28,302,844	29,634,360
Funded ratio		0%	0%
Annual covered payroll	$	186,993,972	189,416,028

Pension Actuarial Valuation

The following table shows the most significant actuarial methods and assumptions used to estimate the net pension obligation. As permitted by GASB Statement No. 27, the actuarial valuation is performed every two years, but due to changes in the Retirement System caused by Act No. 3 of 2013, the Corporation performed a full valuation at June 30, 2013 and a roll-forward actuarial valuation at June 30, 2014.

Actuarial Methods and Assumptions 2014:

Valuation year	July 1, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of projected payroll on an open basis over 15 years.
Asset valuation method	N/A
Discount rate	4.06%
Projected salary increase	4.00%
Mortality rate	RP-2000 Generational Healthy Mortality Table for blended healthy active employee/retiree RP-2000 Combined Disability Mortality Table for disabled participants

Actuarial Methods and Assumptions 2013:

Valuation year	July 1, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of projected payroll on an open basis over 15 years.
Asset valuation method	N/A
Discount rate	3.81%
Projected salary increase	4.00%
Mortality rate	RP-2000 Generational Healthy Mortality Table for blended healthy active employee/retiree RP-2000 Combined Disability Mortality Table for disabled participants

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

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

The net pension obligation does not include the impact of Act No. 66-2014. Management believes that the impact of this Act in the net pension obligation is not significant for fiscal year ended June 30, 2014.

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

(18) Postemployment Benefits other than Pensions

Program Description and Membership

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

The Corporation provides the following OPEB:

- Health and other health related benefits: medical, prescription drugs, dental, and vision benefits are provided together in a fully–insured health plan. Upon retirement, an eligible employee receives two years of non–contributory healthcare benefits from the Corporation and through its healthcare plan. The Corporation's healthcare plan covers medical, prescription drugs, vision, dental, and life insurance (see Note 17). After the two years, the retiree can continue participation in the Corporation's plan (for lifetime) by contributing the difference between the plan premium and the Corporation's contribution of $35/month ($40/month for members of the "Unión de Empleados de la Corporación del Fondo del Seguro del Estado") per retiree (including dependents, if any). The $35/month and $40/month contributions end when the retiree reaches 65 years of age and, thereafter, the retiree must contribute the full plan premium. Some retirees who retired under special incentive programs have the two-years extended (ranging from 5 to 7 years total). After the two–year period (or the special retirement program period), the retiree can continue the spouse or family coverage for the lifetime of the retiree.

At June 30, 2014 and 2013, membership in the Corporation's OPEB Program consisted of the following:

	2014	2013
Retirees and beneficiaries currently receiving benefits	$ 148	737
Current participating employees	3,245	3,314
	$ 3,393	4,051

Funding Policy and Annual OPEB Cost

The required contribution is based on projected pay–as–you–go financing requirements. Benefits are actuarially calculated by an independent actuary.

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

The following tables show the components of the Corporation's annual OPEB cost for the fiscal years ended June 30, 2014 and 2013, the amount actually contributed to the OPEB Program, the change in the Corporation's net obligation and the funded status of the OPEB Program.

Net OPEB Obligation Movement:		**For the Year Ended June 30, 2014**	**For the Year Ended June 30, 2013**
Annual Required Contribution	$	3,285,008	3,574,698
Interest on the net OPEB obligation		232,832	374,914
Adjustments to the ARC		(332,623)	(535,602)
Annual OPEB cost (expense)		3,185,217	3,414,010
Employer contribution		(6,572,857)	(7,143,207)
Decrease in the net OPEB obligation		(3,387,640)	(3,729,197)
Net OPEB obligation at beginning of year		6,111,066	9,840,263
Net OPEB obligation at end of year	$	2,723,426	6,111,066
Percentage of annual OPEB cost contributed		206%	209%

Funded Status:			
Actuarial valuation date		July 1, 2013	July 1, 2012
Actuarial accrued liability (AAL)	$	33,584,691	38,363,662
Unfunded AAL	$	33,584,691	38,363,662
Funded ratio		0%	0%
Annual covered payroll	$	186,993,972	189,416,028

OPEB Actuarial Valuation

The following table shows the most significant actuarial methods and assumptions used to estimate the net OPEB obligation. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years, but due to changes in the Retirement System caused by Act No. 3 of 2013 (please refer to Note 17), the Corporation performed a full valuation at June 30, 2013 and a roll-forward actuarial valuation at June 30, 2014.

