AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

AUTOMOBILE ACCIDENTS
COMPENSATIONS ADMINISTRATION
(A Component Unit of the Commonwealth
of Puerto Rico)

Table of Contents

June 30, 2013

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
25TH ANNIVERSARY

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Independent Auditors' Report

To the Board of Directors of
Automobile Accidents Compensations Administration:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Automobile Accidents Compensations Administration (the Administration), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the Administration 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the 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 Administration, as of June 30, 2013, and the respective statements of revenues, expenses and changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Correction of Errors

As described in Note 3 to the basic financial statements, in fiscal year 2013 management adjusted the opening balance of net position to correct the following errors: (i) over-accrual on the reserve for future benefits amounting to approximately $60 million, (ii) unrecorded Administration's postemployment benefits other than pensions liability amounting to approximately $5.4 million, and (iii) impairment on software equipment that should have been recorded in prior years amounting to approximately $2.2 million. The net effect of the correction of these errors was an increase in the opening balance of net position of approximately $52.4 million.

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 through 13, the ten - year claims development information and the schedule of funding progress – other postemployment benefits plan on pages 47 and 48, 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 13, 2013, on our consideration of the Administration'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 Administration's internal control over financial reporting and compliance.

Landa Umpierre PSC

San Juan, Puerto Rico
December 13, 2013

Stamp number E89493 of the Puerto Rico Society
of CPA's was affixed to the record copy of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial report of the Automobile Accidents Compensations Administration (hereinafter referred to as the Administration) represents a narrative overview and analysis of the financial performance and activities for the fiscal years ended June 30, 2013 and 2012. The information presented herein should be read in conjunction with the attached Financial Statements, including the notes thereto.

Summarized financial statements information, relevant financial and operational indicators, operational budgets and other management tools were used for purpose of this analysis.

FINANCIAL HIGHLIGHTS

- The Administration had income from insurance operations of $1.5 million. The change in net position for the year ended June 30, 2013 is $2.4 million. This positive outcome is mainly due to the net effect from favorable yield of our investment portfolio, amounting to approximately $14.5 million, and the payment of $12.5 million for a contribution as per Law No. 134 of July 2, 2012 to the Central Government of Puerto Rico.

- During fiscal year 2013, the Administration recognized interest and dividend income of approximately $3.1 million. Furthermore, the realized gain on the sale of investments was $4.2 million and the unrealized gain due to changes in market value of investments was $7.2 million.

- General and administrative expenses amounted to approximately $14.9 million in 2013. This represents a decrease of approximately $3.4 million as compared to previous year. The main contributor to this decrease was savings in professional and consulting services. These services that were incurred during 2012 were mainly related to the implementation of new accounting and payroll systems.

- The Administration has a Collective Bargaining Agreement with the Independent Union of Employees from the Automobile Accidents Compensations Administration under which certain benefits are included. Some of these benefits are annual salary increase of $165 a month, Christmas Bonus of 10% of employee's salary (up to a salary of $27,500), Medical, Life and Cancer Insurance paid in full by the Administration, and certain post-retirement benefits, among others. The cost of this agreement was approximately $4 million for fiscal year 2012-2013.

- Gross insurance premiums remained consistent with the prior fiscal year ($83.3 million in 2013 vs. $83.6 million in 2012); this decrease, which amounts to 0.33%, is mainly attributed to a decline in insured vehicles.

- Total assets increased by approximately $2.2 million as compared to previous fiscal year. This increase is mainly due to the income generated by and the increase in the fair market value of our investment portfolio.

- The Administration's assets exceeded its liabilities by approximately $20 million as of June 30, 2013. Total net position increased by $2.4 million when compared with the end of prior fiscal year.

- The Administration recorded prior period adjustments amounting to $52.4 million. These adjustments are related to the following:

    - *Reserve for Unpaid Claims Liability and Reserve for Future Benefits*: The Administration found an error in the data used by the prior actuary to prepare the actuarial adjustment of the reserves. The error consisted of the actuary using a file that included both basic and extended benefits to estimate the reserve for future benefits for extended coverage. In addition, the Loss Adjustment Expenses calculated included expenses that are incurred only once and that are not necessary to process future claims. The effect of these errors amounts to approximately $60 million.

    - *Other Postemployment Employee Benefits (OPEB)*: The Governmental Accounting Standards Board (GASB) released Statement No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension* and Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* on April and June 2004, respectively. The provisions of these pronouncements were to be implemented by fiscal year 2008-09. These standards require, among other things, that agencies record an actuarially determined liability in the Financial Statements. The Administration offers Medical, Life and Cancer Insurance for a period of three to five years after retirement, as well as various bonuses to its employees who retire by merit. The Administration did not have an OPEB liability and did not have an Actuarial Valuation Report as the GASB so mandates. The total effect of the prior period adjustment amounts to approximately $5.4 million.

    - *Impairment of Assets*: In November 2005, the Administration entered into an agreement with a third party to obtain and implement a cost effective information system infrastructure to automate the administration and payment of medical service providers and claimants. For the fiscal year ended June 30, 2011, the Administration recorded an impairment loss for approximately $963,000 associated with the significant and unexpected decline in service utility of the system. The provisions for impairment represent the difference between the net carrying cost and the fair market value. As of June 30, 2012, the Administration did not expect to finalize the implementation or to use this software in the future. The effect of this impairment amounts to approximately $2.2 million.

OVERVIEW OF THE FINANCIAL REPORT

The Administration is a component unit of the Commonwealth of Puerto Rico (hereinafter referred to as the Commonwealth) and is presented in the Commonwealth's government-wide financial statements as an enterprise fund.

The Administration's financial statements are presented, attached to this document, and represent the financial position and results of operation of the Administration as of June 30, 2013, and for the fiscal year then ended.

The financial statements include a Statement of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and the Notes to such Financial Statements.

STATEMENT OF NET POSITION

The Statement of Net Position presents the Administration's financial position as of June 30, 2013, showing information that includes all of the Administration's assets and liabilities, as well as the net position. An evaluation of the overall financial health of the Administration would extend to other external factors, such as the quality of the portfolio of investments and their related market conditions, the experience of gains and losses that may be affected by demographic variables, and the inflationary increase of medical costs.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of revenues, expenses and changes in net position shows how the Administration's net assets changed during the fiscal year. All current fiscal year revenues and expenses are recognized using the accrual method of accounting, which consists of recognizing such revenues and expenses when earned and incurred, respectively, regardless of when the cash is received or paid.

STATEMENT OF CASH FLOWS

The statement of cash flows presents the sources and uses of cash flows divided in categories: operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of the year and reconciles the net operating gain (loss) with the cash provided by operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, expenses and changes in net position.

NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements provide information required and necessary for the understanding of material information of the Administration's financial statements. The notes present information about the Administration's significant accounting policies, significant account balances and activities, risk management, obligations, commitments and contingencies.

