

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

***INDEPENDENT AUDITORS' REPORT  
AND  
BASIC FINANCIAL STATEMENTS  
AND REQUIRED SUPPLEMENTARY INFORMATION***

June 30, 2017

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
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**JUNE 30, 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Automobile Accidents Compensation Administration  
(a Component Unit of the Commonwealth of Puerto Rico):

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the Automobile Accidents Compensation Administration (a Component Unit of the Commonwealth of Puerto Rico) (the "Administration"), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the Administration's 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



To the Board of Directors of  
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## 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, 2017, and the respective statement of revenues, expenses and changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

### *Financial Deterioration of the Commonwealth of Puerto Rico (the Commonwealth)*

As discussed in Note 4 to the financial statements, the Administration is part of the Commonwealth of Puerto Rico. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Administration depends on disbursements from the Commonwealth, the financial condition and liquidity of the Administration could be similarly affected.

### *Change in Accounting Principle*

As discussed in Note 5 to the financial statements, the Administration adopted the provisions of GASB 68, Accounting and Financial Reporting for Pensions - an amendment of GASB 27 and the related GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to Measurement Date - an amendment to GASB Statement No 68 effective July 1, 2016. The beginning of year net position has been adjusted for this change. Our report was not modified with respect to that matter.

## 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 4 through 12, the Ten-Year Claims Development Information on page 59, the Schedules of the Administration's Proportionate Share of the Net Pension Liability and Administration's Contributions on page 61, and the Schedules of Funding Progress - Other Postemployment Benefits Plan on page 62, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



To the Board of Directors of  
Automobile Accidents Compensation Administration  
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*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 29, 2019, 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.

*BDO Puerto Rico, PSC*  
San Juan, Puerto Rico

May 29, 2019

Certified Public Accountants  
(of Puerto Rico)  
License No.53 Expires December 1, 2021  
Stamp E370887 of P.R. Society of  
Certified Public Accountants has been  
affixed to the file copy of this report

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2017**

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This section of the financial report of the Automobile Accidents Compensation Administration (A Component Unit of the Commonwealth of Puerto Rico) (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, 2017 and 2016. 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 provide death, disability and health benefits for victims of automobile accidents, subject to certain limitations and conditions. The annual premium amounts to \$35 per vehicle and 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 ended June 30, 2017 and 2016 amounted to approximately \$4 million each year.

**FINANCIAL HIGHLIGHTS**

- The Administration experienced a net loss from insurance operations of approximately \$10.3 million in June 30, 2017 (during fiscal year 2016 the Administration had a net income from insurance operations for \$6 million). The change in net position for the year ended June 30, 2017 is a decrease of \$61.9 million. This negative outcome is mainly due to the recognition of an impairment loss on an investment in The Puerto Rico Government Tax Revenue Anticipation Notes ("TRANS") of \$50 million, as explained in Note 18 to the basic financial statements, and recognition of voluntary retirement Act No. 211 for \$10.4 million and an impairment loss on Notes Receivable of \$2 million from the Commonwealth of Puerto Rico, as explained in Note 8.
- During fiscal year 2017, the Administration recognized interest and dividend income of approximately \$2 million (2016 - \$5 million). Furthermore, the realized gains on sales of investments were approximately \$2.1 million in 2017 (when compared to realized losses of \$2 in 2016); and unrealized gains due to changes in market value of investments for \$3.5 million in 2017 (when compared to unrealized losses of \$1 million in 2016).
- Operating expenses amounted to approximately \$90.1 million in 2017 (2016, as restated - \$75.7 million). This represents a net increase of \$14.4 million as compared to the previous year. This outcome is mainly due to the recognition of the employee retirement expense as of June 30, 2017.

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- The Administration's liabilities exceeded its assets by approximately \$141.3 million as of June 30, 2017, representing a deficit increase of \$61.9 million when compared to 2016.

**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 basic financial statements provide information about the Administration's activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as promulgated by the Governmental Accounting Standard Board ("GASB").

The Administration's financial statements are presented, attached to this document, and represent the financial position of the Administration as of June 30, 2017, and the results of operations for the fiscal year then ended.

The basic financial statements consist of the: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The basic financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with GAAP.

**STATEMENT OF NET POSITION**

The Statement of Net Position presents the Administration's financial position as of June 30, 2017, 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.

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

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

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**STATEMENT OF CASH FLOWS**

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

**NOTES TO THE FINANCIAL STATEMENTS**

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, long-term liabilities, retirement plans and the commitments and contingencies. The reader is encouraged to read the notes in conjunction with the management discussion and analysis and the financial statements.

**Adoption of New Accounting Pronouncement**

As discussed in Notes 5 and 14 to the financial statements, the Authority adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement 27 and the related GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to Measurement Date - an amendment to GASB Statement No 68 effective July 1, 2016. However, the amounts registered at the implementation date were unaudited. On May 11, 2018, the Employees' Retirement System of the Government of the Commonwealth Of Puerto Rico ("ERS") issued the audited Schedules of Employer Allocations and Schedules of Pension Amounts by Employer applicable for 2015 showing significant differences.

As a result, the Administration has determined that a restatement of the July 1, 2016 beginning net position was required to recognize the change in accounting principles based on the audited figures of GASB Statement No. 68 and 71, as published by the Commonwealth.

**SUPPLEMENTARY INFORMATION**

The required supplementary information consists of three schedules concerning the following: (1) the ten-year claims development information required by the Governmental Accounting Standards Boards ("GASB") Statement No. 10, *Accounting and Financial Reporting for Risks/ Financing and Related Insurance Issues, as amended*, (2) the supplementary information of the Administration's proportionate share of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "Retirement System") net pension liability and contributions established in statute as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27* (GASB Statement NO. 68), (3) the supplementary information of the Administration's Postemployment Benefits other than Pension Programs as required by the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*.



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**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, at \$35 yearly per motor vehicle. The Administration, therefore, is responsible for managing the risks of insurance established in the Law and to provide adequate resources for insured beneficiaries by managing premiums, claims and expenses.

The following table reflects the condensed net position of the Administration as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets	\$ 54,940,014	\$ 100,569,833
Restricted assets	8,165	164,193
Capital assets, net	5,525,097	5,890,923
Other non-current asset	<u>61,578,295</u>	<u>56,795,515</u>
Total assets	122,051,571	163,420,464
Deferred outflow related to pension plan	<u>47,116,346</u>	<u>38,990,788</u>
Total assets and deferred outflow of resources	<u>\$ 169,167,917</u>	<u>\$ 202,411,252</u>
<b>Liabilities</b>		
Current liabilities	\$ 70,008,664	\$ 69,842,242
Non-current liabilities	<u>237,107,775</u>	<u>209,245,045</u>
Total liabilities	307,116,439	279,087,287
Deferred inflows of resources	<u>3,378,458</u>	<u>2,757,470</u>
Total liabilities and deferred inflows of resources	<u>310,494,897</u>	<u>281,844,757</u>
<b>Net position</b>		
Net investment in capital assets	\$ 5,525,097	\$ 5,890,923
Unrestricted	<u>(146,852,077)</u>	<u>(85,324,428)</u>
Total net position	<u>(141,326,980)</u>	<u>(79,433,505)</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 169,167,917</u>	<u>\$ 202,411,252</u>

**CURRENT ASSETS**

Current assets decreased by approximately 45.4% to \$55 million during the fiscal year ended June 30, 2017. The net decrease in current assets of \$45.6 million was principally due to a decrease in cash equivalents for an investment of \$50 million in The Puerto Rico Government Tax Revenue Anticipation Notes ("TRANS"), see Note 18 for more details, offset by an increase of approximately \$3.7 million in fair value of investments given the favorable market conditions at the end of the year.

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CAPITAL ASSETS, NET

During the fiscal year ended June 30, 2017, capital assets decreased by 6.2% to approximately \$5.5 million as compared to fiscal year 2016. This decrease was the net result of capital expenditures of approximately \$514 thousand mostly related to customized software, offset by the retirement of fully depreciated assets for approximately \$1 million, and total depreciation of approximately \$879 thousand for fiscal year 2017.

DEFERRED OUTFLOWS RELATED TO PENSION PLANS

Deferred outflows of resources increased by 20.8% to approximately \$47.1 million during the fiscal year ended June 30, 2017, as compared to prior year, due to the increase in the deferred outflows of resources related to pensions of \$8.1 million.

