

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

Basic Financial Statements  
and Required Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

Table of Contents

June 30, 2014 and 2013

	<b>PAGE</b>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-15
BASIC FINANCIAL STATEMENTS:	16
STATEMENTS OF NET POSITION	17-18
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	19
STATEMENTS OF CASH FLOWS	20-21
NOTES TO FINANCIAL STATEMENTS	22-49
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	50
TEN - YEAR CLAIMS DEVELOPMENT INFORMATION	51
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN	52
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	53-54

## 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 years ended June 30, 2014 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2014 and 2013, and the respective statements of revenues, expenses and changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Page 2

### **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 15, the ten - year claims development information and the schedule of funding progress – other postemployment benefits plan on pages 51 and 52, 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 audits 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 September 30, 2014, 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.



San Juan, Puerto Rico  
September 30, 2014

Stamp number E100578 of the Puerto Rico Society  
of CPA's was affixed to the record copy of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

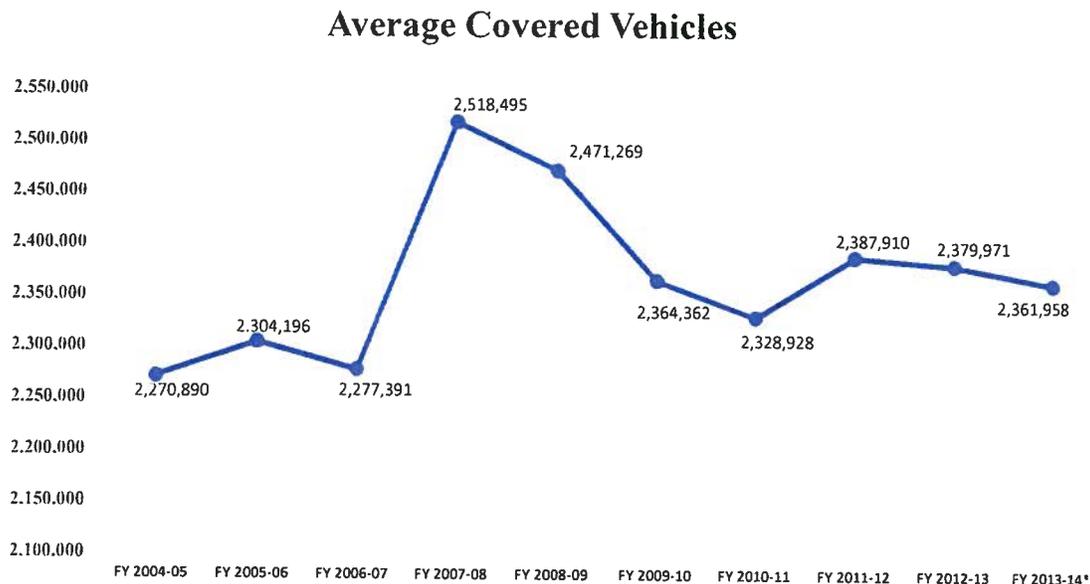
This section of the financial report of the Automobile Accidents Compensations Administration (hereinafter referred to as the Administration) represents a narrative overview and analysis of the financial performance and activities for the fiscal years ended June 30, 2014 and 2013. The information presented 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.

**BACKGROUND**

The Administration was created by Law No. 138 of 1968 (as amended) to provides death, disability, and health benefits for victims of automobile accidents, subject to certain limitations and conditions. The annual premium of \$35 per vehicle is paid during the vehicle's registration renewal. This premium was established in 1968 and has remained unchanged since then. New vehicles pay a fee of \$37.50 during the first year. The insurance premium is collected by the Puerto Rico Treasury Department (PRTD), which charges the Administration a service fee of 5% on the premiums collected. The service charge for fiscal years 2014 and 2013 was approximately \$4 million each year.

Average covered vehicles for the past ten years amount to approximately 2.36 million. See graph below:



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

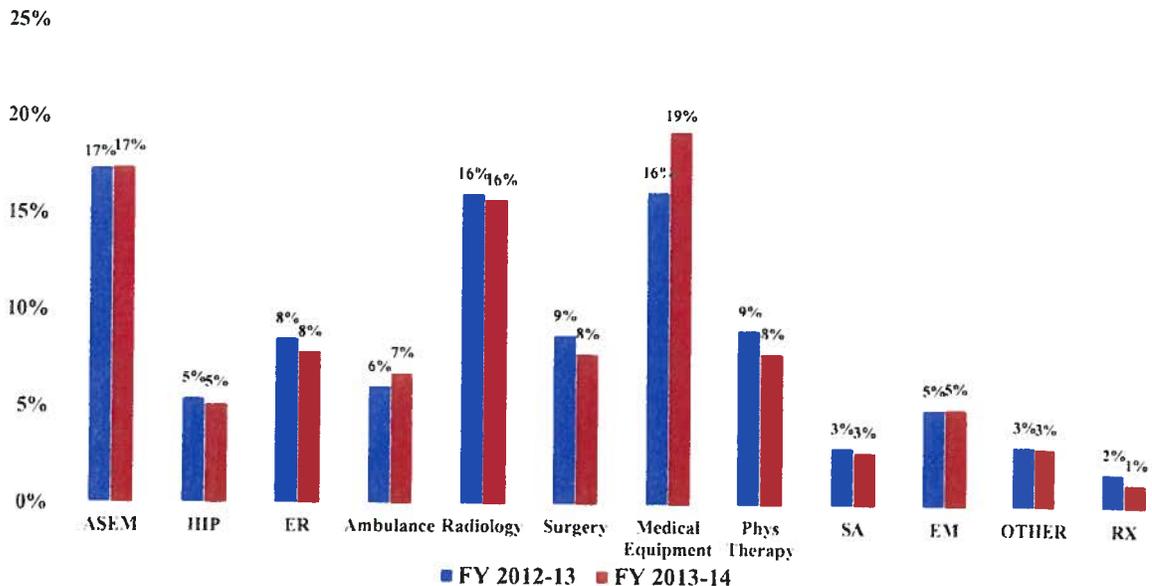
Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