DETAILED FINANCIAL ANALYSIS

The Administration was created in 1968 by virtue of Law No. 138 as a public corporation of the Government of Puerto Rico. It operates a system of compulsory insurance for vehicles licensed for the use within the Commonwealth of Puerto Rico. The insurance covers bodily injuries caused by automobile accidents and has an annual premium, which was established back in 1968, of $35 per motor vehicle. The Administration, therefore, is responsible for managing the risks of insurance established in the Law and provides adequate resources for insured beneficiaries by managing premiums, claims and expenses. The financial position of the Administration as of June 30, 2013, changed with respect to that of the prior years as follows:

				Variance	
Assets:		**2013**	**2012**	**Dollars**	**Percent**
Cash and cash equivalents	$	12,270,253	18,973,160	(6,702,907)	(35.33) %
Investments, at fair value		156,511,569	147,125,316	9,386,253	6.38 %
Accounts receivable		2,310,817	2,377,913	(67,096)	(2.82) %
Capital assets, (as restated)		5,553,232	5,918,322	(365,090)	(6.17) %
Other assets		35,788	42,945	(7,157)	(16.67) %
Total assets	$	176,681,659	174,437,656	2,244,003	1.29 %
Liabilities:					
Unpaid claims liability and reserve for future benefits (as restated)	$	104,911,424	97,110,878	7,800,546	8.03 %
Deferred premiums reserve		37,813,195	38,269,641	(456,446)	(1.19) %
Payable for acquisition of investments		1,054,216	1,394,630	(340,414)	(24.41) %
Accounts payable, including		3,090,082	10,434,617	(7,344,535)	(70.39) %
Accrued liabilities		4,324,453	4,037,466	286,987	7.11 %
OPEB (as restated)		5,396,562	5,450,861	(54,299)	(1.00) %
Total liabilities	$	156,589,932	156,698,093	(108,161)	(0.07) %
Net position	$	20,091,727	17,739,563	2,352,164	13.26 %

TOTAL ASSETS

Total assets increased by approximately $2.2 million due to the net effect of the following:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents experienced a decrease of approximately $6.7 million for the year ended June 30, 2013. This decrease was mainly due to $12.5 million disbursement to the Puerto Rico Central Government as required by Law No. 134 of July 2, 2012 offset by yield of investments and increase in revenues.

INVESTMENTS

During the last twenty years, the premium income received has been insufficient to cover the operating expenses of the Administration. As a result, withdrawals from the investment portfolio were frequently made to cover operating funding needs. During the three previous fiscal years, no withdrawals were made from the portfolio. However, on September 26, 2012, the Administration made a withdrawal for the amount of $12.5 million as a result of complying with Law No. 134 of July 2, 2012 which created "Fondo para el Apoyo Presupuestario 2012-2013". As a result of the approval and implementation of this law, a special fund was created to contribute to the Puerto Rico Central Government General Fund. No other withdrawals were made from the investment portfolio.

During fiscal year 2013, the Administration experienced an increase of its investments portfolio of approximately $9.4 million when compared with the previous year. This increase was the net effect of investments' yield, and the favorable changes in market value of the investments.

INVESTMENTS MARKET CONDITIONS

The market conditions during the fiscal year ended June 30, 2013 were favorable, leading to a net increase of $9,386,253 in the fair market value of the investment portfolio. This accounts for a return of approximately 9.77%. It should be noted that like every investor, the Administration is subject to market risks, which consist of changes in market rates and prices. These changes may have an adverse impact on the financial condition of the Corporation.

During the past several years since the 2008 financial crisis, massive monthly purchases of U.S. Treasury's and mortgage-backed securities by the U.S. Federal Reserve have been the financial equivalent of training wheels for the U.S. economy. Since March 2009 through mid-June 2013, investors have pulled an estimated net total of $385.6 billion from domestic stock funds. Over the same period, the S&P 500 Index recorded a cumulative total return of more than 125%. During last fiscal year 2013 the S&P 500 Index of U.S. stocks finished the with a respectable 17.92% gain, while the Dow Jones Industrials index experienced an increase of approximately 15.76%.

One of the most important aspects of the market was the relative stability of U.S. economic conditions as compared to other more volatile assets around the world. As a result, there was the avoidance of a recession period coupled with the continued earnings growth from U.S. companies. During the fiscal year 2012, the Administration ended the relationship with the international money managers, in order to reduce the risk related to the economic crisis in Europe. The Administration is in the process of evaluating various new investment alternatives and new asset managers with different strategies to reduce the risk in the portfolio.

The Administration will continuously and closely monitor and evaluate the performance of the investments' money managers.

ACCOUNTS RECEIVABLE

Accounts receivable remained on-line with previous year with a slight decrease of approximately $67,000, which accounts for 2.8% change.

FIXED ASSETS

The decrease in net Fixed Assets was approximately $365,000 and was related to the net effect of acquisitions in 2013, and depreciation charges during the fiscal year. The property acquisitions made by the Administration during the past year were made to maximize the services and enhance the efficiency of operations.

LIABILITIES AND NET POSITION

Below is a general discussion of the liabilities and net position section of the Administration's financial condition.

UNPAID CLAIMS LIABILITY AND RESERVE FOR FUTURE BENEFITS

A reserve for future benefits is an estimate of unpaid benefits on any given date. The estimate of the reserve for future benefits is an actuarial function involving the current financial evaluation of future contingent events. The total reserve amount for fiscal year ended June 30, 2013 shows an increase of approximately $7.8 million mainly due to unpaid claims liability of incurred medical expenses.

According to the actuarial report, the Unpaid Claims Liability and Reserve for Future Benefits is segregated into various major areas: benefits for death, funeral, disability, dismemberment and medical/hospital coverage with basic (less than two years) and extended (over two years) benefits. It also includes the incurred but unpaid claim liability and the Loss Adjustment Expenses. Each major area is evaluated separately and a reserve is estimated for each.

It should be noted that most payments for funeral and dismemberment benefits are settled within two years, while the disability benefits may perhaps run for two years. Other benefits settlements may depend on the composition and age distribution of the beneficiaries and on the severity of the accident and related trauma.

ACCOUNTS PAYABLE

Accounts payable decreased by $7.3 million or 70% when compared to prior year. The main reason for this is a decrease in the pending invoices corresponding to vendors of medical services and expenses for the beneficiaries of the Administration.

ACCRUED LIABILITIES

Accrued liabilities in 2013 increased by approximately $287,000 or 7% when compared to the previous fiscal year. The main reason for this change is a year over year increase in the total vacation accrual and its related payroll taxes.

NET POSITION AT END OF YEAR

The net position for the Fiscal Year ended June 30, 2013 increased by $2.4 million. This increase in net position was related to all management actions here in before stated.

It should be noted that, as required by the Law that created the ACAA, the excess of revenues collected during any fiscal year over the payment of benefits and operational expenses must be kept by the Administration to cover all unanticipated claims. Also, if in any year the receipts and the reserves accrued are not sufficient to cover the losses and the expenses incurred, the Secretary of the Treasury shall provide, as an advance to the Administration, the sums required to remediate the deficiency. Such advance would be obtained from any funds available in the General Government Fund.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following presents a detailed description of the Administration's revenues, expenses and change in net position:

REVENUES FROM INSURANCE PREMIUMS

The premiums are earned ratably over the one-year term of coverage, and it is anticipated to remain on-line with the prior year if there are no significant changes in premiums collected. The insurance premium rate per vehicle per year is $35 and has remained the same for over 40 years. Net revenues from insurance premiums experienced a decrease of approximately $278 thousand under last year ($83.3 million in 2013 vs. $83.6 million in 2012).