**CURRENT LIABILITIES**

During the fiscal year ended June 30, 2017, current liabilities increased by 0.2% to approximately \$166.4 thousand as compared to fiscal year 2016. Major changes in current liabilities are the following:

UNPAID CLAIMS LIABILITY AND RESERVE FOR FUTURE BENEFITS

The 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, 2017 shows a decrease of approximately \$11.4 million mainly due to reduction in claims and historical payments and the effect of such changes in the actuarial calculations.

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, dismemberment and disability benefits are settled within two years, while 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 increased by \$11.0 million compared to previous year mainly due to accrued voluntary termination benefits Act No. 211 for \$10.4 million enacted in the 2017, as explained in Note 17 to the basic financial statements. Accounts payable are mainly related to pending invoices corresponding to payroll related expenses, payroll taxes, employee benefits, professional services, rent and other operating expenses. These liabilities change depending on the level of operations of the Administration.

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**NON-CURRENT LIABILITIES**

During the fiscal year ended June 30, 2017, non-current liabilities increased by 13.3% to approximately \$27.9 million as compared to fiscal year 2016. Major changes in non-current liabilities are the following:

UNPAID CLAIMS LIABILITY AND RESERVE FOR FUTURE BENEFITS

The reserve for future benefits is an estimate of unpaid benefits at 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 non-current portion of the reserve for the fiscal year ended June 30, 2017 shows an increase of approximately \$10.3 million mainly due to the effect of changes in the actuarial calculations.

NET PENSION LIABILITY

Net pension liability (NPL) increased by 11% to approximately \$176.5 million during the fiscal year ended June 30, 2017 as compared to prior year due to the increase related for its proportionate share of the collective NPL of the Retirement System, resulting from the ERS's audited GASB 68 report, as previously discussed.

**DEFERRED INFLOWS RELATED TO PENSION PLANS**

Deferred inflows of resources increased by 22.5% to approximately \$3.4 million during the fiscal year ended June 30, 2017 as compared to prior year due to the increase in the deferred inflows of resources related to pension of \$621 thousand.

**NET POSITION AT END OF YEAR**

The net position for the fiscal year ended June 30, 2017 decreased by \$61.5 million. This decrease in net position was mainly related to the impairment of the TRANS and accrued voluntary employee terminations.

It should be noted that, as required by the Law that created the Administration, 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, at 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 Commonwealth's General Fund.

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**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**  
**JUNE 30, 2017**

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**STATEMENT 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:

	<u>2017</u>	<u>2016</u>	<u>Variance</u>	
			<u>Dollars</u>	<u>Percent</u>
Operating revenues	<u>\$ 79,727,946</u>	<u>\$ 81,737,273</u>	<u>\$ (2,009,327)</u>	<u>(2.46)%</u>
Operating expenses	89,194,765	74,906,654	14,288,111	19.07 %
Depreciation expense	<u>878,707</u>	<u>823,802</u>	<u>54,905</u>	<u>6.66 %</u>
Operating (loss)/income	<u>(10,345,526)</u>	<u>6,006,817</u>	<u>(16,352,343)</u>	<u>(272.23)%</u>
Non-operating expenses	<u>(44,418,234)</u>	<u>1,941,732</u>	<u>(46,359,966)</u>	<u>(2,387.56)%</u>
Transfers to governmental agencies	<u>(7,129,714)</u>	<u>(10,715,980)</u>	<u>3,586,266</u>	<u>(33.47)%</u>
Net changes in net position	<u>\$ (61,893,474)</u>	<u>\$ (2,767,431)</u>	<u>\$ (59,126,043)</u>	<u>2,136.50 %</u>

**REVENUES FROM INSURANCE PREMIUMS**

The premiums are earned ratably over the one-year term of coverage, and they are anticipated to remain in line 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 50 years. Net revenues from insurance premiums experienced an increase of approximately \$228 thousand as compared to the previous year, mostly due to increase in the average of covered vehicles in 2016. For the last 10 years, the Administration has been able to generate an average net operating revenues of \$80 million. This is directly related to covered vehicles which has remained stable at an average of 2.3 million units during in the past ten years.

**SERVICE FEES**

Act No. 233 was enacted during the fiscal year ended June 30, 2004. This Act allows the Puerto Rico Treasury Department to charge an administrative fee of 5% over premiums collected by the Puerto Rico Treasury Department for collection expense purposes. On a full year basis, these charges reached an amount of approximately \$4.2 million for each fiscal year. 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.

**DEATH, DISABILITY AND HEALTH BENEFITS**

During the fiscal year ended June 30, 2016, the total benefits incurred amounted to approximately \$55.8 million. Benefit expenses during the previous fiscal year amounted to approximately \$53 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.

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Increase in benefit expenses is mainly due to actuarial adjustments to the reserve analysis and estimates.

**GENERAL AND ADMINISTRATIVE EXPENSES**

The general and administrative expenses experienced an increase of approximately \$16.4 million when compared with the previous year. General and administrative expenses continue to increase mostly related to the cost associated to Retirement and new legislation:

- On December 28, 2015, the Commonwealth enacted Act. No. 211 of 2015 (Act No. 211), known as the Voluntary Early Retirement Law. Act No. 211 allows eligible active employees under ERS's Act No. 447 plan to participate in a voluntarily retirement program if they were hired before April 1990 and provided a minimum of twenty years (20) of service. The voluntary program, which was adopted during the fiscal year ended June 30, 2017, provides eligible participants with 60% of their average compensation determined as of December 31, 2015 plus the payment by the Authority of the employee and the employer contributions to ERS until the employee attain age sixty-one (61).

**NON-OPERATING REVENUE**

Net non-operating revenues/(expenses) represent principally interest and dividend income, net change in fair value of investments and investments fees. Government accounting policies require that investments be carried at fair value; thus realized gains or losses from the sale of securities and unrealized changes in the fair value of the existing securities portfolio are recorded through operations. The net non-operating revenues, decreased by \$46.4 million in June 30, 2017, a significant fluctuation when compared to the non-operating revenues in 2016. The significant variation is mainly related to the impairment loss of the TRANS and Note receivable from the Commonwealth of Puerto Rico for \$52 million. The Administration had interest and dividend income of \$4.5 million and net unrealized change of \$3.5 million in June 30, 2017.

**TRANSFERS TO OTHER GOVERNMENTAL AGENCIES**

The Administration is required by legislation, to transfer to other governmental agencies funds for different programs. During the year ended June 30, 2017, the Administration transferred funds to other governmental agencies, including transfers to Puerto Rico Traffic Safety (Act 33-1972) amounting to \$1 million. Due to the enactment of Act No. 66-2014, the Administration was also required to make intergovernmental transfers of \$2 million to the Special Fiscal Sustainability and Operational Law.

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On January 23, 2017 Act No. 3-2017, “Act to Address the Economic, Fiscal and Budgetary Crisis in order to Guarantee the Operations of the Government of Puerto Rico” (Act No. 3-2017) was enacted by the Commonwealth of Puerto Rico in order to take temporary emergency measures so that the Commonwealth can continue its operations and be able to offer essential services to its citizens; establish certain prohibitions over the engagement of professional services, among other measures which will be in effect until July 15, 2021. Due to the enactment of Act No. 3-2017, the Administration is required to make intergovernmental transfers for fiscal year 2017 of \$5.4 million to the Fund for Services and Therapies for Special Education Students.

**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 Chardón Ave. #249, Arterial Hostos Square, Hato Rey, PR, 00918 or by calling at 787-753-8495.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<u>2017</u>
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents, including \$3,550,975 with broker dealers	\$ 12,643,040
Investments, at fair value	40,101,204
Accrued interest and dividends	311,764
Receivable from sale of investments	973,082
Other receivables, net of allowance for \$21,786,014	<u>910,924</u>
Total current assets	<u>54,940,014</u>
Restricted assets-	
Cash	8,165
Non-current assets:	
Investments, at fair value	61,412,002
Other assets	166,293
Capital assets:	
Being depreciated, net	4,624,215
Not being depreciated	<u>900,882</u>
Total non-current assets	<u>67,103,392</u>
Total assets	122,051,571
<b>DEFERRED OUTFLOWS OF RESOURCES -</b>	
Deferred outflows related to pension plan	<u>47,116,346</u>
Total assets and deferred outflows of resources	<u>\$ 169,167,917</u>

*continues*

The accompanying notes are an integral part of these financial statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
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**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

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*continued*

	<u>2017</u>
<b>LIABILITIES:</b>	
Current liabilities:	
Unearned premiums	\$ 38,753,332
Unpaid claim liability and reserve for future benefits	10,302,298
Payable for acquisition of investments	1,006,087
Accounts payable and accrued expenses	19,820,470
Excess premiums received from the Commonwealth of Puerto Rico	<u>126,477</u>
Total current liabilities	<u>70,008,664</u>
Non-current liabilities:	
Unpaid claim liability and reserve for future benefits	55,986,799
Other post-employment benefits liability	4,601,204
Net pension liability	<u>176,519,772</u>
Total non-current liabilities	<u>237,107,775</u>
Total liabilities	<u>307,116,439</u>
<b>DEFERRED INFLOWS OF RESOURCES -</b>	
Deferred inflows related to pension plan	<u>3,378,458</u>
Commitments and Contingencies	<u>-</u>
<b>NET POSITION:</b>	
Net investment in capital assets	5,525,097
Unrestricted	<u>(146,852,077)</u>
Total net position	<u>(141,326,980)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 169,167,917</u>

The accompanying notes are an integral part of these financial statements.