Actuarial Methods and Assumptions (2014):

Valuation year	July 1, 2013
Actuarial cost method	Projected Unit Credit, level dollar
Amortization method	Level percentage of projected payroll on an open basis over 30 years
Asset valuation method	N/A
Discount rate	4.06%
Projected salary increase	4.00%
Mortality rate	RP-2000 Generational Healthy Mortality Table for blended healthy active employee/retiree RP-2000 Combined Disability Mortality Table for disabled participants
Health care cost trend rate for medical and prescription drugs	8.5% in fiscal year 2013, grading to 5% for fiscal year 2020

Actuarial Methods and Assumptions (2013):

Valuation year	July 1, 2012
Actuarial cost method	Projected Unit Credit, level dollar
Amortization method	Level percentage of projected payroll on an open basis over 30 years
Asset valuation method	N/A
Discount rate	3.81%
Projected salary increase	4.00%
Mortality rate	RP-2000 Generational Healthy Mortality Table for blended healthy active employee/retiree RP-2000 Combined Disability Mortality Table for disabled participants
Health care cost trend rate for medical and prescription drugs	8.5% in fiscal year 2013, grading to 5% for fiscal year 2020

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

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

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

(19) 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, 2014 and 2013, the Corporation was required to account for the Death and Total Disability Fund (the DTDF) and for the Reserve for Catastrophic Fund (the RCF). The DTDF recognizes the claims awarded to the workers (injured employees or its beneficiaries). The Corporation maintains a separate account to record the inventory of claims adjudicated, which is part of the liabilities for incurred but unpaid benefits and benefit adjustment expenses, reflected in the accompanying financial statements. As of June 30, 2014 and 2013, the DTDF (adjudged cases) amounted to approximately $177 million and $175 million, respectively 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, 2014 and 2013, the RCF amounted to approximately $14.2 million.

(20) Commitments

Operating Lease Agreements

The Corporation rents certain of its administrative offices and clinics under non–cancelable long–term operating lease agreements. Certain leases contain escalation clauses providing for increased rental. Rent charged to operations in fiscal years 2014 and 2013 amounted to approximately $22.3 million and $22.9 million, respectively. At June 30, 2014, the minimum annual future rentals under non–cancelable leases, without considering renewal options, are approximately as follows:

Fiscal Year Ending June 30,		Amount
2015	$	16,094,460
2016		14,983,078
2017		13,283,666
2018		9,284,798
2019		9,162,229
2020-2022		14,991,421
	$	77,799,652

See Note 15 for commitments with other governmental agencies.

(21) Contingencies

The Corporation is included as defendant in various lawsuits from approximately 330 cases as of June 30, 2014 (470 as of June 30, 2013), most of current and former employees as a result of the Corporation's decision to declare null and void certain administrative personnel transactions which occurred in prior years. Plaintiffs' claims include damages and requests for reinstatements. On November 17, 2011, as part of one of the cases being litigated, the State Court of Appeals ratified a previous ruling in favor of plaintiffs on the subject related to nullification of personnel transactions. Management believes, based on the opinion of legal counsel, that their actions were appropriate and these adverse rulings were appealed to the State Supreme Court.