**FINANCIAL HIGHLIGHTS**

- The Administration had income from insurance operations of \$82.4 million in 2014 (2013 – \$83.3 million). The change in net position for the year ended June 30, 2014 amounts to \$15.3 million (2013 - \$2.4 million). This positive outcome is mainly due to the favorable yield of our investment portfolio, amounting to approximately \$16.8 million (2013 - \$14.5 million). Furthermore, there was a reduction in the transfers to other governmental agencies of \$12 million.
- During fiscal year 2014, the Administration recognized interest and dividend income of approximately \$3.4 million (2013 - \$3.2 million). Furthermore, the realized gain on the sale of investments was \$11.7 million (2013 - \$4.2 million) and the unrealized gain due to changes in market value of investments was \$2.9 million (2013 - \$7.2 million). The overall increase in non-operating income as compared to the previous fiscal year amounts to approximately \$2.2 million and is due to the net effect of investments' yield, and the favorable changes in market value of the investments.
- The total death, disability and health benefits incurred during fiscal year 2014 increased by approximately \$2 million as compared to the previous year. This is mainly related to an increase utilization for surgically related biologic and orthopedic implants. See graph below:

**Basic Hospital / Medical Benefits  
Percentage of Total Cost by Type of Service**



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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

- Operating Expenses amounted to approximately \$80.2 million in 2014 (2013 - \$79.7 million). This represents an increase of approximately \$534,000 or 0.67% as compared to previous year. The main contributor to this increase was the impact of special retirement laws that required an employer contribution to the Government's Retirement Plan System. The special contribution will be a new constant annual payment to the Retirement Plan System. Payment during fiscal year 2014 amounted to approximately \$536,000.
- 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 salary increases of \$165 a month, Christmas Bonus of 10% of employees' salaries (up to a salary of \$27,500), Medical, Life and Cancer Insurance paid in full by the Administration, and certain post-employment benefits, among others. The cost of this agreement was approximately \$4 million for fiscal year 2013-2014 and 2012 - 2013.
- Gross insurance premiums remained consistent with the prior fiscal year (\$82.4 million in 2014 vs. \$83.3 million in 2013); this decrease, which amounts to 1.08%, is mainly attributed to a decline in insured vehicles.
- ACAA is entitled by law to seek reimbursement for payments made to providers and/or beneficiaries for medical and financial benefits from the person who caused the accident when said person was not eligible for coverage due to circumstances excluded by law, such as driving under the influence of alcohol (among others) or when, after paying for benefits it becomes known that the damages suffered were not due to a car accident. During 2014, ACAA streamlined the recovery process in order to maximize the amount of cases submitted for recovery and to increase the amount of collections. This caused an increase in accounts receivable of approximately \$1 million.
- The investment portfolio, including cash equivalents, increased by approximately \$3 million. This increase is caused by the net effect of approximately \$23.5 million in withdrawals from the portfolio to pay and reduce the unpaid claim liability, reinvested interest and dividend income and the increase in the fair market value of our investment portfolio.
- The Administration's assets exceeded its liabilities by approximately \$35.4 million as of June 30, 2014 (2013 - \$20.1 million). This is mainly due to a decrease in the Reserve for Future Benefits and Unpaid Claims Liability of approximately \$11 million. The unpaid claim liability decreased as a direct result of ACAA increasing payments to providers by \$23.5 million, as explained above.

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

- In 2013, 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 former external 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 amounted 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 amounted 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 amounted to approximately \$2.2 million.

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

**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 of the Administration as of June 30, 2014, and June 30, 2013 and the results of operation for the fiscal years then ended.

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

**STATEMENTS OF NET POSITION**

The Statements of Net Position present the Administration's financial position as of June 30, 2014 and 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, the inflationary increase of medical costs, and actuarial assumptions used for purposes of estimating the Reserve for Future Benefits.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The statements of revenues, expenses and changes in net position show how the Administration's net assets changed during the fiscal years. 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.

**STATEMENTS OF CASH FLOWS**

The statements of cash flows present 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 years 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 statements of revenues, expenses and changes in net position.

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

**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 Commonwealth of Puerto Rico. It operates a system of compulsory insurance for vehicles licensed for the use within the Commonwealth. The insurance covers bodily injuries caused by automobile accidents and has an annual premium, which was established 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.

As a result of the prior period adjustments recorded against the opening balance of net position in 2013, this detailed analysis does not include the results for fiscal year 2012 since these are not comparative and their inclusion would be misleading for the users of the financial statements.

The Net Position of the Administration as of June 30, 2014, changed with respect to that of the prior year as follows:

	2014	2013	Variance	
			Dollars	Percent
Cash and cash equivalents	\$ 16,404,973	12,270,253	4,134,720	33.70 %
Investments, at fair value	155,265,059	156,511,569	(1,246,510)	(0.80) %
Accounts receivable	4,010,938	3,136,182	874,756	27.89 %
Capital assets	6,028,263	5,553,234	475,029	8.55 %
Other assets	247,756	35,788	211,968	592.29 %
<b>Total Assets</b>	<b>\$ 181,956,989</b>	<b>177,507,026</b>	<b>4,449,963</b>	<b>2.51 %</b>
Unpaid claims liability and reserve for future benefits	\$ 93,978,971	104,911,424	(10,932,453)	(10.42) %
Other post-employment benefits	5,311,068	5,396,562	(85,494)	(1.58) %
Unearned premiums reserve	37,839,695	37,813,195	26,500	0.07 %
Payable for acquisition of investments	1,136,021	1,054,216	81,805	7.76 %
Accounts payable	8,306,921	8,398,902	(91,981)	(1.10) %
<b>Total liabilities</b>	<b>\$ 146,572,676</b>	<b>157,574,299</b>	<b>(11,001,623)</b>	<b>(6.98) %</b>
Net assets invested in capital assets	\$ 6,028,263	5,553,234	475,029	8.55 %
Unrestricted net assets	29,356,050	14,538,493	14,817,557	101.92 %
<b>Net Position</b>	<b>\$ 35,384,313</b>	<b>20,091,727</b>	<b>15,292,586</b>	<b>76 %</b>

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

**TOTAL ASSETS**

Total assets increased by approximately \$4.4 million due to the net effect of the following:

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents experienced an increase of approximately \$4 million for the year ended June 30, 2014. This increase was mainly due to a withdrawal of \$4 million from investments in order to pay outstanding medical claims to ASEM, the Administration's largest medical services provider for trauma patients. The withdrawal from investments was made on June 27, 2014 and the monies remained in the bank balance until July when the payment was made.