**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>
Operating revenues:	
Gross insurance premiums earned	\$ 82,796,273
Less - Service fee	(4,150,831)
Other income, mainly recoveries	<u>1,082,504</u>
Total operating revenues	79,727,946
Operating expenses:	
Death and funeral benefits	1,153,689
Disability benefits	380,176
Accident and health benefits	33,055,115
Beneficiaries services	21,171,880
General and administrative expenses	33,433,905
Depreciation and amortization expenses	<u>878,707</u>
Total operating expenses	<u>90,073,472</u>
Operating loss	(10,345,526)
Non-operating revenues/(expenses):	
Loss on investment on TRANS from the Commonwealth	(50,000,000)
Loss on note receivable from the Commonwealth	(2,020,316)
Interest and dividends, net of investment advisory fees	2,016,153
Realized gains on sales of investments	2,129,461
Unrealized gains on investments	<u>3,456,468</u>
Net non-operating expenses	<u>(44,418,234)</u>
Loss before transfers to other governmental agencies	(54,763,760)
Transfers to other governmental agencies	<u>(7,129,714)</u>
Change in net position	(61,893,474)
Net position at beginning of year - as restated	<u>(79,433,505)</u>
Net position at end of year	<u>\$ (141,326,979)</u>

The accompanying notes are an integral part of these financial statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>
Cash flows from operating activities:	
Premiums received from policyholders	\$ 78,028,756
Payments for benefits to policyholders and expenses	(56,834,120)
Payments to employees and related benefits	(12,640,753)
Payments to suppliers for goods and services	(2,253,014)
Receipt from other sources	<u>2,467,485</u>
Net cash provided by operating activities	<u>8,768,354</u>
Cash flows used for non-capital financing activities -	
Transfers to governmental agencies	<u>(3,761,990)</u>
Cash flows used for capital and related financing activities -	
Capital expenditures and net cash used in capital and related financing activities	<u>(513,510)</u>
Cash flows used for investing activities:	
Proceeds from sales of investments	95,502,544
Purchases of investments	(101,378,681)
Collection of interest and dividend income	2,059,168
Net distributions on investments in real estate funds	966,162
Purchase of tax revenue anticipation notes (TRANS)	<u>(50,000,000)</u>
Net cash used for investing activities	<u>(52,850,807)</u>
Net decrease in cash and cash equivalents	(48,357,953)
Cash and cash equivalents at beginning of year	<u>61,009,158</u>
Cash and cash equivalents at end of year	<u>\$ 12,651,205</u>
<b>SUMMARY OF CASH AND CASH EQUIVALENTS (See Note 6):</b>	
Unrestricted cash	\$ 9,092,065
Restricted cash	8,165
Short-term investments	<u>3,550,975</u>
<b>Total cash and cash equivalents</b>	<u><b>\$ 12,651,205</b></u>

*continued*

The accompanying notes are an integral part of these financial statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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*continued*

	<u>2017</u>
Reconciliation of operating income to net cash used in operating activities:	
Operating loss	<u>\$ (10,345,526)</u>
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation and amortization	878,707
Provision for uncollectible accounts	1,520,137
Changes in assets and liabilities that increase/(decrease) cash flows from operating activities:	
Other accounts receivable	(135,156)
Other assets	49,204
Unpaid claim liability and reserve for future benefits	(1,073,260)
Unearned premiums reserve	422,380
Accounts payable and accrued expenses	8,457,952
Excess premiums paid by Commonwealth	(1,039,066)
Other postemployment benefits liability	(16,087)
Deferred outflows of resources related to pension	(8,125,558)
Deferred inflows of resources related to pension	620,988
Net pension liability	<u>17,553,639</u>
Net cash provided by operating activities	<u>\$ 8,768,354</u>
<b>SUMMARY OF NON-CASH TRANSACTIONS:</b>	
Securities sold, but not yet delivered	<u>\$ 973,082</u>
Securities purchased, but not year received	<u>\$ 1,006,087</u>
Net decrease in the fair value of investments (unrealized gains)	<u>\$ 3,456,468</u>
Retirement of fully depreciated capital assets	<u>\$ 1,050,978</u>

The accompanying notes are an integral part of these financial statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**1. ORGANIZATION**

The Automobile Accidents Compensation 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 caused by automobile accidents and compensation for beneficiaries (and their dependants). The annual premium is \$35 per motor vehicle (new vehicles pay a fee of \$37.50 during the first year).

The financial statements presented herein relate solely to the financial position and results of operations of the Administration and are not intended to present the financial position of the Commonwealth or the results of its operations or its cash flows.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The Administration follows GASB Statement No. 76, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements.

Following is a description of the most significant accounting policies:

**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.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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

***Basis of Presentation*** - The Administration's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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

- Net investment in capital assets, consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted component of net position consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. At June 30, 2017, the Administration has no restricted component of net position.
- Unrestricted component of net position consists of net position that does not meet the definition of the preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

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

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
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The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non-capital and capital financing and investing activities, which include cash receipts and cash disbursements information.

**Insurance Premiums** - Insurance premiums are collected in advance by the Treasury Department of the Commonwealth of Puerto Rico (“PRTD”) and recognized ratably as income during the policy year. The portion of premiums that will be earned in the future is deferred and reported as Unearned Premiums in the accompanying Statements of Net Position. As per Law No. 233 of September 2, 2003, the PRTD retains a 5% service fee over all revenue collected. The service charge during the year ended June 30, 2017, amounted to \$4,150,831.

**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, 2017, consists of funds invested in short term bills, notes and investments funds.

**Investments** - Investments mainly include U.S. government and agencies' obligations, mortgage-backed securities, and corporate debt and equity obligations. Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application (GASB No. 72). Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Money market investments with a remaining maturity at time of purchase of one year or less are carried at cost.

Investment positions in compliance of Rule 2a-7 from the Securities And Exchange Commission (“SEC”) like external investment pools are carried at the pools share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. The Administration has private equity investment, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

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

**Receivables or Payables Resulting from the Sale or Acquisition of Investments** - Investment transactions at or close to June 30, 2017, for which the settlement date occurs after the fiscal year ends, are recorded separately for financial statements purposes.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
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**Accounts Receivable** - Receivables from premiums collected are estimates based on the amounts reported by the PRTD which could be subject to change. Any change in estimate is recorded in the year that it is identified.

For the year ended June 30, 2017, the Administration received remittances in excess of the premiums collected by PRTD. Therefore, \$126,477 are disclosed as a liability as of June 30, 2017.

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.

**Allowance for Doubtful Accounts** - The allowance for uncollectible accounts insurance premiums and other receivables is periodically determined by management at levels adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

**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. At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation are removed from the books and the resulting gain or loss, if any, is credited or changed to operations.

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

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***Accounting for the Impairment of Capital Assets*** - The Administration evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Administration evaluated its capital assets and determined that there was no impairment as of June 30, 2017.

***Deferred Outflows and Inflows of Resources*** - The Administration reports deferred outflows and inflows of resources in addition to assets and liabilities. A deferred outflow of resources is a consumption of net position by the Administration that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the Administration that is applicable to a future period. Pension related deferred outflows and inflows of resources may include changes in proportionate share contributions, contributions to the pension plan subsequent to the measurement date, differences between expected and actual experience in the total pension liability and net difference between projected and actual earnings on pension plan investments.

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

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

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



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***Unearned Premium Reserve*** - The insurance offered by the Administration has an annual premium, which is collected in advance, when the vehicle is purchased or when the vehicle's registration is renewed. The Administration records the premium as unearned revenue and amortizes it for the twelve month period of its duration.