Also, the Corporation is included as defendant or co–defendant in several other claims and lawsuits pending final resolution. The Corporation had medical malpractice insurance coverage through June 3, 1991, and for the period from December 31, 1996 to April 1, 2007. During the periods from June 4, 1991 to December 30, 1996 and from April 2, 2007 to present, the Corporation had no medical malpractice coverage. Management has recorded an accrual of approximately $8.3 million and $5.7 million to cover claims and lawsuits that may be assessed against the Corporation, including malpractice cases not covered by the related policy as of June 30, 2014 and 2013, respectively. The Corporation has certain labor-related, medical malpractice, general liability and other claims for which the probability of loss is not probable, but reasonably possible, therefore no accrual was necessary to be made in the financial statements at June 30, 2014 and 2013.

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.

(22) Transactions with Governmental Entities

During the years ended June 30, 2014 and 2013, insurance premiums earned by the Corporation from the governmental sector are approximately as follows: $100.4 million and $109.3 million, respectively, from the Commonwealth and its agencies and public corporations and $43.4 million and $46.6 million from the municipalities for a total amount of $143.8 million and $155.9 million from the governmental sector. These amounts represent approximately 22% of the total of premiums earned at June 30, 2014 and 2013, respectively.

Interest bearing deposits with GDB amounted to $35,500,000 and $38,000,000 as of June 30, 2014 and 2013. The Corporation also has demand deposit accounts with GDB amounting to $16,526,398 and $15,806,647 at June 30, 2014 and 2013, respectively. Interest income earned on these deposits amounted to $805,389 and $87,320 for the years ended June 30, 2014 and 2013. Also, on December 19, 2013, the Corporation invested in GDB Senior Guaranteed Notes in an aggregate amount of $110,000,000, bearing interest of 8% per annum commencing on February 1, 2014, and maturities ranging from 2017 to 2019. Interest income earned on these notes at June 30, 2014 amounted to $3,960,000.

The Corporation has invested $6,350,500 and $12,489,640 in the Commonwealth's agency bonds as of June 30, 2014 and 2013. Investment with the PRGITF amounted to approximately $1,039,000 as of June 30, 2014 and 2013. Dividend income earned on this investment amounted to $288 and $734 for the years ended June 30, 2014 and 2013.

Accounts receivable from the Commonwealth's agencies, municipalities and public corporations amounted to approximately $25.3 million and $28.9 million as of June 30, 2014 and 2013. Medical and administrative expenses paid to the Commonwealth's agencies and public corporations amounted to approximately $9.1 million and $10.8 million for the years ended June 30, 2014 and 2013, respectively.

The Corporation has a capital commitment of $35 million at June 30, 2014 related to the remodeling and expansion project of the Industrial Hospital through an interagency assistance contract entered with the Infrastructure Financing Authority of Puerto Rico, a public corporation of the Commonwealth of Puerto Rico, for the development and management of this project in all its phases. The term of the contract ends on June 30, 2016.

For transfers to (from) other governmental agencies, see Note 15. For transactions with the Retirement System, see Note 17.

(23) Subsequent Events

Act No. 73 was enacted by the Commonwealth with effective date of July 1, 2014, to create the "Fund for Services and Therapies to Special Education Students" to, among other, provide special education kids with resources to support their academic development. The fund was created, in part, by an automatic one-time transfer of 5% of the income earned by the Corporation from insurance premiums collected during the year ended June 30, 2013. The intergovernmental transfer of $30,719,127 was made on July 24, 2014.

Act No. 78 was enacted by the Commonwealth with effective date of July 1, 2014, to create the "Fund for Legal Responsibility" under the custody of the Office of Management and Budget of the Commonwealth. The fund was created, among other resources, by an automatic one-time transfer of $15,000,000 from the Corporation, which was made on July 24, 2014.