**INVESTMENTS**

During the twenty years prior to 2009, the premium income collected had been insufficient to cover the operating expenses of the Administration. As a result, withdrawals from the investment portfolio were frequently made to cover operational funding needs. During the years from 2009 to 2012, no withdrawals were made from the portfolio. Because of this, the unpaid claims liability increased and estimated months of claims unpaid as of June 30, 2013 were at an all-time high of 11 months. Beginning in October 2013, the Administration began to make withdrawals from the investment portfolio to increase payments to medical providers. The total withdrawn through June 30, 2014 amounted to \$23.5 million. Total withdrawals for payment of medical claims will not exceed \$30 million through the end of calendar year 2014.

**INVESTMENTS MARKET CONDITIONS**

The market conditions during the fiscal year ended June 30, 2014 were favorable, leading to net revenues of \$16.8 million, or an 11.5% rate of return. The investment balances decreased by \$1.2 million due to withdrawals of funds of \$23.5 million. These withdrawals were destined to increase payments to health and medical service providers in order to decrease the unpaid claims liability. 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 Administration.

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 June 2014 the S&P 500 Index recorded a cumulative total return of more than 145%. During fiscal year 2014 the S&P 500 Index of U.S. stocks finished with 22.04% increase (2013 - 17.92%), while the Dow Jones

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

Industrials index experienced an increase of approximately 12.86% (2013 - 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 markets around the world. Also, other factors in the marketplace were favorable to the investment community like, for example, the continuous growth in year-round full-time employment, coupled with the continued earnings growth from U.S. companies. The Administration is always in the process of assessing various new investment alternatives and evaluating for new asset managers with different strategies to reduce the risk in the portfolio.

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

**ACCOUNTS RECEIVABLE**

Accounts receivable increased by approximately \$1 million from June 30, 2013 to June 30, 2014. The increase is mainly due to improvements made to the recovery process by which ACAA is seeking reimbursement from people who were not eligible for coverage due to circumstances excluded by the law, or when, after paying for benefits it becomes known that the damages suffered were not due to a car accident. ACAA is in the process of further improving the process by implementing software that manages payment plans, letters of breach with the terms of the payment plans, and the recovery process itself.

**FIXED ASSETS**

The increase in net Fixed Assets of approximately \$475 thousand was related to the net effect of capital assets acquisitions and depreciation expense. The property acquisitions made by the Administration during the past year were mostly related to LAN/WAN and other communication tool upgrades in order 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, 2014 shows a decrease of approximately \$11 million, mainly due to unpaid claims liability reduction as previously discussed.

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

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 AND ACCRUED LIABILITIES**

Accounts payable remained online with previous year expense. Accounts payable are mainly related to pending invoices corresponding to payroll related expenses, payroll taxes, employee benefits, professional services, rent and other operating expenses.

**NET POSITION AT END OF YEAR**

The net position for the Fiscal Year ended June 30, 2014 increased by \$15.3 million (2013 - \$2.4 million). This increase in net position was related to all the management actions herein 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. 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.

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

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

	2014	2013	Variance	
			Dollars	Percent
<b>Operating Revenues:</b>				
Gross insurance premiums earned	\$ 82,444,039	83,299,000	(854,961)	(1.03) %
Less service fee	(4,103,789)	(4,108,204)	4,415	(0.11) %
Other income, mainly recoveries	2,115,388	1,996,859	118,529	5.94 %
	<u>80,455,638</u>	<u>81,187,655</u>	<u>(732,017)</u>	<u>(0.90) %</u>
<b>Operating Expenses:</b>				
Death, Disability and Health Benefits	42,763,882	40,382,093	2,381,789	5.90 %
General and Administrative Expenses	36,761,678	38,661,757	(1,900,079)	(4.91) %
Depreciation Expense	689,519	637,161	52,358	8.22 %
	<u>80,215,079</u>	<u>79,681,011</u>	<u>534,068</u>	<u>0.67 %</u>
Operating Income	<u>240,559</u>	<u>1,506,644</u>	<u>(1,266,085)</u>	<u>(84.03) %</u>
Non-Operating Revenues	16,765,227	14,541,170	2,224,057	15.29 %
Transfers to Governmental Agencies	(1,713,200)	(13,695,650)	11,982,450	(87.49) %
Change in Net Position	<u>\$ 15,292,586</u>	<u>2,352,164</u>	<u>12,940,422</u>	<u>550.15 %</u>

**REVENUES FROM INSURANCE PREMIUMS**

The premiums are earned ratably over the one-year term of coverage, and they are anticipated to remain online with the prior year if there are no significant changes in vehicles covered. 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 \$855 thousand as compared to the previous year (\$83.3 million in 2013 vs. \$82.4 million in 2014).

**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, these charges reached an amount of approximately \$4.1 million for each fiscal year 2013-14 and 2012-13. This amount is also estimated from information provided by the Puerto Rico Treasury Department, which is subject to additional changes based on information that may be provided at future dates.

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

**DEATH, DISABILITY AND HEALTH BENEFITS**

During fiscal year ended June 30, 2014, the total benefits incurred amounted to approximately \$42.8 million. Benefit expenses during the previous fiscal year amounted to approximately \$40.4 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. Year over year increase is mainly related to increased utilization for surgically related biologic and orthopedic implants. 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 \$1.9 million when compared with the previous year. The reduction is due to savings in payroll and payroll related expenses from employees who retired during fiscal years 2012-2013 and 2013-2014 generating vacant positions that ACAA has mostly not filled.

