

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE
Statement of Cash Receipts and
Cash Disbursements for All Fund Types
June 30, 2013
(with Auditors' Report thereon)

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**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Statement of Cash Receipts and Cash Disbursements for All Fund Types
and Required Supplementary Information
For the year ended June 30, 2013 and Independent Auditors' Report**

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November 21, 2013

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of cash receipts and cash disbursements for all fund types of the **Commonwealth of Puerto Rico Office of the Commissioner of Insurance** (the Office) for the year ended June 30, 2013, and the related notes to the financial statement. This financial statement is the responsibility of the Office's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an 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 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 significant accounting principles 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 qualified audit opinion.

Opinion

In our opinion, the financial statement referred above presents fairly, in all material respects, the cash receipts and cash disbursements for all fund types of the Office for the year ended June 30, 2013, in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 13 through 14, respectively, is presented for purpose of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

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

Carbonell & Co., LLP

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Certified Public Accountants
License No. 211 Expires Dec. 1, 2013
Stamp #E88025 of the P.R. Society of
Certified Public Accountants has been
affixed to the original of this report.



Commonwealth of Puerto Rico Office of the Commissioner of Insurance Management's Discussion and Analysis For the year ended June 30, 2013

The Commonwealth of Puerto Rico Office of the Commissioner of Insurance (the Office) management provides this overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2013, within the limitation of the Office's cash basis of accounting. We encourage readers to consider the information presented here along with the financial statement taken as a whole.

1. Financial Highlights

The Office's General Operational Fund cash receipts from operations exceeded the cash disbursements from operations by \$3,322,620. The withdrawal of \$200,000 by the Department of Labor and Human Resources (DTRH) imposed by Executive Order OE-2013-046 dated June 7, 2013, caused the cash receipts to exceed the cash disbursements by \$3,122,620.

2. Using this Report

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

3. Report Components

This report consists of three parts as follows:

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

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

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

4. Basis of Accounting

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

**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Management's Discussion and Analysis
For the year ended June 30, 2013**

4. Basis of Accounting (continued)

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

5. The Fund Financial Statement

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

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**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Management's Discussion and Analysis
For the year ended June 30, 2013**

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

For the year ended June 30, 2013, on the cash basis of accounting, the Office's General Operational Fund reported cash receipts of \$11,767,264 and cash disbursements of \$8,444,644 resulting in an excess of cash receipts over cash disbursements from operations of \$3,322,620. The withdrawal of \$200,000 by the Department of Labor and Human Resources (DTRH) imposed by Executive Order OE-2013-046 dated June 7, 2013, caused the cash receipts to exceed the cash disbursements by \$3,122,620. The following table, summarizes the results of operations between fiscal years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Change</u>	
			<u>In dollars</u>	<u>In %</u>
Cash receipts:				
Licenses	\$10,404,750	\$ 8,926,969	\$ 1,477,781	17 %
Testing fees	737,625	711,049	26,576	4 %
Fines	542,016	566,230	(24,214)	(4)%
Sales of publications	65,170	69,295	(4,125)	(6)%
Interest	1,332	3,654	(2,322)	(64)%
Other	<u>16,371</u>	<u>15,416</u>	<u>955</u>	6 %
Total cash receipts	11,767,264	10,292,613	1,474,651	14 %
Cash disbursements:				
Personal services:				
Salaries and fringe benefits	5,306,516	4,759,556	546,960	11 %
Professional services	908,758	2,833,332	(1,924,574)	(68)%
Other	<u>765,617</u>	<u>712,817</u>	<u>52,800</u>	7 %
Total cash disbursements for personal services	6,980,891	8,305,705	(1,324,814)	(16)%
Non-personal services:				
Rent	997,561	1,009,062	(11,501)	(1)%
Repairs and maintenance	26,257	29,214	(2,957)	(10)%
Materials	73,803	52,423	21,380	41 %
Advertising	19,124	24,722	(5,598)	(23)%
Telephone and communication	50,710	52,649	(1,939)	(4)%
Equipment	84,075	39,786	44,289	111 %
Travel	19,814	22,156	(2,342)	(11)%
Other	<u>192,409</u>	<u>282,594</u>	<u>(90,185)</u>	(32)%
Total cash disbursements for non-personal services	<u>1,463,753</u>	<u>1,512,606</u>	<u>(48,853)</u>	(3)%
Total cash disbursements from operations	<u>8,444,644</u>	<u>9,818,311</u>	<u>(1,373,667)</u>	(14)%
Excess of cash receipts over cash disbursements from operations	3,322,620	474,302	2,848,318	601 %
Withdrawal by DTRH imposed by OE-2013-046	(200,000)	-	(200,000)	100 %
Withdrawal by OGP imposed by Law 109	<u>-</u>	<u>(8,000,000)</u>	<u>8,000,000</u>	(100)%
Excess of cash receipts (disbursements) over cash disbursements (receipts), net	<u>\$ 3,122,620</u>	<u>\$ (7,525,698)</u>	<u>\$10,648,318</u>	141 %