SERVICE FEES

Law No. 233 was enacted during the fiscal year ended June 30, 2004. This Law allows the Puerto Rico Treasury Department to charge a fee of 5% over all revenues collected by the Puerto Rico Treasury Department for collection expense purposes. On a full year basis, this charge reached an amount of $4.1 million for the fiscal year 2012-13, in comparison to $3.9 million for fiscal year 2011-12. This amount is also estimated from information provided by the Puerto Rico Treasury Department, which is subject to future changes based on new information that may be provided.

BENEFITS EXPENSES INCURRED

During fiscal year ended June 30, 2013, the total benefits incurred amounted to approximately $40 million. Benefits covered by the Administration include Death and Funeral, Dismemberment, Disability and Medical, Dental and Pharmacy insurance to cover bodily injuries suffered in a vehicular accident. As described in the "Financial Highlights" section, the Administration recorded a prior period adjustment to the Unpaid Claims Liability and Reserve for Future Benefits of approximately $60 million. This adjustment covers various periods prior dating back to 2009 through 2012. Average Benefits Expense for the past years has been in the range of $35 to $40 million. The Administration has been implementing cost management strategies through fraud and detection programs, sound approval processes and case management programs and we expect the medical-hospital utilization to decrease in future years.

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses experienced a decrease of $3.4 million when compared with the previous year. The reduction is due to savings in professional and consulting services as compared to the previous year. These services that were incurred during 2012 were mainly related to the implementation of new accounting and payroll systems.

NON-OPERATING REVENUE

Non-Operating Revenue includes the yield from investments, the realized gains or losses on sales of investments and the unrealized gains or losses due to changes in the market value of investments. During 2013, the market conditions were favorable, leading to a net increase of $9,386,253 in the fair market value of the investment portfolio. This accounts for a return of approximately 9.77%. The increase in revenue represents an increase of approximately $10 million as compared to the prior fiscal year. This increase in non-operating revenue is due to favorable market conditions during fiscal year 2013 vs. previous fiscal year. The unfavorable market conditions experienced in fiscal year 2012 were due to: (1) uncertainties raised by the Euro zone debt crisis; (2) expansionary policies adopted in 2009 that led to high inflation in emerging markets, leading to monetary policy tightening throughout 2011. In the second quarter of the previous fiscal year, the Administration ceased its relationship with the international money managers in order to reduce the risk related to the economic crisis in Europe.

STATEMENTS OF CASH FLOWS

The Administration's cash flows for the year resulted in a net decrease of cash and cash equivalents of approximately $6.7 million, as shown below:

	2013	2012	Variance Dollars	Variance Percent
Cash flows from operating activities:				
Cash received from insured	$ 82,145,171	79,015,981	3,129,190	3.96 %
Cash paid for benefits and expenses	(50,497,265)	(45,431,192)	(5,066,073)	11.15 %
Cash paid to employees for services and accumulated benefits	(31,953,488)	(29,504,932)	(2,448,556)	8.30 %
Other operating receipts	1,753,004	783,062	969,942	123.87 %
Net cash provided by operating activities	1,447,422	4,862,919	(3,415,497)	(70.24) %
Cash flows from non-capital financing activities:				
Transfer to Governental Agencies	(13,695,650)	(1,582,868)	(12,112,782)	765.24 %
Cash flows used in capital and related financing activities - capital expenditures	(277,518)	(561,432)	283,914	(50.57) %
Cash flows from investing activities:				
Proceeds from sale of investments	142,457,599	106,295,584	36,162,015	34.02 %
Purchase of investments	(142,902,048)	(106,701,762)	(36,200,286)	33.93 %
Collection of interest and dividends income	3,267,288	3,686,056	(418,768)	(11.36) %
Distribution on investment in real estate	3,000,000	1,976,609	1,023,391	51.78 %
Net cash provided by investing activities	5,822,839	5,256,487	566,352	10.77 %
Net (decrease)/ increase in cash and cash equivalents	(6,702,907)	7,975,106	(14,678,013)	(184.05) %
Cash and cash equivalents at the beginning of the year	18,973,160	10,998,054	7,975,106	72.51 %
Cash and cash equivalents at the end of the year	$ 12,270,253	18,973,160	(6,702,907)	(35.33) %

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

The cash received from insurance premiums during the fiscal year increased by approximately 4% as compared to previous year. This additional cash, paired with other operating receipts, was used to pay benefits to beneficiaries, payroll and related costs and other operating expenses.

CASH FLOWS USED IN NON-CAPITAL FINANCING ACTIVITIES

The cash used in non-capital financing activities is mainly due to the fact that, On September 26, 2012, the Administration made a payment for the amount of $12.5 million as a result of complying with Law No. 134 of July 2, 2012 which created "Fondo para el Apoyo Presupuestario 2012-2013". As a result of the approval and implementation of this law, a special fund was created and the Administration was required to contribute to the Puerto Rico Central Government General Fund. Also, Act No.33 of May 25, 1972, as amended, provides that the Administration contribute to the Puerto Rico Traffic Safety Commission the funds needed for its operating expenses. For fiscal year 2013, the Administration contributed approximately $1.2 million.

CONTACTING THE ADMINISTRATION'S FINANCIAL MANAGEMENT

This financial analysis (including the financial statements and notes thereto) is designed to provide a general overview of the Administration's finances and to comply with the financial reporting guidelines established by the Commonwealth of Puerto Rico, as well as to demonstrate the Administration's commitment to public accountability. For questions regarding this analysis and/or to request additional information, contact the Administration's Finance Department at Chardon Ave. #249, Arterial Hostos Square, Hato Rey, PR, 00918 or by calling 787-753-8495.

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BASIC FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2013

Assets		
Curret assets:		
Cash and cash equivalents	$	12,260,692
Restricted cash		9,561
Investments, at fair value		4,870,303
Premiums receivable		747,625
Accrued interest and dividends		662,779
Receivable from sale of investments		78,000
Other receivables, net		822,411
Total current assets		19,451,371
Noncurrent assets:		
Investments, at fair value		151,641,266
Capital assets:		
Being depreciated, net		4,526,810
Not being depreciated		1,026,424
Total capital assets		5,553,234
Other assets		35,788
Total noncurrent assets		157,230,288
Total assets	$	176,681,659

(Continued)

See accompanying notes to basic financial statements.

AUTOMOBILE ACCIDENTS
COMPENSATIONS ADMINISTRATION
(A Component Unit of the Commonwealth
of Puerto Rico)

Statement of Net Position

June 30, 2013

Liabilities		
Current liabilities:		
Unpaid claim liability and reserve for future benefits	$	34,854,860
Deferred premiums reserve		37,813,195
Payable for acquisition of investments		1,054,216
Accounts payable and accrued expenses		7,414,535
Total current liabilities		81,136,806
Noncurrent liabilities:		
Unpaid claim liability and reserve for future benefits		70,056,564
Other postemployment benefits liability		5,396,562
Total noncurrent liabilities		75,453,126
Total liabilities	$	156,589,932
Net Position		
Net position:		
Net investment in capital assets	$	5,553,234
Unrestricted		14,538,493
Total net position	$	20,091,727

See accompanying notes to basic financial statements.