***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. As a result of Act No. 66 of June 17, 2014, some of these excess accumulations are no longer payable to the employees.

***Pensions*** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Employee Retirement System ("ERS") of the Commonwealth and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at estimated fair value.

***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.

***Income Taxes*** - The Administration, as a component unit of the Commonwealth, is exempt from the payment of income taxes.

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**Statements of Cash Flows** - The accompanying statements of cash flows are presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

The provisions of governmental accounting standard 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.

**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.

**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.

**Use of Estimates** - The preparation of financial statements in conformity with GAAP 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, useful lives of property and equipment, pension and OPEB liabilities, and deferred outflows and inflows of resources. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

**New Accounting Standards Adopted** - During the fiscal year ended June 30, 2017, the Administration implemented the following GASB pronouncements:

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GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB Statement No. 68) - This statement was issued to improve accounting and financial reporting by state and local governments for pensions. This statement replaces requirements of statement No. 27, Accounting for Pensions by State and Local Governmental Employers as well as requirements of statement No. 50, Pension Disclosures. This statement and statement No. 67 (applicable to Pension Plans) establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions and paying benefits to plan members as they come due.

This statement was effective for the fiscal year ended June 30, 2015 and implemented by the Administration with unaudited figures in 2015, thus, restated in fiscal year 2017. Additional information about the implementation of this statement and statement No. 71, disclosed below, is addressed in the Notes 5 and 14.

**GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement 68)** - The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement was effective for the fiscal year ended June 30, 2015 and implemented by the Administration with unaudited figures in 2015, thus, restated in fiscal year 2017.

***Future Adoption of Accounting Pronouncements*** - The GASB has issued the following Statements that have effective dates after June 30, 2017:

- In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB Statement No. 75). GASB Statement No. 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employees. The requirements of GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017.
- In March 2016, the GASB issued Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73 (GASB Statement No. 82). The objective of GASB Statement No. 82 is to address certain issues that have been raised with respect to GASB Statement No. 67, GASB Statement No. 68, and GASB Statement No. 73. Specifically, GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment

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of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for reporting periods beginning after June 15, 2016, except for the requirements related to the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

**3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)**

**Overview of PROMESA**

On June 30, 2016, President Barack Obama signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.). Relevant elements of PROMESA are discussed below.

• **Title I – Establishment of Oversight Board and Administrative Matters**

Upon PROMESA's enactment, the Oversight Board was established for the Commonwealth. See PROMESA § 101(b). As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." PROMESA § 101(a). On August 31, 2016, President Obama announced the appointment the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." PROMESA § 101(f)(1). The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, see PROMESA § 101(c), but it was also established to act independently from the Commonwealth government, such that neither the Governor

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nor the Legislative Assembly of Puerto Rico (the Legislative Assembly) may “(i) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (ii) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board.” PROMESA § 108(a). Please refer to the language of PROMESA for a complete description of the Oversight Board and its powers.

- **Title II – Fiscal Plan and Budget Certification Process and Compliance**

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities.

“Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets.” H.R.Rep.114-602(I), 2016 WL 3124840, at \*45 (2016); PROMESA § 201(b)(1). According to the legislative history, a fiscal plan should “provide for a sustainable level of debt, improved governance, provide for capital expenditures that promise economic growth, and respect the relative priorities that different classes of bondholders have vis-à-vis one another under Puerto Rico law.” H.R. Rep. 114-602(I), 2016 WL 3124840, at \*112 (2016). PROMESA section 201 sets forth the specific requirements for a fiscal plan and the process for fiscal plan approval.

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as determined by the Oversight Board) to the Legislative Assembly. See PROMESA § 201(c)(1). PROMESA section 202 sets forth the specific procedures and requirements for approval of each fiscal year Commonwealth budget and Commonwealth instrumentality budgets.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board’s powers related to fiscal plan and budgetary compliance.

- **Title III – In-Court Restructuring Process**

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code. In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a “covered entity”; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) “desire to effect a plan to adjust its debt.” PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. See PROMESA § 304(a). As of the date

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hereof, the Oversight Board has commenced Title III cases for the Commonwealth, the Puerto Rico Sales Tax Financing Corporation (“COFINA”), the Employees Retirement System (“ERS”), the Puerto Rico Electric Power Authority (“PREPA”), and the Authority, as discussed below.

In a Title III case, the Oversight Board acts as the debtor’s representative and is authorized to take any actions necessary to prosecute the Title III case. See PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay).

After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III proceedings. PROMESA also provides that the commencement of a Title III case “does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality.” PROMESA § 303.

The core component of the Title III case is the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. See PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

- **Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions**

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to “Liability Claims,” relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government’s small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA’s enactment) through February 15, 2017 of all “Liability Claim” litigation commenced against the government of Puerto Rico and its instrumentalities after December 18, 2015. See PROMESA § 405(d)(1)(A). A “Liability Claim” is defined as any right to payment or equitable remedy for breach of performance related to “a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related thereto” for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016.

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PROMESA § 405(a)-(b). The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking a relief from the Title IV Stay upon “cause shown”. PROMESA § 405(e).

**Commencement of Title III Cases**

On May 1, 2017, the Title IV Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities (including the Authority) to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA. On May 11, 2017, the Chief Justice of the United States designated United States District Court Judge Laura Taylor Swain as the presiding judge in the Title III cases.

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced Title III cases for the Authority and ERS by filing similar petitions for relief under Title III of PROMESA. On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a similar petition for relief under Title III of PROMESA. All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the United States District Court for the District of Puerto Rico. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees and an Official Committee of Unsecured Creditors in the Commonwealth’s Title III case.

The Title III cases were commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Title III cases, the Title III Stay immediately went into effect to stay creditor litigation.

Although, The Administration has not filed direct petition under Title III, its position as a component unit of the Commonwealth may expose the Administration to operational and financial effects derived from the outcome of the Commonwealth proceedings.

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**4. GOING CONCERN CONSIDERATION**

As part of its normal operating activities, the Administration is dependent on disbursements from the Commonwealth of Puerto Rico. As of June 30, 2017, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they become due. The Administration has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations and has concluded that, as of June 30, 2017, the Administration will continue to operate as a going concern for a period not less than twelve months after such date, and through the date of issuing these financial statements.

**5. CHANGE IN ACCOUNTING PRINCIPLE**

The Administration has determined that a restatement to the July 1, 2016 beginning net position was required to correct the former implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68 through which accounting for pension plans and the related disclosure requirements were modified.

GASB 68 was implemented in fiscal year 2015, however, the amounts reported by ERS and the Commonwealth were not audited until a subsequent date. Certain adjustments resulted upon release of the corresponding audited reports.

The adjustments resulted in a change to the beginning net position of the Administration as follows:

	<u>2016</u> <u>As reported</u>	<u>2016</u> <u>As restated</u>	<u>Net</u> <u>Change</u>
Prior period adjustment:			
Correction of GASB 68 and 71:			
Increase in net pension liability (measurement date June 30, 2015)	\$ (133,003,155)	\$ (158,966,133)	\$ (25,962,978)
Deferred outflows (contributions made during fiscal year June 30, 2016)	7,938,091	38,990,788	31,052,697
Deferred inflows	(840,352)	(2,757,470)	<u>(1,917,118)</u>
Total prior period adjustment			3,172,601
Net position, at beginning of year as previously reported			<u>(82,606,106)</u>
Net position, at beginning of year as restated			<u>\$ (79,433,505)</u>



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**6. CASH AND CASH EQUIVALENTS**

As of June 30, 2017, 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

A summary of the Administration's cash and cash equivalents by category of risk as of June 30, 2017, is shown below:

	<u>Credit Risk Category</u>		<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>		
Unrestricted cash	\$ 11,453,460	\$ -	\$ 11,453,460	\$ 9,092,065
Restricted cash	597,607	-	597,607	8,165
Short term investments	-	3,550,975	3,550,975	3,550,975
	<u>\$ 12,051,067</u>	<u>\$ 3,550,975</u>	<u>\$ 15,602,042</u>	<u>\$ 12,651,205</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 recovered.

The restricted cash represents funds of the Puerto Rico Traffic Safety Commission held in custody by the Administration (refer to Note 17).

**7. INVESTMENTS**

The Administration invests in stocks, bonds, real estate, United States obligations, and cash equivalents as described more fully in its investment policy. Also, it can invest in international securities.