**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Management's Discussion and Analysis
For the year ended June 30, 2013**

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

Cash Receipts

Total cash receipt increased by \$1,474,651 mainly due to the renewal of licenses. Law No. 220 dated December 28th of 2010, was enacted and amended the parameter of the renewal of licenses. As a result, there were an increase in cash receipts from licenses renewals during last year in comparison with this year.

Cash Disbursement

Total cash disbursements for personal services decreased by \$1,324,814 mainly due to services contracted for the accreditation with National Association of Insurance Commissioners (NAIC). Total cash disbursement for non-personal services decreased by \$48,853 mainly due to cost reduction policies implemented to control and reduce the expenditures.

Transfer of Funds to Department of Labor and Human Resources

The transfer of funds of \$200,000 is mainly due to the transfer to Department of Labor and Human Resources (DTHR) for the "Programa de Verano Actívale y Trabaja" as established by Executive Order OE-2013-046 dated June 7, 2013.

Cash Receipts and Cash Disbursements from Operations, Net

The operation's net cash flows as a result of the mentioned above, resulted in an excess of cash receipts over cash disbursements from operations of \$3,322,620.

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**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Management's Discussion and Analysis
For the year ended June 30, 2013**

7. General Operational Fund Budgetary Highlights

Over the course of the year, the Office revised the General Fund budget at various times. The final adjusted budget, however, was consistent with original budget. The only difference between the current and prior year budget was an overall decrease of \$672,277 from prior year. The budgetary comparison of Cash Receipts and Disbursements for the General Fund is as follows:

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Cash receipts:				
Licenses	\$ 9,252,352	\$ 9,252,352	\$ 10,404,750	\$ 1,152,398
Testing fees	519,795	519,795	737,625	217,830
Fines	519,795	519,795	542,016	22,221
Sales of publications	62,375	62,375	65,170	2,795
Interest	-	-	1,332	1,332
Other	<u>41,584</u>	<u>41,584</u>	<u>16,371</u>	<u>(25,213)</u>
Total cash receipts	10,395,901	10,395,901	11,767,264	1,371,363
Cash disbursements:				
Salaries and fringe benefits	6,781,000	6,781,000	5,306,516	(1,474,484)
Professional services	1,315,000	1,315,000	908,758	(406,242)
Rent	1,055,000	1,055,000	997,561	(57,439)
Repairs and maintenance	49,000	49,000	26,257	(22,743)
Materials	100,000	100,000	73,803	(26,197)
Advertisement	61,000	61,000	19,124	(41,876)
Telephone and communication	95,000	95,000	50,710	(44,290)
Equipment	254,000	254,000	84,075	(169,925)
Travel	48,000	48,000	19,814	(28,186)
Other	<u>1,138,000</u>	<u>1,138,000</u>	<u>958,026</u>	<u>(179,974)</u>
Total cash disbursements	<u>10,896,000</u>	<u>10,896,000</u>	<u>8,444,644</u>	<u>(2,451,356)</u>
Excess of cash disbursements over cash receipts from operations	(500,099)	(500,099)	3,322,620	3,822,719
Withdrawal by DTRH imposed by OE-2013-046	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>(200,000)</u>
Excess of cash disbursements over cash receipts, net	<u>\$ (500,099)</u>	<u>\$ (500,099)</u>	<u>\$ 3,122,620</u>	<u>\$ 3,622,719</u>