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

Operating revenues:		
Gross insurance premiums earned	$	83,299,000
Less services fee		(4,108,204)
Other income, mainly recoveries of benefits		1,996,859
Total operating revenues		81,187,655
Operating expenses:		
Death and funeral benefits		2,277,124
Disability benefits		1,692,675
Accident and health benefits		36,412,294
Beneficiaries services		23,718,916
General and administrative expenses		14,942,841
Depreciation and amortization expense		637,161
Total operating expenses		79,681,011
Operating income		1,506,644
Non operating revenues (expenses):		
Interest and dividends, net of administration costs		3,173,502
Realized gains on sales of investments		4,201,355
Unrealized gains on investments		7,166,313
Total non operating revenues (expenses), net		14,541,170
Revenue before transfers to other governmental agencies		16,047,814
Transfers to other governmental agencies		(13,695,650)
Change in net position		2,352,164
Net position at beginning of year, as previously reported		(34,662,579)
Prior period adjustments (Note 3)		52,402,142
Net position at beginning of year, as restated		17,739,563
Net position at end of year	$	20,091,727

See accompanying notes to basic financial statements.

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2013

Cash flows from operating activities:	
Cash received from insured	$ 82,145,171
Cash paid for benefits and expenses	(50,497,265)
Cash paid to employees for services and accumulated benefits	(31,953,488)
Other operating receipts	1,753,004
Net cash provided by operating activities	1,447,422
Cash flows from non-capital financing activities:	
Transfers to governmental agencies	(13,695,650)
Cash flows used in capital and related financing activities:	
Capital expenditures	(277,518)
Cash flows from investing activities:	
Proceeds from sales of investments	142,457,599
Purchases of investments	(142,902,048)
Collection of interest and dividend income	3,267,288
Distributions on investments in real estate	3,000,000
Net cash provided by investing activities	5,822,839
Net decrease in cash and cash equivalents	(6,702,907)
Cash and cash equivalents at beginning of year	18,973,160
Cash and cash equivalents at end of year	$ 12,270,253

(Continued)

See accompanying notes to basic financial statements.

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2013

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,506,644
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		637,160
Provision for uncollectible accounts		1,141,225
Loss on disposal of equipment		5,446
Changes in assets and liabilities that increase (decrease) cash flows from operating activities:		
Premiums receivable		(697,383)
Other accounts receivable		(1,385,080)
Other assets		7,157
Unpaid claim liability and reserve for future benefits		7,800,546
Deferred premium reserve		(456,446)
Accounts payable and accrued expenses		(7,057,548)
Other postemployment benefits liability		(54,299)
Net cash provided by operating activities	$	1,447,422

Summary of non-cash transactions:

Securities sold, but not yet delivered	$	78,000
Securities purchased, but not yet received	$	1,054,216
Net increase in the fair value of investments (unrealized gains)	$	7,166,313
Retirement of fully depreciated capital assets	$	71,932

See accompanying notes to basic financial statements.

(1) Organization

The Automobile Accidents Compensations Administration (the Administration or ACAA) is a public corporation and a component unit of the Commonwealth of Puerto Rico, created by Law No.138 of June 26, 1968 (as amended). The Administration operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers bodily injuries and compensation for beneficiaries (and their dependants) caused by automobile accidents. The annual premium is $35 per motor vehicle.

As a public corporation, the Administration is exempt from the payment of taxes, except on payroll.

(2) Summary of 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 Administration 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 Administration does not have blended component units included in the accompanying financial statements.

The Administration is a component unit of the Commonwealth of Puerto Rico, and its financial statements are included in the Commonwealth of Puerto Rico's Comprehensive Annual Financial Report.

(b) Basis of Accounting

The Administration's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for as an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The Authority follows the pronouncements of the GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which requires the Authority to follow the pronouncements of the GASB in its accounting and financial reporting. GASB Statement No. 62 superseded previous guidance contained in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Funds Accounting.*

(c) Insurance Premiums

Insurance premiums are collected in advance by the Treasury Department of the Commonwealth of Puerto Rico (Puerto Rico Treasury Department) and recognized ratably as income during the policy year. As per Law No. 233 of September 2, 2003, the Puerto Rico Treasury Department charges a 5% service fee over all revenue collected. The service charge during the year ended June 30, 2013, amounted to $4,108,204. The portion of premiums that will be earned in the future is deferred and reported as Deferred Premiums Reserve in the accompanying Statement of Net Position.

(d) Cash and Cash Equivalents

For financial statements purposes, the Administration considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents as of June 30, 2013, consist of funds invested in short term bills, notes and investments funds.

(e) Investments

The Administration invests in marketable securities in order to shift the risks to uncertainty of the possible liabilities regarding claims.

Investments are recorded at their fair market value in conformity with GASB Statement No. 31, *Accounting and Financial Reporting for Investments and for External Investment Pools.* The fair value is based on quotations obtained from national securities exchanges. When securities are not listed in national securities exchanges, quotations are obtained from brokerage firms. Changes in fair value are reported in the Statement of Revenues, Expenses and Changes in Net Position.

The Administration follows the provisions of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions.* This statement establishes standards of accounting and financial reporting for securities lending transactions in which governmental entities (lenders) transfer their securities to broker-dealers and other entities (borrowers) for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral of securities received for which the Administration has the ability to invest and pledge forward at their discretion is recorded as an asset and a liability. Letters of credit and securities that cannot be pledged are not recorded as assets and liabilities in the Administration's accounting records.

(f) Receivables or Payables Resulting from the Sale or Acquisition of Investments

Investment transactions at or close to June 30, 2013, for which the settlement date occurs after the fiscal year ends, are recorded separately for financial statements purposes.

(g) Accounts Receivable

Receivables from premiums collected are estimates based on the amounts reported by the Puerto Rico Treasury Department which could be subject to change. Any change in estimate is recorded in the year that it is identified.

Receivables are unsecured and presented net of estimated allowances for uncollectible accounts. Such allowances are determined based upon past collection experience and current economic conditions.

Accrued interest and dividends represents uncollected income earned on investments.

(h) Capital Assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the respective lease terms or the estimated useful lives of the improvements, whichever is shorter. Expenditures for maintenance and repairs that do not extend the life of the assets are charged to operations, while those for renewals and improvements are capitalized. Capital assets are defined by the Administration as assets which have a cost of $250 or more at the date of acquisition and have an expected useful live of one or more years.

Estimated useful lives of the Capital Assets are as follow:

Description	Useful lives
Building	45 years
Equipment	10-20 years
Computer and software	5-7 years
Vehicles	4 years
Office furniture and fixtures	5-10 years

(i) Accounting for the Impairment of Capital Assets

The Administration 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 Administration should be reported at the lower of carrying value or fair value.

(j) Benefits Expenses

Benefits expenses are recorded when claims are incurred. In addition, management has established reserves to cover for the estimated cost of all future benefits related to claims incurred but not reported during the year. These reserves are adjusted annually following the advice of an independent actuary. Management believes that these reserves are reasonable and reflective of anticipated ultimate experience. Since the reserves are based on estimates, the net amounts that will ultimately be paid to settle the liability may change from the estimated amounts provided for.

The Law that created the Administration limits medical hospitalization benefits to a maximum of two years after an accident, except in severe trauma cases. The Law allows a Medical Committee to extend payment of medical benefits beyond the two-year period as deemed necessary.