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 75% and not less than 55% in fixed income securities; not more than 30%, and not less than 10% in equity securities. Also, within the equity securities position in the portfolio, not more than 10% may be invested in international markets. In addition, not more than 20%, and not less than 10% in Alternative Investment. Alternative investment includes real estate, private equity and venture capital funds, as well as hedging and tactical allocation strategies.

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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.

According to the Statement of Investment Policy, the Administration's cash reserve should be invested in high quality, short-term investments, including commercial paper, US Treasury obligations, certificates of deposits, bankers' acceptances, and repurchase agreements collateralized by US Government securities. The Administration's Statement of Investment Policy, Objectives and Guidelines provide specific information regarding investment requirements.

As of June 30, 2017, investments were classified as current and non-current in the accompanying statements of net position as follow:

Current assets:	<u>2017</u>
Cash equivalents	\$ 3,550,975
Investments in debt securities	40,101,204
Total current investments	43,652,179
Non-current investments	<u>61,412,002</u>
Total	<u>\$ 105,064,181</u>

The Administration's investments presented as cash equivalents as of June 30, 2017 are comprised of the following:

Investments in:	<u>2017</u>
Short term investments	\$ 1,424,075
Money market funds	2,126,900
Total	<u>\$ 3,550,975</u>

During the fiscal year ended June 30, 2017, the Administration purchased and sold a number of investments as part of its investment strategy. The results of transactions are as follow:

Proceeds from sale of investments	<u>2017</u>
	\$ 103,411,657
Amortized cost of investments	(101,282,196)
Realized gain on sales of investments	<u>\$ 2,129,461</u>

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Thus, the accompanying financial statements as of June 30, 2017 reflect changes in the market value as well as realized gains/(losses) in the Administration's investment portfolio as follows:

	<u>2017</u>
Realized gains on sales of investments	\$ 2,129,461
Change on fair value of investments securities	<u>3,456,468</u>
Net change on fair value of investments	<u>\$ 5,585,929</u>

*Fair Value of Investments*

The Administration measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

At June 30, 2017, the Administration had the following recurring fair value measurements:

Investment by fair value level	Fair Value Measurements Using			
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Bonds	\$ 25,367,607	\$ 17,641,750	\$ 7,725,857	\$ -
U.S. Sponsored Agencies Notes:				
Federal Home Mortgage Corporation (FHLMC)	14,961	14,961	-	-
Other	253,779	253,779	-	-
U.S. Government Bonds	9,288,340	9,288,340	-	-
Mortgage and Asset-Backed Securities:				
Government National Mortgage Association (GNMA)	529,874	529,874	-	-
FNMA	1,188,110	1,188,110	-	-
FHLMC	1,197,255	1,197,255	-	-
FHLB	456,085	456,085	-	-
Asset Backed Securities	1,257,083	1,257,083	-	-
Commercial Mortgage-Backed	1,375,474	1,375,474	-	-
U.S. Municipal/Provincial Bonds	967,427	967,427	-	-
Non-U.S. Fixed Income	4,989,110	4,989,110	-	-
U.S. Corporate Stocks	24,814,240	24,814,240	-	-
Non-U.S. Corporate Stocks	12,382,289	12,382,289	-	-
Total investments by fair value level	<u>\$ 84,081,634</u>	<u>\$ 76,355,777</u>	<u>\$ 7,725,857</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
Private equity funds	4,474,462			
Alternative investments	9,960,425			
External investment pools	2,996,685			
Total investments measured at NAV	<u>17,431,572</u>			
Total investments measured at fair value	<u>\$ 101,513,206</u>			

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The Administration's investment managers generally use the market approach to value its investment securities, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities. Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based the securities' relationship to benchmark quoted prices.

Equity securities, namely private equity funds, classified in Level 3 are valued using financial information provided by individual capital fund managers, adjusted if deemed appropriate. As of June 30, 2017, the Administration does not have any items classified as Level 3.

Investments valued using the net asset value ("NAV") per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships.

The Administration values these investments based on the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other dates different from June 30. If June 30 valuations are not available, the value is rolled-forward from the most recently available valuation taking into account subsequent calls and distributions.

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the Entity's alternative investments measured at NAV:

Investment measured at the net asset value (NAV)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Guayacan Fund of Funds IV, LP	\$ 604,945	\$ 2,112,500	N/A	N/A
Guayacan Private Equity Fund, LP III	10,847	1,000,000	N/A	N/A
Puerto Rico Fund for Growth, LP	3,858,670	10,000,000	N/A	N/A
Pluscios Fund, LLC	4,074,428	-	Quarterly	65 days
CF Kinetic Funds I, LLC	2,008,955	-	Quarterly	65 days
CF X2 Alternative Dividend Alpha Fund	3,821,209	-	Bi-monthly	10 days
CF Eaton Vance Instl Sr Loan Fund	2,996,685	-	Monthly	30 days
Invesco Real Estate Fund I	18,267	751,610	N/A	N/A
Invesco Real Estate Fund II	37,566	799,699	N/A	N/A
	<u>\$ 17,431,572</u>	<u>\$ 14,663,809</u>		

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 investment commitment to Fund I and II amount to \$10,000,000, but each fund is in phase-out period. For both Funds, during the fiscal year ended June 30, 2017, there was an aggregate unrealized loss of \$54,899. As of June 30, 2017, there were various capital distributions totaling to \$1,975,143. The fair value of these Funds at June 30, 2017, amounted to \$55,833.

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The fair value of investments in limited partnerships and alternative investments as of June 30, 2017 amounted to \$17,431,572. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The investments in limited partnerships were as follows:

- During the fiscal year 2016, the Administration made contributions of \$303,535 to Guayacán Fund of Funds IV, LP, a Delaware limited partnership organized on February 23, 2015 by Grupo Guayacán, Inc. as General Partner, bringing the amount invested at June 30, 2017 to \$637,165. The Administration has a total commitment of \$2.5 million. The Administration received cash distributions of \$62,500 during fiscal year June 30, 2017.

The Partnership's purpose is to achieve superior rates of return by investing in a diversified portfolio of the United States and International private equity investment partnerships and other limited liability vehicles that operate as pooled investment vehicles that, in turn, primarily make equity and equity-related investments in private businesses. The fair value of these Funds at June 30, 2017, amounted to \$604,945.

- During the fiscal year 2017, the Administration had committed \$25,000 as General Partner to Guayacán Private Equity Fund, LP III, a Delaware limited partnership by Advent-Morro Equity Partners GP III. The Administration has an additional commitment of \$1 million. The Administration did not received cash distributions during fiscal year June 30, 2017. The fair value of these Funds at June 30, 2017, amounted to \$10,847.
- At June 30, 2017, the Administration holds 331,491.71 shares in the Eaton Vance Fund at a price of \$9.04 per share, and received dividends and redemptions of approximately \$120,000. At June 30, 2017 this fund had accrued interest income of \$9,480. The Eaton Vance Fund is an alternative investment in senior secured loans managed by Eaton Vance Management and is a separate investment fund of Eaton Vance Institutional Funds, an exempted company incorporated with limited liability in the Cayman Islands. The Fund's investment objective is to provide a high level of current income as is consistent with the preservation of capital, by investing in a portfolio primarily of senior floating rate loans. The commitment to the Eaton Vance Fund is up to \$3.0 million.
- During the fiscal year June 30, 2017, no additional contributions was made to the X2 Alternative Dividend Alpha Fund. As part of a rebalancing of the portfolio, due to the addition of a new investment opportunity a withdrawal of funds for \$500,000 was made. X2 Alternative Dividend Alpha Fund experienced a realized gain of \$701,723, thus resulting in an ending balance amount invested at June 30, 2017 of \$3,821,209.

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At June 30, 2017, the Administration holds 415,348.773 shares in the X2 Alternative Dividend Alpha Fund at an average price of \$9.20 per share, and received dividends and redemptions of approximately \$203,153. The X2 Alternative Dividend Alpha Fund invests in Class A Open and Mutual Funds with a reinvest capital gains reinvestment instruction.