**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Management's Discussion and Analysis
For the year ended June 30, 2013**

8. Contacting the Office's Financial Management

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

**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Statement of Cash Receipts and Cash Disbursements for All Fund Types
For the year ended June 30, 2013**

	General Operational Fund	Federal Grants Fund	Total
Cash receipts:			
Licenses	\$10,404,750	\$ -	\$10,404,750
Testing fees	737,625	-	737,625
Fines	542,016	-	542,016
Sales of publications	65,170	-	65,170
Interests	1,332	-	1,332
Federal grant	-	919,769	919,769
Other	<u>16,371</u>	<u>-</u>	<u>16,371</u>
Total cash receipts	11,767,264	919,769	12,687,033
Cash disbursements:			
Personal services			
Salaries and fringe benefits	5,306,516	-	5,306,516
Professional services	908,758	765,552	1,674,310
Other	<u>765,617</u>	<u>-</u>	<u>765,617</u>
Total cash disbursements for personal services	6,980,891	765,552	7,746,443
Non-personal services:			
Rent	997,561	-	997,561
Repairs and maintenance	26,257	-	26,257
Materials	73,803	-	73,803
Advertising	19,124	-	19,124
Telephone and communication	50,710	-	50,710
Equipment	84,075	-	84,075
Travel	19,814	-	19,814
Other	<u>192,409</u>	<u>-</u>	<u>192,409</u>
Total cash disbursement for non-personal services	<u>1,463,753</u>	<u>-</u>	<u>1,463,753</u>
Total cash disbursements from operations	<u>8,444,644</u>	<u>765,552</u>	<u>9,210,196</u>
Excess of cash receipts over cash disbursement from operation	3,322,620	154,217	3,476,837
Withdrawal by DTRH imposed by OE-2013-046	<u>(200,000)</u>	<u>-</u>	<u>-</u>
Excess of cash receipts over cash disbursements, net	<u>\$ 3,122,620</u>	<u>\$ 154,217</u>	<u>\$ 3,476,837</u>

**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Notes to Financial Statement
For the year ended June 30, 2013**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Description of Funds - The various funds are summarized by type in the financial statement. The following fund types are used by the Office:

General Operational Fund - The General Operational Fund is the general operating fund. It is used to account for all cash receipt and disbursements except for those required to be accounted for in another fund.

Federal Grants Fund - Accounts for the financial resources related to the Federal Grant Awards administered by the Office.

Basis of Presentation - The Office's fund is, as required by law, under the custody and control of the Secretary of the Department of Treasury of the Commonwealth of Puerto Rico and is also accounted for in the Central Government Accounting System. The Office prepares its Statement of Cash Receipts and Cash Disbursements for the General Operational Fund on the cash basis method. A statement of net assets has not been presented because, as of June 30, 2013, the Office had no cash available.

2. EVALUATION OF SUBSEQUENT EVENTS

The Office has evaluated subsequent events through November 21, 2013, the date which the financial statements were available to be issued.

**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Notes to Financial Statement
For the year ended June 30, 2013**

3. RELATED PARTY

As of June 30, 2013, the Office collected taxes over insurance premiums and other funds on behalf of the Department of Treasury of the Commonwealth of Puerto Rico amounting to approximately \$28 million. These collections are not reflected in the accompanying statement of cash receipts and cash disbursements since the Office only serves as a collector of these funds.