The Corporation evaluated subsequent events up to December 10, 2014, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Ten - Year Claims Development Information

Year ended June 30, 2014

Description		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1) Projected gross earned premiums	$	723,066	722,493	728,919	740,149	714,106	673,431	685,586	702,385	698,508	674,355
2) Unallocated expense		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
3) Estimated ultimate awards at end of policy year	$	496,100	494,000	477,598	478,404	476,369	496,427	462,174	433,384	419,716	377,238
4) Awarded as of:											
12 months	$	245,139	260,634	266,914	269,589	276,168	292,353	268,247	247,708	242,001	216,762
24 months		317,831	330,329	336,395	337,729	349,956	377,555	346,968	311,719	286,524	
36 months		347,246	358,395	367,518	372,428	387,092	420,988	386,544	346,690		
48 months		361,411	373,080	385,693	391,793	406,643	444,876	409,719			
60 months		370,475	383,607	397,857	414,375	419,203	460,576				
72 months		378,103	391,306	406,423	412,750	428,303					
84 months		384,003	396,916	412,191	418,888						
96 months		388,188	401,275	416,679							
108 months		391,502	404,336								
120 months		394,006									
5) Re-estimated ultimate incurred:											
12 months	$	496,100	494,000	477,598	478,404	476,369	496,427	462,174	433,384	419,716	377,238
24 months		441,800	449,171	460,651	462,871	467,551	501,982	469,985	425,528	395,275	
36 months		428,502	446,943	456,440	454,667	474,334	511,403	475,169	429,688		
48 months		429,045	444,532	455,030	459,509	479,214	516,950	478,540			
60 months		429,753	443,561	458,392	466,071	480,454	520,624				
72 months		431,112	443,877	458,998	465,325	480,132					
84 months		433,140	446,770	459,480	466,321						
96 months		434,775	444,653	459,910							
108 months		433,309	444,514								
120 months		433,827									

NA=Not available

See accompanying independent auditors' report.

State Insurance Fund Corporation

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress and Employer Contributions for Pension Costs

Year ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (3) (AAL) (b)	Unfunded/ (Overfunded) ALL (UAAL) (3) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (2) ©	UAAL as a Percentage of Covered Payroll [(b)-(a)/©]
July 1, 2013	—	$ 28,302,844	28,302,844	0%	186,993,972	15.1%
July 1, 2012	—	29,634,360	29,634,360	0%	189,416,028	15.6%
July 1, 2011	—	37,673,268	37,673,268	0%	201,141,746	18.7%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual Pension Cost (APC)	Employer Contributions (1)	Percentage Contributed	Net Pension Obligation
June 30, 2014	$ 3,779,104	3,575,455	94.6%	7,353,831
June 30, 2013	4,043,044	7,141,863	176.6%	7,150,183
June 30, 2012	4,629,858	1,629,318	35.2%	10,249,002
June 30, 2011	5,389,289	6,025,098	111.8%	7,248,462
June 30, 2010	5,406,659	4,932,242	91.2%	7,844,271

(1) Since there is no funding, these are estimated cash plan premiums and other payments less estimated participant contributions.
(2) Estimated plan participant payroll, includes only plan participants.
(3) The unfunded actuarial accrued liability does not include the impact of Act. No. 66-2014.

See accompanying independent auditors' report.

STATE INSURANCE FUND CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress and Employer Contributions for Postemployment Benefits other than Pensions

Year ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) ALL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (2) ©	UAAL as a Percentage of Covered Payroll [(b)-(a)/©]
July 1, 2013	—	$ 33,584,691	33,584,691	0%	186,993,972	18.0%
July 1, 2012	—	38,363,662	38,363,662	0%	189,416,028	20.3%
July 1, 2011	—	57,800,111	57,800,111	0%	201,141,746	28.7%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual Pension Cost (APC)	Employer Contributions (1)	Percentage Contributed	Net OPEB Obligation
June 30, 2014	$ 3,185,217	6,572,857	206.4%	2,723,426
June 30, 2013	3,414,010	7,143,207	209.2%	6,111,066
June 30, 2012	5,161,392	4,873,734	94.4%	9,840,263
June 30, 2011	5,555,649	5,644,614	101.6%	9,552,605
June 30, 2010	5,212,977	3,824,400	73.4%	9,641,570

(1) Since there is no funding, these are estimated cash plan premiums and other payments less estimated participant contributions.
(2) Estimated plan participant payroll, includes only plan participants.

See accompanying independent auditors' report.