In addition, the Law that created the Administration requires that the excess of revenues collected during any fiscal year over the payment of benefits and operational expenses must be kept by the Administration to cover all unanticipated claims. Also, if in any year the receipts and the reserves accrued are not sufficient to cover the losses and the expenses incurred, the Secretary of the Treasury of Puerto Rico shall provide, as an advance to the Administration the sums required to remedy the deficiency. Such advance would be obtained from any funds available in the General Fund of the Commonwealth of Puerto Rico.

(k) Compensated Absences

The Administration accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences. GASB Statement No. 16 requires accrual of the cost of the benefits through the years that employees provide services until the date of full eligibility for such benefits.

The vacation policy of the Administration generally provides for the annual accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave. Vacation time and sick leave are fully vested to the employees from the first day of work. The excess of accumulated vacation over thirty (30) days and over three (3) days of sick leave is paid periodically to those employees as provided in the collective bargaining agreement. For administrative employees, any excess over fifteen (15) days of sick leave is also paid periodically. In addition, all employees are entitled upon retirement to a lump-sum payment equal to a day worth of salary for each year of service, up to (30) thirty years, as long as the last (10) ten years of service have been rendered in ACAA.

(l) Net Position

Net position is displayed in three components as follows:

Net investment in capital assets, net of related debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Administration's policy to use restricted resources first, and then unrestricted resources when they are needed. At June 30, 2013 the Administration does not have restricted resources.

Unrestricted - This consists of net position that does not meet the definition of restricted or net investment in capital assets.

(m) Pension Cost

Pension cost is accounted for in accordance with the provisions GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. This statement establishes standards of accounting and financial reporting for pension expenditures/expenses and related pension liabilities, pension assets, note disclosures, and required supplementary information in the financial statements of state and local governmental employers.

This Statement defines that pension expense is equal to the statutory required contribution to the employee retirement system. A pension liability or asset is reported equal to the cumulative differences between statutory required contributions and actual contributions up to June 30, 2013.

(n) Postemployment Benefits Other Than Pensions

The Administration 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.

(o) Statement of Cash Flows

The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting.* The provisions of GASB No. 34 require that the direct method be used to present the funds inflows and outflows of the Administration. For purposes of the statement of cash flows, the Administration considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

(p) Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013.

- 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 Disposal 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. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*, which is effective for periods beginning after June 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 Administration's basic financial statements.

(q) Termination Benefits

The Administration 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 Administration 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, 2013, no formal voluntary termination benefits were incurred.

(r) Risk Management

The Administration 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 Administration. No additional payments were made after the annual insurance costs were determined.

(s) 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, deferred premiums reserve, and useful lives of property and equipment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(t) Fair Value of Financial Instruments

Financial instruments consist of cash, accounts receivable, accounts payable and debt. The carrying amount of all significant financial instruments approximates fair value, principally due to length of maturity.

Investments are recorded at their fair market value in conformity with GASB Statement No. 31, *Accounting and Financial Reporting for Investments and for External Investment Pools.*

(3) Prior Period Adjustments

The Administration's financial statements as of June 30, 2012, contained the following errors: (1) over-accrual on the unpaid claims liability and reserve for future benefits by approximately $60 million, (2) unrecorded postemployment benefits other than pensions liability amounting to approximately $5.4 million, and (3) unrecorded impairment loss on software amounting to $2.2 million. Net position as of July 1, 2013 has been increased by $52.4 million to correct the aggregate effect of the errors. Had the errors not been made net income for fiscal year 2012 would have been decreased by $3.4 million without considering the effect of the over-accrual of the unpaid claims liability and reserve for future benefits since the impact of this error in fiscal year 2012 was not determined.

The main driver of the overstatement in the unpaid claims liability and reserve for future benefits was that the claims payment data used to calculate the reserve for extended benefits included the payments for basic benefits, therefore, duplicating the impact of these payments in the reserve. Furthermore, the extended benefits reserve calculation included loss adjustment expenses that are incurred only once and that are not necessary to process future claims.

Regarding the other postemployment benefits reserve, the Administration did not implement GASB Statement No. 45 in fiscal year 2009, thus, the liability for the postemployment benefits provided by the Administration was not recorded as required by accounting principles generally accepted in the United States of America.

The software impairment loss was not properly recorded in prior years when management became aware of the significant decline in service utility of the software.

(4) Cash and Cash Equivalents

As of June 30, 2013, cash and cash equivalents mainly consist of deposits in banks and short term investments categorized as follows:

Category	Description
1	Cash Deposits in local banks collateralized or insured by the Federal Deposit Insurance Corporation.
2	Uncollateralized Deposits.

A summary of the Administration's cash and cash equivalents by category of risk as of June 30, 2013, are shown below:

		Credit Risk Category		**Bank**	**Carrying**
		1	2	**Balance**	**Amount**
Unrestricted cash	$	6,503,884	—	6,503,884	3,468,980
Restricted cash		91,474	—	91,474	9,561
Short Term Investments		—	8,791,712	8,791,712	8,791,712
	$	6,595,358	8,791,712	15,387,070	12,270,253

Deposits held in custody by financial institutions are either insured by the Federal Depository Insurance Corporation (FDIC) up to $250,000, or collateralized with various financial instruments held by a trustee of the Treasury Department of the Commonwealth of Puerto Rico. Based on these provisions, insured or collateralized deposits are not considered to be subject to custodial risk, which is the risk that in the event of a bank's failure, the Administration's deposits may not be returned.

The restricted cash represents funds of Puerto Rico Traffic Safety Commission held in custody by the Administration (see Note 12).

(5) Investments

The Administration invests in stocks, bonds, real estate, United States obligations, and cash equivalents as described more fully in its investment policy. Also, it can invest in international securities. As of June 30, 2013, the credit quality rating for the investment securities portfolio was comprised of the following:

	Credit Risk Rating				
Investment Type:	AAA to A	BBB+ to B	CCC to CC	Not Rated	Total
Corporate Bonds	$ 19,135,623	12,719,211	—	9,957,113	41,811,947
U.S. Sponsored Agencies Notes:					
Federal Home Mortgage Corporation (FHLMC)	2,979,240	—	—	—	2,979,240
Federal National Mortgage Association (FNMA)	3,974,795	—	—	—	3,974,795
Other	—	—	—	163,874	163,874
U.S. Government Bonds	17,627,458	—	—	—	17,627,458
Mortgage and Asset-Backed Securities:					
Government National Mortgage Association (GNMA)	—	—	—	1,249,213	1,249,213
FNMA	—	—	—	1,140,737	1,140,737
FHLMC	—	—	—	57,081	57,081
Asset Backed Securities	1,074,447	391,356	—	173,713	1,639,516
Commercial Mortgage-Backed	3,539,120	158,608	—	128,610	3,826,338
Municipal/Provincial Bonds	4,478,494	1,611,773	—	—	6,090,267
U.S. Corporate Stocks	5,284,000	11,666,661	—	44,740,180	61,690,841
Non-U.S. Corporate Stocks	—	—	—	3,604,793	3,604,793
Real Estate	—	—	—	10,505,471	10,505,471
Short Term Bills	—	—	—	149,998	149,998
Total investments	$ 58,093,177	26,547,609	—	71,870,783	156,511,569

The custody of these investments is held by a custodial bank in the name of the Administration. The investments portfolio is managed by five asset management firms and external consultants, and internal cash position is managed by the Assistant Executive Director for Finance, Planning and Budgeting.