- During June 30, 2017, the Administration entered into a Limited Partnership agreement for the investment in the Puerto Rico Fund for Growth (“PRFG”). The General Partner of PRFG is Community Development Venture Capital Alliance (“CDVCA”). The Capital Commitment is for \$10 million and during twelve (12) years.
- Additional Capital Commitment and investment call period could be extended in accordance with the Limited Partnership Agreement. The Investment in this fund is expected to be primarily en Economically Targeted Investment (“ETI”). Investment may include housing, community economic development, business development, and collective transport investment, and may also include in securities from Private Equity by local investment manages or USA committed to investing, in part, within Puerto Rico. The June 30, 2017 ending balance of \$3,858,670 was mainly affected by the initial share of Management and Organizational fees. The initial Contribution was close to \$4.0 million.
- During June 30, 2017, the Administration made an initial contribution to the Kinetic Funds I, LLC a Delaware limited liability company which is part of the Kinetic Investment Group. The total initial investment was \$2.0 million. The investment fund focuses on income generation, investment in Government Bonds, Corporate Bonds Preferred Shares, Real Estate, among others.

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The estimated market value of debt securities at June 30, 2017, 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:	2017					Total
	Contracted Maturity					
	Within One Year	After one to Five Years	After Five to Ten Years	After Ten Years	Without Maturity	
Corporate Bonds	\$ 1,231,897	\$ 6,659,471	\$ 4,475,943	\$ 1,019,875	\$ 14,977,105	\$ 28,364,291
U.S. Sponsored Agencies Notes:						
Federal Home Mortgage Corporation (FHLMC)	-	14,961	-	-	-	14,961
Other	-	-	253,779	-	-	253,779
U.S. Government Bonds	-	4,791,337	3,884,185	612,818	-	9,288,340
Mortgage and Asset-Backed Securities:						
Government National Mortgage Association (GNMA)	-	-	-	529,874	-	529,874
FNMA	-	11,830	44,216	1,132,064	-	1,188,110
FHLMC	-	-	-	1,197,255	-	1,197,255
FHLB	-	-	456,085	-	-	456,085
Asset Backed Securities	-	1,137,663	70,253	49,168	-	1,257,084
Commercial Mortgage-Backed	-	-	-	1,375,474	-	1,375,474
Municipal/Provincial Bonds	55,597	617,436	294,394	-	-	967,427
Hedge Fund	-	-	-	-	9,904,592	9,904,592
Venture Capital and Partnerships	-	-	-	-	4,474,462	4,474,462
Non-U.S. Fixed Income	542,190	1,714,655	1,556,245	101,030	1,074,990	4,989,110
U.S. Corporate Stocks	-	-	-	-	24,814,240	24,814,240
Non-U.S. Corporate Stocks	-	-	-	-	12,382,289	12,382,289
Real Estate	-	-	-	-	55,833	55,833
Total investments	\$ 1,829,684	\$ 14,947,353	\$ 11,035,100	\$ 6,017,558	\$ 67,683,511	\$ 101,513,206

As of June 30, 2017, investment maturities as a percentage of total investments are as follows.

<u>MATURITY</u>	<u>MATURITY %</u>
Within one year	2%
After one to five years	15%
After five to ten years	11%
After ten years	6%
Without maturity	66%

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As of June 30, 2017, the credit quality rating for the investment securities portfolio was comprised of the following:

Investment Type:	Credit Risk Rating				
	AAA to A	BBB+ to B	CCC to CC	Not Rated	Total
Corporate Bonds	\$ 6,897,514	\$ 5,683,759	\$ -	\$ 15,783,018	\$ 28,364,291
U.S. Sponsored Agencies Notes:					
Federal Home Mortgage Corporation (FHLMC)	14,961	-	-	-	14,961
Other	-	-	-	253,779	253,779
U.S. Government Bonds	8,159,620	-	-	1,128,720	9,288,340
Mortgage and Asset-Backed Securities:					
Government National Mortgage Association (GNMA)	-	-	-	529,874	529,874
FNMA	-	-	-	1,188,110	1,188,110
FHLMC	-	-	-	1,197,255	1,197,255
FHLB	456,085	-	-	-	456,085
Asset Backed Securities	1,207,916	49,168	-	-	1,257,084
Commercial Mortgage-Backed	1,375,474	-	-	-	1,375,474
Municipal/Provincial Bonds	967,427	-	-	-	967,427
Hedge Fund	-	-	-	9,904,592	9,904,592
Venture Capital and Partnerships	-	-	-	4,474,462	4,474,462
Non-U.S. Fixed Income	1,093,169	2,134,539	-	1,761,402	4,989,110
U.S. Corporate Stocks	-	-	-	24,814,240	24,814,240
Non-U.S. Corporate Stocks	-	-	-	12,382,289	12,382,289
Real Estate	-	-	-	55,833	55,833
<b>Total investments</b>	<b>\$ 20,172,166</b>	<b>\$ 7,867,466</b>	<b>\$ -</b>	<b>\$ 73,473,574</b>	<b>\$ 101,513,206</b>

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 increased duration. Also, mitigates this risk by maintaining a diversified investment portfolio.

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 Director of Finance, Planning and Budgeting.

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 investment 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.



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Accordingly, management has concluded that the foreign exchange risk related to the Administration's investments is considered low at June 30, 2017.

**8. NOTE RECEIVABLE FROM COMMONWEALTH**

On June 4, 2015 Act No. 80-2015 was enacted to authorize the Administration, among other governmental agencies, to issue a loan and/or a contribution to the General Fund of the Commonwealth of Puerto Rico in the aggregate amount of \$125 million, ensuring that the necessary amounts to amortize the related debt, be assigned in the subsequent operational budgets of the Commonwealth. Pursuant to the Act, on June 5, 2015, the Administration granted a loan in the amount of \$2 million to the Department of Treasury of the Commonwealth of Puerto Rico, at a 1 % annual interest rate, to be payable along with the principal amount on an annual basis from July 31, 2017 through July 31, 2022. The payments for this loan were supposed to be consigned annually in the General Budgets of the Commonwealth until July 31, 2022.

On June 30, 2017, the Administration decided to record an impairment on the note receivable from the PRTD due to the economic condition of the Commonwealth of Puerto Rico which faces significant risks and uncertainties to have sufficient liquid financial resources to meet obligations when they come due.

**9. OTHER ACCOUNTS RECEIVABLE NET**

Other accounts receivable as of June 30, 2017, consist of:

Commonwealth of Puerto Rico:	<u>2017</u>
State Insurance Fund Corporation (related party)	\$ 1,070,045
Government agencies and Puerto Rico Safety	
Traffic Commission (related party)	<u>1,252,190</u>
	2,322,235
Recovery form beneficiaries	18,544,687
Insurance companies	1,411,699
All others	<u>418,317</u>
	22,696,938
Less: Allowance for doubtful accounts	<u>(21,786,014)</u>
Total	<u>\$ 910,924</u>

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**10. CAPITAL ASSETS, NET**

The activity of capital assets for the year ended June 30, 2017 is as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
<b>Capital assets being depreciated:</b>				
Building	\$ 6,975,930	\$ -	\$ -	\$ 6,975,930
Equipment	938,251	-	(375)	937,876
Computer and software	6,297,578	351,346	(614,845)	6,034,079
Motor vehicles	156,325	25,911	-	182,236
Furniture and fixtures	2,153,216	6,733	(435,757)	1,724,192
Leasehold improvements	4,243,737	129,520	-	4,373,257
	<u>20,765,037</u>	<u>513,510</u>	<u>(1,050,977)</u>	<u>20,227,570</u>
Less - Accumulated depreciation and amortization:				
Building and leasehold improvements	(7,898,838)	(187,839)	-	(8,086,677)
Other	(7,876,158)	(690,868)	1,050,348	(7,516,678)
	<u>(15,774,996)</u>	<u>(878,707)</u>	<u>1,050,348</u>	<u>(15,603,355)</u>
<b>Capital assets not being depreciated-</b>				
Land	900,882	-	-	900,882
<b>Total capital assets, net</b>	<u>\$ 5,890,923</u>	<u>\$ (365,197)</u>	<u>\$ (629)</u>	<u>\$ 5,525,097</u>

**11. UNPAID CLAIM LIABILITY AND RESERVE FOR FUTURE BENEFITS**

The balance of the estimated liabilities for the payment of unpaid claims and future benefits as of June 30, 2017, consists of:

	<u>2017</u>
Current	\$ 10,302,298
Non-current	55,986,799
<b>Total</b>	<u>\$ 66,289,097</u>

The activity in the liability for unpaid, losses and loss adjustment expenses for the year ended 2017 is summarized as follows:

	<u>2017</u>
<b>Death and funeral:</b>	
Death	\$ 7,482,140
Funeral	144,259
Disability	960,305
<b>Accident and health:</b>	
Medical hospitalization - basic:	
Unpaid claim liabilities	15,884,162
Medical hospitalization - extended:	
Unpaid claim liabilities	30,538,120
Dismemberment	231,928
Loss adjustment expenses	11,048,183
	<u>\$ 66,289,097</u>