**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 2014, the market conditions were favorable, leading to a net revenues of \$16.8 million. This accounts for an average return of approximately 11.5%. The net increase in revenue amounted \$2.2 million as compared to the prior fiscal year.

**STATEMENTS OF CASH FLOWS**

The Administration's cash flows for the year resulted in a net increase in cash and cash equivalents of approximately \$4 million (2013 - \$(6.7)), as shown below:

	2014	2013	Variance	
			Dollars	Percent
Net cash (used in)/provided by Operating Activities	\$ (10,157,228)	1,447,422	(11,604,650)	(801.75) %
Net cash used in Non-Capital Financing Activities	(1,713,200)	(13,695,650)	11,982,450	(87.49) %
Net cash used in Capital and Related Financing Activities	(1,167,490)	(277,518)	(889,972)	320.69 %
Net cash provided by investing activities	17,172,638	5,822,839	11,349,799	194.92 %
Net increase (decrease) in Cash	\$ 4,134,720	(6,702,907)	10,837,627	(161.69) %

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

Managements' Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

Operating Activities used more cash than in prior years because of increased payments to health service providers, as explained in the Investments Section.

Cash used in Non-Capital Financing Activities decreased from 2013 to 2014 because during 2013 ACAA paid a contribution of \$12.5 million to the Budget Support Fund of fiscal year 2012-2013 as per the requirements of Law No. 34 from July 2, 2012. The law required a non-recurring payment that was made during fiscal year 2013.

ACAA used approximately \$890 thousand more in cash for Capital and Related Financing Activities than it did during the previous fiscal year. The increase is due to purchase of LAN/WAN equipment, computers and software.

The cash provided by investing activities increased by \$11.3 million mainly related to the net effect of reduction in sales proceeds of \$17.3 million and decrease in investment purchases of \$28.6 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 at 787-753-8495.

\*\*\*\*\*

## **BASIC FINANCIAL STATEMENTS**

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

Statements of Net Position

June 30, 2014 and 2013

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Current assets:		
Cash and cash equivalents	\$ 15,889,679	12,260,692
Restricted cash	515,294	9,561
Investments, at fair value	13,006,492	4,870,303
Premiums receivable	1,087,167	747,625
Accrued interest and dividends	653,880	662,779
Receivable from sale of investments	1,007,803	78,000
Other receivables, net	1,262,088	1,647,778
Total current assets	33,422,403	20,276,738
Noncurrent assets:		
Investments, at fair value	142,258,567	151,641,266
Capital assets:		
Being depreciated, net	5,001,839	4,526,810
Not being depreciated	1,026,424	1,026,424
Total capital assets	6,028,263	5,553,234
Other assets	247,756	35,788
Total noncurrent assets	148,534,586	157,230,288
Total assets	\$ 181,956,989	177,507,026

(Continued)

See accompanying notes to basic financial statements.

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

Statements of Net Position

June 30, 2014 and 2013

**Liabilities**

	<u>2014</u>	<u>2013</u>
Current liabilities:		
Unpaid claim liability and reserve for future benefits	\$ 29,605,964	34,854,860
Unearned premiums reserve	37,839,695	37,813,195
Payable for acquisition of investments	1,136,021	1,054,216
Accounts payable and accrued expenses	8,306,921	8,239,902
Total current liabilities	<u>76,888,601</u>	<u>81,962,173</u>
Noncurrent liabilities:		
Unpaid claim liability and reserve for future benefits	64,373,007	70,056,564
Other postemployment benefits liability	5,311,068	5,396,562
Total noncurrent liabilities	<u>69,684,075</u>	<u>75,453,126</u>
Total liabilities	<u>\$ 146,572,676</u>	<u>157,415,299</u>
<b>Net Position</b>		
Net position:		
Net investment in capital assets	\$ 6,028,263	5,553,234
Unrestricted	29,356,050	14,538,493
Total net position	<u>\$ 35,384,313</u>	<u>20,091,727</u>

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Gross insurance premiums earned	\$ 82,444,039	83,299,000
Less services fee	(4,103,789)	(4,108,204)
Other income, mainly recoveries of benefits	2,115,388	1,996,859
Total operating revenues	<u>80,455,638</u>	<u>81,187,655</u>
Operating expenses:		
Death and funeral benefits	1,919,968	2,277,124
Disability benefits	1,524,864	1,692,675
Accident and health benefits	39,319,050	36,412,294
Beneficiaries services	21,540,584	23,718,916
General and administrative expenses	15,221,094	14,942,841
Depreciation and amortization expense	689,519	637,161
Total operating expenses	<u>80,215,079</u>	<u>79,681,011</u>
Operating income	<u>240,559</u>	<u>1,506,644</u>
Non operating revenues:		
Interest and dividends, net of administration costs	3,380,807	3,173,502
Realized gains on sales of investments	11,729,182	4,201,355
Unrealized gains on investments	2,905,238	7,166,313
Penalties on Invesco Real Estate Fund II (Note 5)	(1,250,000)	—
Total non operating revenues	<u>16,765,227</u>	<u>14,541,170</u>
Revenue before transfers to other governmental agencies	17,005,786	16,047,814
Transfers to other governmental agencies	<u>(1,713,200)</u>	<u>(13,695,650)</u>
Change in net position	<u>15,292,586</u>	<u>2,352,164</u>
Net position at beginning of year, as previously reported	20,091,727	(34,662,579)
Prior period adjustments (Note 3)	—	52,402,142
Net position at beginning of year, as restated	<u>20,091,727</u>	<u>17,739,563</u>
Net position at end of year	<u>\$ 35,384,313</u>	<u>20,091,727</u>