The Administration's investment policy taken as a whole requires money managers to maintain, with certain limitations, the following composition of the assets: not more than 72%, and not less than 30% in fixed income securities; not more than 72%, and not less than 24% in equity securities. The equity securities position in the portfolio, no more than 15% may be invested in international markets. Investments in real estate should not exceed 7% of the total investment portfolio.

Equity investments will not be considered speculative in nature and will be those traded on the major national and international securities exchanges. Equity investments may only be acquired from companies with a market capitalization of $1 billion. Up to 15% of the equity portfolio may contain stocks of companies with a market capitalization of less than $1 billion, but not less than $200 million (at the time of purchase), and will not be unduly concentrated in any one industry or economic sector, with the exception of Puerto Rico Stocks.

Except for instruments issued by the Commonwealth of Puerto Rico and its instrumentalities, fixed income securities may only be acquired if they are rated, at the time of purchase, within the four highest classifications designated by one of the major rating services, i.e., Standard and Poor's or Moody's Investor Services. Not more than 5% of any single debt issue may be purchased as an investment, with the exception of the US Government or its agencies' paper. Not more than 10% of the assets of the fund at market value may be invested in the securities of a single issuer, with the exception of the US Government or its agencies. The bonds portfolio average duration shall not exceed seven years.

The Administration's investment in real estate consists of contributions to the Invesco Real Estate Fund I and II, LP, which are funds organized to invest in diversified real estate assets. The total commitment to Fund I and II requires contributions that will amount to $10,000,000 for each fund. There were no contributions to the Funds in fiscal year ended June 30, 2013. The unrealized gain for both Funds for the fiscal year ended June 30, 2013 was $1,713,431. Fair value of these Funds at June 30, 2013, amounted to $10,505,471. Off-balance-sheet derivatives, option contracts, commodities, private placements, limited partnerships other than real estate, and venture-capital investments are among the assets that are specifically prohibited.

On May 19, 2011, Invesco Real Estate Fund II sent a capital demand notice to contribute $2,000,000 to the fund. Also, there was a second capital demand notice made on September 2012 for $1,200,000. The Administration refused to make those contributions based on the section 3.8 (a) of the partnership agreement which established the requirements to elect a limited Opt-out Right. At June 30, 2013 the Administration and Invesco Real Estate Fund II are in a legal process on this issue. According to the Administration's legal consultants the risk in the case would be the contribution of $3,200,000, plus penalties in the amount of approximately $1,250,000. In addition, as of June 30, 2013, there are various returns of capital to be distributed amounting to $6,300,000.

The Administration's cash reserve should be invested in high quality, short-term investments including commercial paper, US Treasury obligations, certificates of deposit, bankers' acceptances, and repurchase agreements collateralized by US Government securities.

The Administration's Statement of Investment Policy, Objectives and Guidelines provide more specific information regarding investment requirements.

The estimated market value of debt securities at June 30, 2013, by contractual maturity is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

Investment Type:		Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Without Maturity	Total
Corporate Bonds	$	339,980	17,943,231	22,413,468	1,115,268	—	41,811,947
U.S. Sponsored Agencies Notes:							
Federal Home Mortgage Corporation (FHLMC)		—	2,630,184	349,056	—	—	2,979,240
Federal National Mortgage Association (FNMA)		3,148,190	651,973	174,632	—	—	3,974,795
Other		—	—	—	163,874	—	163,874
U.S. Government Bonds		690,439	12,439,239	4,497,780	—	—	17,627,458
Mortgage and Asset-Backed Securities:							
Government National Mortgage Association (GNMA)		—	—	—	1,249,213	—	1,249,213
FNMA		—	—	—	1,140,737	—	1,140,737
FHLMC		—	—	—	57,081	—	57,081
Asset Backed Securities		—	1,000,812	371,623	267,081	—	1,639,516
Commercial Mortgage-Backed		—	—	—	3,826,338	—	3,826,338
Municipal/Provincial Bonds		541,696	2,354,251	3,194,320	—	—	6,090,267
U.S. Corporate Stocks		—	—	—	—	61,690,841	61,690,841
Non-U.S. Corporate Stocks		—	—	—	—	3,604,793	3,604,793
Real Estate		—	—	—	—	10,505,471	10,505,471
Short Term Bills		149,998	—	—	—	—	149,998
Total investments	$	4,870,303	37,019,690	31,000,879	7,819,592	75,801,105	156,511,569

As of June 30, 2013, investments were classified as current and non-current in the accompanying Statement of Net Position as follow:

Current assets:		
Cash equivalents	$	8,791,712
Investments in debt securities		4,870,303
Total current assets		13,662,015
Non-current assets		151,641,266
Total	$	165,303,281

During the fiscal year ended June 30, 2013, the Administration sold a number of investments as part of its investment strategy. The results of said sales are as follow:

Proceeds from sale of investments	$	142,457,599
Amortized cost of investments and net effect of receivable/payable on sale/purchase transactions		(138,256,244)
Realized gains in sales of investments	$	4,201,355

The accompanying financial statements were prepared on the basis of accounting policies required by GASB Statement No. 31. Therefore all investment securities are accounted for at fair market value rather than cost. Thus, the accompanying financial statements reflect changes in the market value as well as realized gains (losses) of the Administration's investment portfolio as follows:

Realized gains in sales of investments	$	4,201,355
Change in fair value of investments securities		7,166,313
Net change in fair value of investments	$	11,367,668

The credit risk related to investments is the risk that debt securities in the Administration'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 Administration limits its credit risk by investing principally in high quality investments (rated BBB or better, according to Standard and Poor's or other equivalent rating agencies when maturities are longer than a year). In addition, the Administration restricts investment in certain securities to avoid concentration and/or increase duration. Also, mitigates this risk by maintaining a diversified investing portfolio.

Interest risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Administration manages its exposure to declines in fair value by (1) maintaining a diversified portfolio of debt and equity investments and (2) diversifying the weighted average maturity of its investments in debt securities.

Foreign exchange risk is the risk that changes in exchanges rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines the Administration's investing in foreign securities (or any other types of investments for which foreign exchange risk exposure may be significant) is limited to 15% of the total portfolio. Accordingly, management has concluded that the foreign exchange risk related to the Administration's investments is considered low at June 30, 2013.