4. COMMITMENTS

On January 1, 2011, the Office entered into a non-cancelable operating lease agreement for the office facilities including common area maintenance charges and electricity expenses. The lease expires on December 31, 2015, with a renewal option period of 30 days. Also, the Office has several non-cancelable operating leases for equipment and parking spaces expiring between May 2017 and June 2017.

The minimum rental commitments for leases in effect at June 30, 2013, are as follows:

Year Ending June 30,	<u>Amount</u>
2014	\$ 1,083,188
2015	1,101,188
2016	614,522
2017	<u>126,202</u>
	<u>\$ 2,925,100</u>

5. PENSION PLAN

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

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth Legislature. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the Retirement System. The annuity, for which a plan member is eligible, is limited to a minimum of \$400 per month and a maximum of 75% of the average compensation.

Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Notes to Financial Statement
For the year ended June 30, 2013

5. PENSION PLAN (continued)

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

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

Funding Policy

Contribution requirements are established by law and are as follows:

Commonwealth	11.275%	of gross salary
Employees:		
Hired on or before March 31, 1990	5.775%	of gross salary up to \$6,600
	8.275%	of gross salary over \$6,600
Hired on or after April 1, 1990	8.275%	of gross salary

Total contributions made during the year ended June 30, 2013, were as follows:

	<u>Regular Plan</u>	<u>System 2000</u>
Employer	<u>\$ 200,579</u>	<u>\$ 200,578</u>

Total covered payroll for the year ended June 30, 2013, was approximately \$5 million. For the fiscal year ended June 30, 2013, the Office contributed 100% of total required contributions. Additional information on the System is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtain from Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00949.

**Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
Budgetary Comparison Schedule of Receipts and Disbursements for the
General Operational Fund
For the year ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Cash receipts:				
Licenses	\$ 9,252,352	\$ 9,252,352	\$10,404,750	\$ 1,152,398
Testing fees	519,795	519,795	737,625	217,830
Fines	519,795	519,795	542,016	22,221
Sales of publications	62,375	62,375	65,170	2,795
Interest	-	-	1,332	1,332
Other	<u>41,584</u>	<u>41,584</u>	<u>16,371</u>	<u>(25,213)</u>
Total cash receipts	10,395,901	10,395,901	11,767,264	1,371,363
Cash disbursements:				
Salaries and fringe benefits	6,781,000	6,781,000	5,306,516	(1,474,484)
Professional services	1,315,000	1,315,000	908,758	(406,242)
Rent	1,055,000	1,055,000	997,561	(57,439)
Repairs and maintenance	49,000	49,000	26,257	(22,743)
Materials	100,000	100,000	73,803	(26,197)
Advertisement	61,000	61,000	19,124	(41,876)
Telephone and communication	95,000	95,000	50,710	(44,290)
Equipment	254,000	254,000	84,075	(169,925)
Travel	48,000	48,000	19,814	(28,186)
Other	<u>1,138,000</u>	<u>1,138,000</u>	<u>-</u>	<u>(1,138,000)</u>
Total cash disbursements	10,896,000	10,896,000	7,486,618	(3,409,382)
Excess of cash disbursements over cash receipts from operations	(500,099)	(500,099)	4,280,646	4,780,745
Withdrawal by Department of Labor	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>(200,000)</u>
Excess of cash disbursements over cash receipts, net	\$ (500,099)	\$ (500,099)	\$ 4,080,646	\$ 4,580,745

**Commonwealth of Puerto Rico Office of the Commissioner of Insurance
Notes to Budgetary Comparison Schedule of Receipts and Disbursements
for the General Operational Fund
For the year ended June 30, 2013**

1. BASIS OF PRESENTATION

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

2. BUDGET AND BUDGETARY ACCOUNTING

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