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from insured	\$ 82,130,997	82,145,171
Cash paid for benefits and expenses	(66,019,874)	(49,671,898)
Cash paid to employees for services and accumulated benefits	(27,842,542)	(31,953,488)
Other operating receipts	<u>1,574,191</u>	<u>927,637</u>
Net cash (used in)/provided by operating activities	<u>(10,157,228)</u>	<u>1,447,422</u>
Cash flows from non-capital financing activities:		
Transfers to governmental agencies	<u>(1,713,200)</u>	<u>(13,695,650)</u>
Cash flows used in capital and related financing activities:		
Capital expenditures	<u>(1,167,490)</u>	<u>(277,518)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	125,078,024	142,457,599
Purchases of investments	(114,305,092)	(142,902,048)
Collection of interest and dividend income	3,389,706	3,267,288
Net distributions on investments in real estate	<u>3,010,000</u>	<u>3,000,000</u>
Net cash provided by investing activities	<u>17,172,638</u>	<u>5,822,839</u>
Net increase/(decrease) in cash and cash equivalents	4,134,720	(6,702,907)
Cash and cash equivalents at beginning of year	<u>12,270,253</u>	<u>18,973,160</u>
Cash and cash equivalents at end of year	<u>\$ 16,404,973</u>	<u>12,270,253</u>

(Continued)

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash (used in)/provided by operating activities:		
Operating income	\$ 240,559	1,506,644
Adjustments to reconcile operating income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	689,519	637,161
Provision for uncollectible accounts	905,071	1,141,224
Loss on disposal of equipment	2,942	5,446
Changes in assets and liabilities that increase (decrease) cash flows from operating activities:		
Premiums receivable	(339,542)	(697,383)
Other accounts receivable	(1,446,268)	(2,210,447)
Other assets	(211,968)	7,157
Unpaid claim liability and reserve for future benefits	(10,932,453)	7,800,546
Unearned premiums reserve	26,500	(456,446)
Accounts payable and accrued expenses	993,906	(6,232,181)
Other postemployment benefits liability	(85,494)	(54,299)
Net cash (used in)/provided by operating activities	<u>\$ (10,157,228)</u>	<u>1,447,422</u>
<b>Summary of non-cash transactions:</b>		
Securities sold, but not yet delivered	<u>\$ 1,007,803</u>	<u>78,000</u>
Securities purchased, but not yet received	<u>\$ 1,136,021</u>	<u>1,054,216</u>
Net increase in the fair value of investments (unrealized gains)	<u>\$ 2,905,238</u>	<u>7,166,313</u>
Retirement of fully depreciated capital assets	<u>\$ 195,378</u>	<u>71,932</u>
Contributions to Real Estate Fund	<u>\$ 3,200,000</u>	<u>—</u>
Penalties on Invesco Real Estate Fund II	<u>\$ 1,250,000</u>	<u>—</u>

In 2014, the Administration retired from books capital assets with a cost of \$21,332 and accumulated depreciation amounting to \$18,390.

See accompanying notes to basic financial statements.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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.

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

Notes to Financial Statements

June 30, 2014 and 2013

The Administration 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 Administration 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 years ended June 30, 2014 and 2013, amounted to \$4,103,789 and \$4,108,204, respectively. The portion of premiums that will be earned in the future is deferred and reported as Unearned Premiums Reserve in the accompanying Statements 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, 2014 and 2013, consists 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 Statements of Revenues, Expenses and Changes in Net Position.

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

Notes to Financial Statements

June 30, 2014 and 2013

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, 2014 and 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 live 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.

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

Notes to Financial Statements

June 30, 2014 and 2013

Estimated useful lives of the Capital Assets are as follow:

<u>Description</u>	<u>Useful Lives</u>
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.

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

Notes to Financial Statements

June 30, 2014 and 2013

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's 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, 2014 and 2013 the Administration does not have restricted resources.

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

Notes to Financial Statements

June 30, 2014 and 2013

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, 2014 and 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) Statements of Cash Flows**

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

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

Notes to Financial Statements

June 30, 2014 and 2013

**(p) Future Adoption of Accounting Pronouncements**

The GASB has issued the following Statements:

- 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. 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, 2014 and 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.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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, unearned 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*.

**(u) Reclassifications**

Certain reclassifications have been made to prior year financial statements in order to conform them to current year presentation.

**(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.

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

Notes to Financial Statements

June 30, 2014 and 2013

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, 2014 and 2013, cash and cash equivalents mainly consist of deposits in banks and short term investments categorized as follows:

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

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

Notes to Financial Statements

June 30, 2014 and 2013

A summary of the Administration's cash and cash equivalents by category of risk as of June 30, 2014 and 2013, are shown below:

<b>2014</b>					
		<u>Credit Risk Category</u>		<u>Bank</u>	<u>Carrying</u>
		<u>1</u>	<u>2</u>	<u>Balance</u>	<u>Amount</u>
Unrestricted cash	\$	14,134,443	—	14,134,443	12,685,556
Restricted cash		526,469	—	526,469	515,294
Short Term					
Investments		—	3,204,123	3,204,123	3,204,123
	\$	<u>14,660,912</u>	<u>3,204,123</u>	<u>17,865,035</u>	<u>16,404,973</u>
 <b>2013</b>					
		<u>Credit Risk Category</u>		<u>Bank</u>	<u>Carrying</u>
		<u>1</u>	<u>2</u>	<u>Balance</u>	<u>Amount</u>
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
	\$	<u>6,595,358</u>	<u>8,791,712</u>	<u>15,387,070</u>	<u>12,270,253</u>

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 the Puerto Rico Traffic Safety Commission held in custody by the Administration (see Note 12).



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

Notes to Financial Statements

June 30, 2014 and 2013

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.

On January 22, 2014, the Administration adopted the new investment objectives and policy guidelines. 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 60% and not less than 35% in fixed income securities; not more than 40%, and not less than 20% in equity securities. Also, within the equity securities position in the portfolio, not more than 20% may be invested in international markets. In addition, not more than 25%, and not less than 15% in Alternative Investment. Alternative investment includes real estate, private equity and venture capital funds, as well as hedging and tactical allocation strategies.