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The activity in the unpaid claims liability and reserve for future benefits for the year ended June 30, 2017, is as follows:

	<u>2017</u>
Unpaid claims liability and reserve for future benefits at beginning of year, presented based on undiscounted method	\$ 67,362,357
Less - Loss adjustment expenses	<u>(8,530,604)</u>
Net claims at beginning of year	<u>58,831,753</u>
Incurred claims -	
Provision for insured events of current year	<u>27,923,637</u>
Payment of claims:	
Current year insured events	(20,444,851)
Prior years insured events	<u>(11,069,625)</u>
Total payment of claims	<u>(31,514,476)</u>
Net claims at end of year	<u>55,240,914</u>
Plus - Loss adjustment expenses	<u>11,048,183</u>
Unpaid claims liability and reserve for future benefits at end of year, presented based on undiscounted method	<u>\$ 66,289,097</u>

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as of June 30, 2017, consist of:

	<u>2017</u>
Accounts payable:	
Due to other governmental agencies	\$ 5,688,766
Suppliers, professional services and others	<u>1,287,675</u>
Total accounts payable	<u>6,976,441</u>
Accrued liabilities:	
Early terminations - Act.211 (See Note 16)	10,520,199
Compensated absences-vacations and sick leave	960,275
Accrual for Christmas bonus and other fringe benefits	<u>1,363,555</u>
Total accrued liabilities	<u>12,844,029</u>
Total	<u>\$ 19,820,470</u>

**13. 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.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 639,206
2019	447,484
2020	52,725
2021	<u>52,725</u>
	<u>\$ 1,192,140</u>

Rent expense for the year ended June 30, 2017, was approximately \$945,600.

**14. RETIREMENT PLAN**

The following description refers to the Retirement System’s benefits and operations before the approval of Act No. 106-2017, on August 23, 2017. See Note 20.

The Employees’ Retirement System of the Commonwealth of Puerto Rico (the “Retirement System”), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth.

The Retirement System consists of different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (“System 2000 program”) and a contributory hybrid program.

The pension plan is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Benefit provisions vary depending on member’s date of hire.

Certain provisions are different for the three groups of members who entered the Retirement System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

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**Defined Benefit Program**

Pursuant to Act No. 447, 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, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

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

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of \$500 per month and a maximum of 75% of the average compensation, as defined.

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.

The contribution requirement to the Retirement System is determined by law and not actuarially determined. Commonwealth Legislation required employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Administration was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Administration's contribution was increased to 10.275% for 2012, an additional 1 % annually (13.275% for 2015) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Act No. 1 of February 16, 1990 made certain amendments as applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consisted principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentages of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40% and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

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On April 4, 2013, the Legislature enacted Act No. 3, which will be described further below, amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

**Defined Contribution Program - System 2000 Program**

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

Act No. 305 required employees to contribute 8.275% of their monthly gross salary to the System 2000 Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the System 2000 Program. Investment income is credited to the participant's account semiannually.

The Administration was required by Act No. 305 to contribute 9.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. Pursuant to Act No. 116 of July 16, 2011, the Administration's contribution was increased to 10.275% for 2012, an additional 1 % annually (13.275% for 2015) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age. Corresponding employer's contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

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

As discussed further below, Act No. 3 of April 4, 2013 substantially amended the provisions of the previous Acts governing the Retirement System benefit structures and programs, including the System 2000 Program.

**Defined Contribution Hybrid Program**

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Retirement System and amended Act No. 447, Act No. 1 and Act No. 305, to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

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Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the Retirement System, including, but not limited to, the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the “merit annuity” available to participants who joined the Retirement System prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate was increased from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.



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Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than \$10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

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

For the year ended June 30, 2017, the Administration was required to contribute 14.275% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit.

Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%). See Note 20 for changes effective July 1, 2017.

Total employee contributions for the Defined Benefit Program amounted to approximately \$1.6 million during the year ended June 30, 2017. There were no employee contributions for the Defined Contribution Program during 2017. The Administration's contributions (either paid or accrued) during the year ended June 30, 2017, amounted to approximately \$2.5 million. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately \$16.2 million for the year ended June 30, 2017. Individual information for each option is not available since the allocation is performed by ERS itself.

The Administration's contributions (either paid or accrued) to the Retirement System pursuant to Act No. 32 of 2013 (Additional Uniform Contribution) for 2017 amounted to approximately \$647 thousand.

**Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the Administration reported a liability of \$176.5 million for its proportionate share of the Commonwealth's net pension liability.

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The June 30, 2017 net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. The Administration's proportion of the net pension liability was based on a projection of the Administration's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Administration's proportionate share was 0.46824% which was a decrease of 0.01% from its proportionate share measured at June 30, 2016.

For the year ended June 30, 2017, the Authority recognized a pension expense of \$10.2 million. At June 30, 2017, the reported deferred outflows of resources and deferred inflows of resources related to pensions were as follows:

	<u>June 30, 2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 955,120
Differences between expected and actual experience with regard to economic or demographic assumptions	144,319	2,423,338
Changes of assumptions of inputs	26,924,711	-
Change in proportion and difference between the employer's contributions and proportionate share of contributions	13,965,138	-
Contributions subsequent to measurement date	<u>6,082,178</u>	<u>-</u>
	<u>\$ 47,116,346</u>	<u>\$ 3,378,458</u>

The total aggregate amount of deferred outflows of resources related to pensions resulting from the Administration's contributions subsequent to measurement date of approximately \$1.1 million at June 30, 2017 will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as adjustment to pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 3,588,275
2019	3,588,275
2020	3,588,275
2021	3,588,275
2022	<u>(387,962)</u>
Total	<u>\$ 13,965,138</u>

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**Actuarial Methods and Assumptions**

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.50%
Municipal bond index	2.85% as per bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	<p>Pre-retirement Mortality: or general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.</p> <p>100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.</p> <p>Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p> <p>Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p>

Most other demographic assumptions used in the July 30, 2016 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

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**Long-Term Expected Rate of Return**

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by ERSs Board of Trustees during December 2013 and the actuary's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and, have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.55% at June 30, 2016 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% to 6.55% per annum.

ERS's policy in regards to allocation of invested assets is established and may be amended by ERSs Board of Trustees. Plan assets are managed on a total return basis with a longterm objective of achieving and maintaining a positive impact on ERSs financial condition for the benefits provided through the pension programs.

The following was the ERS's Board asset allocation policy adopted by ERS's Board of Trustees as of June 30, 2016:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Domestic equity	25 %	6.4 %
International equity	10 %	6.7 %
Fixed income	64 %	6.3 %
Cash	1 %	3.0 %
Total	<u>100 %</u>	

The long-term rates of return on pension plan investments were determined using a building block method in which best-estimates ranges of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation.

The asset basis for the date of depletion is the ERS's fiduciary net position (gross assets plus deferred outflows of resources less gross liabilities, including senior pension funding bonds payable, less deferred outflows of resources). On this basis, ERS's net position became negative in fiscal year 2015 and accordingly no projection of date of depletion is needed.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and the projection that their financial condition does not improve in the near term.

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Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Therefore, actuarial determined amounts are subject to change in the near term.

**Discount Rate**

ERS's net position was not projected to be available to make all projected future benefit payments on current and active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine total pension liability. The discount rate was 2.85% at June 30, 2016.

**Sensitivity of the Administration's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the Authority's proportionate share of the net pension liability calculated using the using the current discount rate of 3% as well what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease %</u>	<u>At Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	1.85%	2.85%	3.85%
	<u>\$ 202,461,204</u>	<u>\$ 176,519,772</u>	<u>\$ 155,398,190</u>

**Pension Plan Fiduciary Net Position**

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2016, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

**15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Program Description and Membership**

The Administration agreed to provide medical, pharmacy, dental, cancer and death insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit as Other Post-Employment Benefits Plan (the "Plan").

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At July 1, 2017, membership in the Administration's OPEB Program consisted of the following:

	<u>Amount</u>
Retirees and beneficiaries currently receiving benefits	62
Current participating employees	<u>407</u>
Total	<u>469</u>

**Funding Policy**

The obligations of the Plan members' employer are established by action of the Administration pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Administration currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Administration.