(6) Other Accounts Receivable

Other accounts receivable consist of:

Commonwealth of Puerto Rico:		
State Insurance Fund Corporation (related party)	$	1,070,045
Government agencies and Puerto Rico Safety Traffic Commision (related party)		1,047,232
Sub Total		2,117,277
Recovery from beneficiaries		12,531,427
Insurance companies		1,579,562
All others		365,024
		16,593,290
Less allowance for doubtful accounts		(15,770,879)
	$	822,411

(7) Capital Assets

Capital assets activity for the year ended June 30, 2013 consists of:

	June 30, 2012	Additions	Retirements	Reclassified	June 30, 2013
Capital assets being depreciated					
Building	$ 6,975,932	—	—	—	6,975,932
Equipment	938,250	—	—	—	938,250
Computer and software	5,134,003	225,412	(50,281)	(125,543)	5,183,591
Motor vehicles	201,219	—	—	—	201,219
Furniture and fixtures	2,089,339	17,639	(21,651)	—	2,085,327
Leasehold improvements	3,624,508	34,467	—	—	3,658,975
	18,963,251	277,518	(71,932)	(125,543)	19,043,294
Less accumulated depreciation and amortization:					
Building and leasehold improvements	(7,186,301)	(209,652)	—	—	(7,395,953)
Other	(6,759,507)	(427,509)	66,485	—	(7,120,531)
	5,017,443	(637,161)	(5,447)	(125,543)	4,526,810
Capital assets not being depreciated					
Land	900,881	—	—	—	900,881
Software being developed	—	—	—	125,543	125,543
	900,881	—	—	125,543	1,026,424
	$ 5,918,324	(637,161)	(5,447)	—	5,553,234

In November 2005, the Administration entered into an agreement with a third party to obtain and implement a cost effective information system infrastructure to automate the administration and payment of medical services providers and claimants. In fiscal year 2013, management determined to record an impairment loss in connection with this software due to the decline in service utility of the capital asset. The impairment loss was recorded against the opening balance of net position since the decline in service utility occurred in prior years and was not properly recorded (Note 3). The provision for impairment represents the difference between the net carrying cost and the fair market value of the capital asset.

(8) Unpaid Claim Liability and Reserve for Future Benefits

The balance of the estimated liabilities for the payment of unpaid claims and future benefits consists of:

Death and funeral:		
Death	$	7,778,309
Funeral		182,083
Disability		1,070,303
Accident and health:		
Medical hospitalization - basic:		
Unpaid claim liabilities		27,055,047
Reserve for future benefits		6,492,925
Medical hospitalization - extended:		
Unpaid claim liabilities		1,028,659
Reserve for future benefits		47,804,072
Dismemberment		124,695
Loss adjustment expenses		13,375,331
	$	104,911,424

The activity in the unpaid claims liability and reserve for future benefits for the year ended June 30, 2013, is as follows:

Unpaid claims liability and reserve for future benefits at beginning of year as restated, presented based on undiscounted method	$	97,110,878
Less loss adjustment expenses		(12,591,379)
Net claims at beginning of year, as restated		84,519,499
Incurred claims:		
Provision for insured events of current year		40,382,093
Payment of claims:		
Current year insured events		(13,834,210)
Prior years insured events		(19,531,289)
		(33,365,499)
Net claims at end of year		91,536,093
Plus loss adjustment expenses		13,375,331
Unpaid claims liability and reserve for future benefits at end of year, presented based on undiscounted method	$	104,911,424

As discussed in Note 3, in fiscal year 2013 management recorded a prior period adjustment amounting to approximately $60 million reducing the opening balance of the unpaid claims liability and reserve for future benefits.

(9) Lease Commitments

The Administration leases certain facilities for its regional offices, as well as certain office equipment. Office facilities are leased under non-cancelable lease agreements, which expire on various dates through the fiscal year 2022. The lease agreements include scheduled rent increases over the lease term that are intended to cover economic factors relating to the property, such as the anticipated effects of cost increases or property appreciation. GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* requires governmental entities to account for operating leases with scheduled rent increases by using the terms of the lease contract when the pattern is systematic and rational. Therefore, the Administration is recording the rent expense in accordance with the terms of the lease agreements.

Future minimum rental payments under non-cancelable operating leases in force are as follow:

Year ending June 30,		Amount
2014	$	1,301,103
2015		974,282
2016		817,160
2017		738,850
2018		565,708
2019 - 2022		519,000
	$	4,916,103

Rent expense for the year ended June 30, 2013, was approximately to $1,321,000.

(10) Retirement Systems

(a) Defined-Benefit Pension Plan

The Employee Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (also known as the Retirement System), was created pursuant to Act. No. 447 of May 15, 1951, as amended, and is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Administration hired before January 1, 2000, and less than 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 his/her accumulated contributions.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Legislature of the Commonwealth. Retirement benefits depend upon the age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten 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 $400 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.

Current legislation requires employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% of the excess over $550 of the monthly gross salary. The Administration is required by the same statute to contribute an amount equal to 9.275% of each participant's gross salary.

The Administration and employees contributions to this plan amounted to $8,794,496 (includes $7,615,793 for special benefits contributions) and $867,257, respectively, in fiscal year ended June 30, 2013.

(b) Defined Contribution Plan

The Legislature of the Commonwealth of Puerto Rico enacted Act No. 305 on September 24, 1999, which amends 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 those rehired on or after January 1, 2000, became 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 8.36% 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 in the Program. Investment income is credited to the participant's account semiannually.

The Administration is required by Act No. 305 to contribute an amount equal to 11.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined-benefit pension plan.

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

Total employee and employer's contributions to the defined contribution plan during the year ended June 30, 2013 were approximately $790,000 and $591,000, respectively. Loans repayments for the year ended June 30, 2013 amounted to approximately $443,000. These amounts represented 100% of the required contribution for the corresponding year.

On April 4, 2013 the Legislature of the Commonwealth of Puerto Rico enacted Act No. 3, which amends Act No. 447 to establish certain corrective actions to reduce the unfunded status of the defined-benefit pension plan. The main provisions of Act No. 3 are as follow:

- All employees under Act No. 447 and Act No. 1 will be moved prospectively to a defined contribution plan.
- Eliminates the Merit Annuity, except for employees that are eligible for the Merit Annuity on or before June 30, 2013.

- Increases the retirement age in a range within 58 to 67 years of age depending the Act under which the employee is eligible for retirement.
- Increases the employee contribution from 8.275% to a minimum of 10%.
- Reduction is special benefits such as Christmas bonus, contribution to health plan, elimination of summer bonus, and increase in pharmacy bonus.
- Elimination of special benefits for future retirees.
- Increases the minimum monthly pension from \$400 to \$500.

These modifications are effective on July 1, 2013.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42005, San Juan, PR 00940-2005.

(11) Other Postemployment Retirement Benefits Liability

Program Description and Membership - The Administration'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 Administration's assets.

The Administration provides the following OPEB:

Insurance Benefits

- <u>Medical Benefits:</u> The employee may select between two options. Under Option 1 the Administration pays 100% of the premium for the retiree (not the spouse) under ACAA's medical plan, which provides basic hospital, medical pharmacy (Rx) and dental benefits. Hospital and medical benefits have modest copays and are provided under fixed fee schedules. Rx has relatively low copays (\$0 Generic, \$10 Brand for the higher option), and mandatory generic provisions. Under Option 2 the Administration pay the retiree \$500 per month.

- Cancer Insurance: The Administration pays 100% of the premium for cancer / pernicious disease insurance for the retiree. The policy provides limited benefits with fixed dollar maximums (e.g. $250 allowance for the first day of Hospitalization, $225 for days 2-10 and $150 thereafter up to 60 days) that are not subject to trend.

- Death Benefit / Life Insurance: The Administration pays 100% of the premium for life insurance for the retiree. The benefit is a flat $60,000 per retiree.

Insurance benefits are provided for 5 years if the employee retires within 90 days of attaining the minimum retirement age, and 3 years if the employee retires thereafter.

Financial Bonuses

The Administration pays the following bonuses at retirement:

- Timely Retirement: $2,000 if the employee retires within 90 days after attaining the minimum retirement age.