The investments are made based on Asset Classes that include equities of U.S. companies as well as equities of companies domiciled outside of the United States, debt or fixed income securities from U.S., Puerto Rico and non-US governments and corporations. These categories are then diversified by capitalization, issuers, investment styles, types of securities, and other diversifiers that can optimize return and volatility. Common investment strategies in private equity are: venture capital, mezzanine capital, growth capital, leveraged buyouts and distressed investments. Investment in companies whose primary source of revenues is related to the alcohol industry as defined by the Standard Industry Code is expressly prohibited.

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. For both Funds, during the fiscal year ended June 30, 2014, there was an unrealized loss of \$23,145. For the previous fiscal year there was an unrealized gain of \$1,713,431. The fair value of these Funds at June 30, 2014 and 2013, amounted to \$7,065,381 and \$10,505,471, respectively.

On May 19, 2011, for the Invesco Real Estate Fund II a capital demand notice was received 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. On January 13, 2014 the Administration reached a settlement agreement whereby agreed to make the \$3,200,000 contributions and paid \$1,250,000 in penalties. Pursuant the settlement agreement the Administration received

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

Notes to Financial Statements

June 30, 2014 and 2013

distributions of \$6,500,000 that were offset with the \$3,200,000 contributions to the Fund and the \$1,250,000 in penalties. In summary the Administration received a payment of net distributions amounting to \$2,050,000 in fiscal year 2014 related to this Fund. Also, the Administration received distribution amounting to \$960,000 from the Invesco Real Estate Fund I for a total distribution amounting to \$3,010,000 in fiscal year 2014. There were no additional contributions to the Fund in fiscal year 2013.

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, 2014 and 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:	2014					Total
	Within One Year	After one to Five Years	After Five to Ten Years	After Ten Years	Without Maturity	
Corporate Bonds	\$ 278,114	18,737,028	17,058,059	881,337	—	36,954,538
U.S. Sponsored Agencies Notes:						
Federal Home Mortgage Corporation (FHLMC)	2,541,873	353,502	—	—	—	2,895,375
Federal National Mortgage Association (FNMA)	—	1,658,020	—	—	—	1,658,020
Other	—	—	—	275,086	—	275,086
U.S. Government Bonds	8,811,519	15,129,964	2,426,717	—	—	26,368,200
Mortgage and Assets-Backed Securities:						
Government National Mortgage Association (GNMA)	—	—	—	1,165,288	—	1,165,288
FHLMC	—	—	—	7,065	—	7,065
Asset Backed Securities	—	1,901,064	1,622,791	585,268	—	4,109,123
Commercial Mortgage - Backed	—	—	—	4,938,031	—	4,938,031
Municipal/Provincial Bonds	154,994	2,052,415	1,847,927	—	—	4,055,336
U.S. Corporate Stocks	—	—	—	—	62,934,210	62,934,210
Non U.S. Corporate Stocks	—	—	—	—	1,619,414	1,619,414
Real Estate	—	—	—	—	7,065,381	7,065,381
Short Term Bills	1,219,992	—	—	—	—	1,219,992
Total investments	<u>\$ 13,006,492</u>	<u>39,831,993</u>	<u>22,955,494</u>	<u>7,852,075</u>	<u>71,619,005</u>	<u>155,265,059</u>

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

Notes to Financial Statements

June 30, 2014 and 2013

Investment Type:	2013					Total
	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Without Maturity	
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
<b>Total investments</b>	<b>\$ 4,870,303</b>	<b>37,019,690</b>	<b>31,000,879</b>	<b>7,819,592</b>	<b>75,801,105</b>	<b>156,511,569</b>

As of June 30, 2014 and 2013, investments were classified as current and non-current in the accompanying Statements of Net Position as follow:

	2014	2013
Current assets:	\$	
Cash equivalents	3,204,123	8,791,712
Investments in debt securities	13,006,492	4,870,303
Total current assets	16,210,615	13,662,015
Non-current assets	142,258,567	151,641,266
<b>Total</b>	<b>\$ 158,469,182</b>	<b>165,303,281</b>

During the fiscal year ended June 30, 2014 and 2013, the Administration sold a number of investments as part of its investment strategy. The results of said sales are as follow:

	2014	2013
Proceeds from sale of investments	\$ 125,078,024	142,457,599
Amortized cost of investments	(113,348,842)	(138,256,244)
<b>Realized gains on sales of investments</b>	<b>\$ 11,729,182</b>	<b>4,201,355</b>

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

Notes to Financial Statements

June 30, 2014 and 2013

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:

	<b>2014</b>	<b>2013</b>
Realized gains on sales of investments	\$ 11,729,182	4,201,355
Change on fair value of investments securities	2,905,238	7,166,313
Net change on fair value of investments	\$ 14,634,420	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 investment 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 20% 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, 2014 and 2013.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(6) Other Accounts Receivable**

Other accounts receivable consist of:

	2014	2013
Commonwealth of Puerto Rico:		
State Insurance Fund Corporation (related party)	\$ 1,070,045	1,070,045
Government agencies and Puerto Rico		
Safety Traffic Commission (related party)	1,366,743	1,872,599
Sub Total	2,436,788	2,942,644
Recovery from beneficiaries	13,494,621	12,531,427
Insurance companies	1,579,563	1,579,562
All others	427,065	365,024
	17,938,037	17,418,657
Less allowance for doubtful accounts	(16,675,949)	(15,770,879)
	\$ 1,262,088	1,647,778

**(7) Capital Assets**

Capital assets activity for the years ended June 30, 2014 and 2013 consists of:

	2014				
	June 30, 2013	Additions	Retirements	Reclassifications	June 30, 2014
<b>Capital assets being depreciated</b>					
Building	\$ 6,975,932	—	—	—	6,975,932
Equipment	938,250	—	—	—	938,250
Computer and software	5,183,591	1,104,786	(161,975)	—	6,126,402
Motor vehicles	201,219	24,693	—	—	225,912
Furniture and fixtures	2,085,327	38,011	(54,735)	—	2,068,603
Leasehold improvements	3,658,975	—	—	—	3,658,975
	19,043,294	1,167,490	(216,710)	—	19,994,074
Less accumulated depreciation and amortization:					
Building and leasehold improvements	(7,395,953)	(190,333)	—	—	(7,586,286)
Other	(7,120,531)	(499,186)	213,768	—	(7,405,949)
	(14,516,484)	(689,519)	213,768	—	(14,992,235)
<b>Capital assets not being depreciated</b>					
Land	900,881	—	—	—	900,881
Software being developed	125,543	—	—	—	125,543
	1,026,424	—	—	—	1,026,424
	\$ 5,553,234	477,971	(2,942)	—	6,028,263

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

Notes to Financial Statements

June 30, 2014 and 2013

	2013				June 30, 2013
	June 30, 2012	Additions	Retirements	Reclassifications	
<b>Capital assets being depreciated</b>					
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
	<u>18,963,251</u>	<u>277,518</u>	<u>(71,932)</u>	<u>(125,543)</u>	<u>19,043,294</u>
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)
	<u>(13,945,808)</u>	<u>(637,161)</u>	<u>66,485</u>	<u>—</u>	<u>(14,516,484)</u>
<b>Capital assets not being depreciated</b>					
Land	900,881	—	—	—	900,881
Software being developed	—	—	—	125,543	125,543
	<u>900,881</u>	<u>—</u>	<u>—</u>	<u>125,543</u>	<u>1,026,424</u>
	<u>\$ 5,918,324</u>	<u>(359,643)</u>	<u>(5,447)</u>	<u>—</u>	<u>5,553,234</u>

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.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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:

	<u>2014</u>	<u>2013</u>
Death and funeral:		
Death	\$ 7,766,901	7,778,309
Funeral	137,509	182,083
Disability	1,247,638	1,070,303
Accident and health:		
Medical hospitalization - basic:		
Unpaid claim liabilities	21,326,391	27,055,047
Reserve for future benefits	6,382,085	6,492,925
Medical hospitalization - extended:		
Unpaid claim liabilities	43,743,477	1,028,659
Reserve for future benefits	1,194,243	47,804,072
Dismemberment	279,460	124,695
Loss adjustment expenses	<u>11,901,267</u>	<u>13,375,331</u>
	<u>\$ 93,978,971</u>	<u>104,911,424</u>

The activity in the unpaid claims liability and reserve for future benefits for the years ended June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Unpaid claims liability and reserve for future benefits at beginning of year as restated in 2013, presented based on undiscounted method	\$ 104,911,424	97,110,878
Less loss adjustment expenses	<u>(13,375,331)</u>	<u>(12,591,379)</u>
Net claims at beginning of year, as restated in 2013	91,536,093	84,519,499
Incurred claims:		
Provision for insured events of current year	<u>44,326,334</u>	<u>40,382,093</u>
Payment of claims:		
Current year insured events	(18,685,416)	(13,834,210)
Prior years insured events	<u>(35,099,307)</u>	<u>(19,531,289)</u>
	<u>(53,784,723)</u>	<u>(33,365,499)</u>
Net claims at end of year	82,077,704	91,536,093
Plus loss adjustment expenses	<u>11,901,267</u>	<u>13,375,331</u>
Unpaid claims liability and reserve for future benefits at end of year, presented based on undiscounted method	<u>\$ 93,978,971</u>	<u>104,911,424</u>

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

Notes to Financial Statements

June 30, 2014 and 2013

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
2015	\$ 1,110,709
2016	1,002,987
2017	924,677
2018	515,853
2019	241,495
2020 - 2022	223,498
	\$ 4,019,219

Rent expense for the years ended June 30, 2014 and 2013, was approximately to \$1,311,000 and \$1,321,000, respectively.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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.

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

Notes to Financial Statements

June 30, 2014 and 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-contribution pension plan plus interest thereon to the Program.

Act No. 305 required employees to contribute 8.36% of their monthly gross salary to the Program. Employees could elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions were credited to individual accounts established under the Program. Participants had three options to invest their contributions in the Program. Investment income was credited to the participant's account semiannually.

The Administration was 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.

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

Notes to Financial Statements

June 30, 2014 and 2013

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 in 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 were effective on July 1, 2013.

The Administration contributions to these plans amounted to \$3,713,050 in fiscal year 2014 (2013 - \$9,584,691). The employees contributions amounted to \$1,674,819 and \$1,458,197 in fiscal years 2014 and 2013, respectively. Loans repayments for the years ended June 30, 2014 and 2013 amounted to approximately \$383,000 and \$443,000, respectively. These amounts represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2014, 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.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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 Administration 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***

- *Medical Benefits:* 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.

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

Notes to Financial Statements

June 30, 2014 and 2013

- *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, 2013 and 2012, membership in the Administration OPEB Program consisted of the following:

	2013	2012
Retirees and beneficiaries currently receiving benefits	399	383
Current participating employees	91	91
Total membership	490	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.

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

Notes to Financial Statements

June 30, 2014 and 2013

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

	2014	2013
<b>Net OPEB Obligation Movement:</b>		
ARC	\$ 742,883	749,154
Interest on the net OPEB obligation	430,844	436,547
Adjustments to the ARC	109,377	2,955
Annual OPEB cost	1,283,104	1,188,656
Employer Contribution	(1,368,598)	(1,242,955)
Decrease in the net OPEB obligation	(85,494)	(54,299)
Net OPEB obligation - beginning of year	5,396,562	5,450,861
Net OPEB obligation - end of year	\$ 5,311,068	5,396,562
Percentage of annual OPEB cost contributed	106.66%	104.57%
<b>Funded Status:</b>		
Actuarial valuation date	July 1, 2013	July 1, 2012
Actuarial accrued liability (AAL)	\$ 10,216,636	10,107,258
Unfunded AAL	\$ 10,216,636	10,107,258
Funded ratio	0%	0%
Annual covered payroll	\$ 16,687,547	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. The most recent actuarial valuation was performed on July 1, 2012. At July 1, 2013 a rollforward analysis of the actuarial liability was performed.