- Years of Service: 1 day pay for each year of service, up to a maximum of 30 days provided the employee worked for the Administration during the last ten years of employment.

- Vacation (unused): 1 day pay for each unused day of vacation up to a maximum of 48 days. Vacation accrues at 4 days earned per month. An extra 0.5 day per month (maximum of 6) is allowed for employees eligible for a Timely Retirement Bonus.

- Sick Leave (unused): 1 day pay for each unused day of sick leave up to a maximum of 30 days. Sick Leave accrues at 2.5 days earned per month. An extra 0.5 day per month (maximum of 6) is allowed for employees eligible for a Timely Retirement Bonus.

At July 1, 2012, membership in the Administration OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	383
Current participating employees	91
Total membership	474

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 Administration's annual OPEB cost for the fiscal year ended June 30, 2013, the amount actually contributed to the OPEB Program, the change in the Administration's net obligation and the funded status of the OPEB Program.

Net OPEB Obligation Movement:

ARC	$	749,154
Interest on the net OPEB obligation		436,547
Adjustments to the ARC		2,955
Annual OPEB cost		1,188,656
Employer Contribution		(1,242,955)
Decrease in the net OPEB obligation		(54,299)
Net OPEB obligation - beginning of year		5,450,861
Net OPEB obligation - end of year	$	5,396,562
Percentage of annual OPEB cost contributed		104.57%

Funded Status:

Actuarial valuation date		July 1, 2012
Actuarial accrued liability (AAL)	$	10,107,258
Unfunded AAL	$	10,107,258
Funded ratio		0%
Annual covered payroll	$	22,131,717

OPEB Actuarial Valuation - The following table shows the most significant actuarial methods and assumptions used to estimate the net OPEB obligation. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years.

Actuarial Methods and Assumptions:

Valuation year	July 1, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of projected payroll on an open basis over 30 years
Asset valuation method	N/A
Discount rate	4.00%
Projected salary increase	2.00%
Health care cost trend rate for medical and prescription drugs	4.5%
Mortality	SSA 2009 Period Life Table

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.

As described in Note 3 in fiscal year 2013, management determined to implement GASB Statement No. 45 and recorded the impact of the prior years service cost against the opening balances of net position. The unfunded actuarial liability is being amortized over a period of 30 years.

Since this GASB Statement should have been implemented at the beginning of fiscal year 2008-2009 the implementation of this Statement in fiscal year 2013 was considered the correction of an error.

(12) Puerto Rico Traffic Safety Commission

Act No. 33, "Prevention of Traffic Accidents" of May 25, 1972, as amended, provides that the Administration should contribute to the Puerto Rico Traffic Safety Commission (the Commission) the funds needed for the Commission's operational expenses. At June 30, 2013 the Administration held in custody cash of the Commission amounting to $9,561. For the year ended June 30, 2013, the Administration contributed to the Commission approximately $1,196,000.

(13) Transfers to Other Governmental Agencies

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

Description		Amount
Puerto Rico Traffic Safety Commission (Note 12)	$	1,196,000
Budget and Management Office		12,500,000
	$	13,696,000

The transfer to the Budget and Management Office is made under the provisions of Act No. 134 of July 2, 2012, which requires the Administration to transfer to the Budget Support Fund the amount of $12,500,000 in fiscal year 2013.

(14) Contingencies

The Administration acts as defendant in various legal proceedings or claims in the ordinary course of its operations. Most of these lawsuits principally involve claims on policies which are typical for the Administration and for the insurance industry in general. At June 30, 2013, the Administration has an accrual of approximately $162,100. Management, based on the opinion of its legal counsel, believes that the ultimate liability resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Administration's financial statements.

(15) Subsequent Events

The Administration has evaluated all subsequent events through December 13, 2013, the date the financial statements were available to be issued, and determined that there are no other items to disclose.

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

Ten - Year Claims Development Information

Year Ended June 30, 2013

ACAA 10 Year Payment History and Net Premiums Collected

	Health Care Benefits				Financial Benefits					
	Basic Benefits		Extended Benefits							
	Hospital Medical	Rx	Hospital Medical	Rx	Death	Disability	Funeral	Dismemberment	Total	Net Premiums Collected
2003-04 $	49,732,885	2,466,900	3,521,291	600,444	3,142,479	4,600,669	352,972	138,468	64,556,108	69,500,000
2004-05	46,197,289	2,073,450	3,228,641	495,006	3,489,561	4,429,314	421,790	142,884	60,477,935	72,000,000
2005-06	44,015,006	2,575,163	2,760,700	622,572	3,123,535	4,648,391	426,540	154,166	58,326,073	74,674,625
2006-07	45,478,851	2,544,731	2,506,113	555,286	3,119,169	4,598,488	419,202	138,946	59,360,786	74,262,273
2007-08	45,565,811	2,390,532	2,442,025	527,582	3,011,847	2,606,451	329,025	174,420	57,047,693	73,020,916
2008-09	40,216,026	1,783,409	2,253,139	512,966	2,944,095	4,635,936	332,853	143,911	52,822,335	80,148,453
2009-10	36,325,762	1,308,469	2,302,263	347,971	2,610,548	2,462,246	263,155	106,379	45,726,793	86,998,191
2010-11	31,529,015	986,955	1,743,031	365,417	2,327,270	2,013,826	247,682	105,450	39,318,646	78,000,000
2011-12	31,622,586	792,305	1,639,443	196,737	2,106,389	1,782,017	311,880	99,326	38,550,683	78,000,000
2012-13	29,242,340	748,620	1,218,498	173,729	1,989,081	1,693,708	279,598	90,199	35,435,773	78,000,000
Total $	399,925,571	17,670,534	23,615,144	4,397,710	27,863,974	33,471,046	3,384,697	1,294,149	511,622,825	764,604,458

See accompanying independent auditors' report.

Required Supplementary Information (Unaudited)

Schedule of Funding Progress - Other Postemployment Benefits Plan

Year Ended June 30, 2013

Valution Date	Actuarial value of assets (a)	Actuarial accrued liability-projected unit credit (b)	Unfunded actuarial accrued liability (b)-(a)	Funded ratio (a)/(b)	Covered payroll (c)	Unfunded actuarial accrued liability as a percentage of covered payroll (b) - (a)/(c)
July 1, 2012	—	$ 10,107,258	10,107,258	—	22,131,717	46%
July 1, 2011	—	10,352,941	10,352,941	—	19,806,720	52%

See accompanying independent auditors' report.

LANDA UMPIERRE PSC
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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors of Automobile
Accidents Compensations Administration:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of net position, revenues, expenses and changes in net position and cash flows of Automobile Accidents Compensations Administration (the Administration) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements and have issued our report thereon dated December 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Administration's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Administration's internal control. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies. Significant deficiencies and material weaknesses are listed in a separate letter dated December 13, 2013.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Material weaknesses are listed in a separate letter dated December 13, 2013.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are listed in a separate letter dated December 13, 2013.

Compliance and Other Matters

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

Administration's Response to Findings

The Administration's response to the findings identified in our audit is described in a separate letter dated December 13, 2013. The Administration's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Landa Umpierre PSC

San Juan, Puerto Rico
December 13, 2013

Stamp number E89492 of the Puerto Rico Society
of CPA's was affixed to the record copy of this report.