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

Notes to Financial Statements

June 30, 2014 and 2013

***Actuarial Methods and Assumptions:***

Valuation year	July 1, 2013	July 1, 2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of projected payroll on an open basis over 30 years	Level percentage of projected payroll on an open basis over 30 years
Asset valuation method	N/A	N/A
Discount rate	4.00%	4.00%
Projected salary increase	2.00%	2.00%
Health care cost trend rate for medical and prescription drugs	4.5%	4.5%
Mortality	SSA 2009 Period Life Table	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.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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, 2014 and 2013 the Administration held in custody cash of the Commission amounting to \$515,294 and \$9,561, respectively. For the years ended June 30, 2014 and 2013, the Administration contributed to the Commission approximately \$1,713,000 and \$1,196,000, respectively.

**(13) Transfers to Other Governmental Agencies**

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

<u>Description</u>	<u>2014</u>	<u>2013</u>
Puerto Rico Traffic Safety Commission (Note 12)	\$ 1,713,200	1,195,650
Budget and Management Office	—	12,500,000
	<u>\$ 1,713,200</u>	<u>13,695,650</u>

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, 2014 and 2013, the Administration has an accrual of approximately \$791,000 and \$162,100, respectively. 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 September 30, 2014, the date the financial statements were available to be issued, and determined that there are no other items to disclose, except for as disclosed in the next paragraphs.

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

Notes to Financial Statements

June 30, 2014 and 2013

In 2014, the Governor of the Commonwealth of Puerto Rico signed into law House Bill 1920, "*Ley para Crear el Fondo de Responsabilidad Legal*" (Act No. 78). Act No. 78 creates a Legal Responsibility Fund under the custody of the Budget and Management Office of the Commonwealth of Puerto Rico. The Act enables the established Fund to accept legislative, municipal or federal endowments and allows for the matching or combination of these. It further obliges several Agencies and Public Corporations to transfer monies into the Fund. The Law modifies subparagraph (4) of section 16 of Law No. 138 from June 26, 1968, as amended, also known as "Law for Social Protection after an Automobile Accident", to require ACAA to transfer \$10 million to the Legal Responsibility Fund from the Reserves established under said law. This Act was effective on July 1, 2014. ACAA made the \$10 million contribution to the Fund in July 2014.

In 2014, the Governor of the Commonwealth of Puerto Rico signed into law House Bill 1910, "*Ley para Crear el Fondo de Servicios y Terapias a Estudiantes de Educación Especial*" (Act No. 73). Act No. 73 creates a Fund for Services and Therapy for Special Education Students. The law modifies subparagraph (4) of section 15 of Law No. 138 from June 26, 1968, as amended, also known as "Law for Social Protection after an Automobile Accident", with the purpose of requiring that 4% of the total gross income derived from premiums collected during the prior fiscal year by ACAA be destined to sustain the Fund during fiscal year 2014-2015. This Act was effective on July 1, 2014. ACAA made the required contribution of \$3.3 million in July 2014.

On June 17, 2014, the Governor of the Commonwealth of Puerto Rico signed into law House Bill 1922, known as "*Ley Especial de Sostenibilidad Fiscal y Operacional del Gobierno del Estado Libre Asociado de Puerto Rico*" (Act No. 66). This Act requires that all instrumentalities, entities, agencies and public corporations of the Commonwealth of Puerto Rico reduce their operating expenses, specifically those related to payroll, professional services, contracted services and leases, among others. During the effective term of this Act, the excess accumulation of vacation and sick leave will not be paid to employees. The employees should exhaust the excess accumulation by the end of each fiscal year. The Act also requires that ACAA transfers savings obtained from specific expense reductions as defined by the Act to the Fund for Services and Therapy for Special Education Students. ACAA estimated savings amounting to \$2 million annually. This amount will be paid each year in monthly installments through June 30, 2017. This Act was effective on June 17, 2014 and the expense reduction and contribution to the special fund will remain in effect until July 1, 2017 or before that date if certain financial and economic metrics are achieved by the Commonwealth of Puerto Rico.

\*\*\*\*\*

**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

Years ended June 30, 2014 and 2013

ACAA 10 Year Payment History and Net Premiums Collected

	Health Care Benefits				Financial Benefits			Total	Net Premiums Collected	
	Basic Benefits		Extended Benefits		Death	Disability	Funeral			Dismemberment
	Hospital Medical	Rx	Hospital Medical	Rx						
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
2013-14	48,630,487	572,344	2,548,784	142,682	1,776,160	1,103,061	220,861	87,975	55,082,354	78,000,000
<b>Total \$</b>	<b>398,823,173</b>	<b>15,775,978</b>	<b>22,642,637</b>	<b>3,939,948</b>	<b>26,497,655</b>	<b>29,973,438</b>	<b>3,252,586</b>	<b>1,243,656</b>	<b>502,149,071</b>	<b>773,104,458</b>

See accompanying independent auditors' report.

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

Required Supplementary Information (Unaudited)

Schedule of Funding Progress - Other Postemployment Benefits Plan

Years ended June 30, 2014 and 2013

Valuation 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, 2013*	—	\$ 10,216,636	10,216,636	—	16,687,547	61%
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%

\* The most recent actuarial valuation was performed on July 1, 2012. At July 1, 2013 a rollforward analysis from the previous valuation was made in order to estimate the actuarial accrued liability.

See accompanying independent auditors' report.

**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, 2014 and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements and have issued our report thereon dated September 30, 2014.

**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.

*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. *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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted certain deficiencies in internal control that we reported to the Administration's management in a separate letter dated September 30, 2014.

### **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 September 30, 2014. 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.



San Juan, Puerto Rico  
September 30, 2014

Stamp number E100579 of the Puerto Rico Society  
of CPA's was affixed to the record copy of this report.