**Annual OPEB Cost and Net OPEB Obligation**

The Authority's annual OPEB cost/(expense) is calculated based on the annual required contributions of the employer ("ARC"). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB No. 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
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The following tables show the components of the Administration's annual OPEB cost for the fiscal year ended June 30, 2017 (measured as of the beginning of the fiscal year), the amount actually contributed to the OPEB Program, the change in the Administration's net obligation and the funded status of the OPEB Program.

<b>Net OPEB Obligation Movement:</b>	<u><b>2017</b></u>
Annual required contribution ("ARC")	\$ 353,316
Interest on the net OPEB obligation	72,120
Adjustments to the ARC	<u>(20,872)</u>
Annual OPEB cost	404,564
Employer contribution	<u>(420,651)</u>
Decrease in the net OPEB obligation	(16,087)
Net OPEB obligation - beginning of year	<u>4,617,291</u>
Net OPEB obligation - end of year	<u>\$ 4,601,204</u>
Percentage of annual OPEB cost contributed	<u>103.98 %</u>
<b>Funded Status:</b>	
Actuarial valuation date	<u><b>July 1, 2016</b></u>
Actuarial accrued liability (AAL)	<u>\$ 3,421,638</u>
Unfunded AAL	<u>\$ 3,421,638</u>
Funded ratio	<u>0 %</u>
Annual covered payroll	<u>\$ 16,909,438</u>

**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 by the Administration on June 30, 2017 (valuation date July 1, 2016). At June 30, 2017 a rollforward analysis of the actuarial liability was performed.

**Actuarial Methods and Assumptions:**

Valuation year	July 1, 2016
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of projected payroll on an open basis over 30 years
Asset valuation method	N/A
Discount rate	2.00%
Projected salary increase	N/A
Health care cost trend rate for medical and prescription drugs	0.0%
Mortality	SSA 2009 Period Life Table

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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.

**16. VOLUNTARY TERMINATION BENEFITS**

On December 28, 2015, the Commonwealth enacted Act. No. 211, known as the Pre-retirement Voluntary Program Act (the "Act"). The Act allows eligible active employees under the Government of Puerto Rico Employee Retirements System (the "Retirement System") under Act No. 447, hired before April 1990, with a minimum of twenty years (20) of service, to participate in a voluntarily retirement program. The voluntary program, which was adopted during the fiscal year ended June 30, 2017, provides eligible participants with 60% of their average compensation determined as of December 31, 2015 plus the payment by the Authority of the employee and the employer contributions to the Retirement System until the employee attain age sixty-one (61).

The financial impact resulting for the benefits granted to participants on this new program was the recognition within the Administration's financial statements of an expense and liability of \$10.2 million. The liability under this program was discounted at 2.25%. Refer also to Note 12 to the financial statements.

**17. TRANSFERS TO OTHER GOVERNMENTAL AGENCIES**

Transfers to other governmental agencies during the year ended June 30, 2017, are as follows:

<u>Description</u>	<u>Amount</u>
Puerto Rico Traffic Safety Commission (Act 33-1972)	\$ 1,764,734
Fund for Services and Therapies for Special Education Students (Act 3-2017)	<u>5,364,980</u>
Total transfers to other governmental agencies	<u>\$ 7,129,714</u>



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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, 2017, the Administration held in custody cash of the Commission amounting to \$8,165. For the year ended June 30, 2017, the Administration contributed to the Commission the amount of \$1,764,734.

On January 23, 2017, the Legislature of the Commonwealth enacted Act No. 3-2017, the "Act to Address the Economic, Fiscal, and Budgetary Crisis in order to Guarantee the Operations of the Government of Puerto Rico". 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 measures that will be in effect until July 1, 2021. Among the measures, Act 3-2017 imposes a hiring freeze for new employees, freezes vacant positions, and orders a 20% reduction in positions of trust (political appointees). Act 3-2017 also orders a 10% reduction of operational expenses; limits and/or prohibits the use of government vehicles, credit cards, trips outside of Puerto Rico, cellphones and other technological services; limits vacation and sick leave; and requires a review of all lease agreements with a view towards terminating or renegotiating them. The Administration is required to transfer the savings resulting from the enactment of this Act to the "Fund for Services and Therapies for Special Education Students". At June 30, 2017 the Administration accrued approximately \$5.4 million related to this matter. The amount was recorded within accounts payable in the accompanying financial statements of net position.

**18. RELATED PARTY TRANSACTIONS WITH GOVERNMENTAL AGENCIES**

On July 14, 2016 Act No. 69-2016 was enacted by the Commonwealth of Puerto Rico. Act No. 102-2015 amended certain existing laws such that certain governmental entities, such as the Administration, can acquire notes in anticipation of taxes and revenues (Tax Revenue Anticipation Notes or "TRANS") so that the Commonwealth, in its cash flow management program designed to maximize the use of moneys in the General Fund, will have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. Act No. 69-2016 was enacted to authorize the Administration, together with other governmental entities, to acquire TRANS in the aggregate amount of \$400 million during fiscal year 2016-2017. Pursuant to the Act, the Administration was authorized on August 31, 2016 to invest \$50 million in TRANS from the Commonwealth during fiscal year 2016-2017. The TRANS should generate a return (6% interest per annum) equal or greater than the average investment return of the Administration's fixed income portfolio.

At June 30, 2017, this \$50 million investment was considered impaired and interest income of approximately \$2.5 million was recorded due to the economic condition of the Commonwealth of Puerto Rico as explained in Note 4.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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As a result of the enactment of Act No. 66-2014, the Administration recorded an intergovernmental transfer of \$1,997,256 million representing the certified savings from the enactment of the Act. The Administration was required to transfer the aforementioned savings of \$1,997,256 million to the “Fund of Services and Therapies for Special Education Students”, in equal monthly installments until fiscal year 2017; amount was paid during the fiscal year.

For fiscal year June 30, 2017, the Administration is required to transfer to “Oficina de Capacitación y Asesoramiento en Asuntos Laborales y de Administración de Recursos Humanos” (“ACALARH”) the amount of \$35,000, as result of the Executive Order No. 3148 from January 15, 1976 and Order No. 2000-14 from March 13, 2000. The transfer is to cover the operational expenses of the above office; amount was paid during the fiscal year.

**19. 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. 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 in the Administration’s financial statements.

**20. SUBSEQUENT EVENTS**

The Administration has evaluated all subsequent events through May 29, 2019, 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.

**PayGO Pension Reform**

On July 19, 2017 the Treasury Department of the Commonwealth of Puerto Rico (“Treasury Department”) issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, the new pay-as-you-go (“PayGo”) mechanism for all the Commonwealth’s Retirement Systems. With the start of the fiscal year 2017, employers’ contributions, contributions ordered by special laws and the additional uniform contribution were all eliminated and replaced with a monthly PayGo charge that will be collected from the aforementioned entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporations and municipalities. The PayGo must be submitted to the Treasury Department before the 15th of each month along with the individual contributions withheld from active employees. As liquid retirements funds become depleted, the PayGo charge is expected to increase. In addition to the PayGo mechanism being established, the Commonwealth is also working on a reform of the of the Retirement Systems, in which active participants would deposits their individual contributions in a New Defined Contribution Plan that will be managed by a private entity.

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This reform became law on August 23, 2017 with the enactment of Act 106-2017, Act to Guarantee the Payment of Our Pensioners and to Establish a New Plan for Defined Contributions for Public Employees. The PayGo charge to the Administration is based on the amount of pensions the Commonwealth will pay to the Administration's retired employees. It is estimated that the Administration PayGo charge will be approximately \$11.6 million during the year ending June 30, 2018.

**Impact of Hurricane Irma and Maria**

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane Maria crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwestern region. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane Maria, Hurricane Irma—one of the strongest hurricanes ever recorded in the Atlantic—passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

The Administration's operations were impacted by the effects of Hurricane Maria and certain additional costs related with cleanup, replacement, repair, among others were incurred. The Administration had commercial insurance policies in effect at the time of the hurricane, covering related risks such as: property, casualty, among others. The policies are subject to various terms and conditions on insurance coverage. Pursuant to a settled insurance claim, the Administration was awarded approximately \$1.1 million in 2018.

**Voluntary Termination Program**

On November 7, 2017, the Governor of Puerto Rico signed Executive Order No. OE-2017-05 to create the "Programa de Transición Voluntaria" which allow all interested public employees with regular status occupying a career position in the Executive branch of the Government may apply to the program from November 15, 2017 until March 15, 2018. This includes employees who are currently under a leave without pay. The participant of the program can continue earning his salary until June 30, 2018, will receive a stipend of \$100 for use in the health plan of her/his choice until June 30, 2018.

The stipend of \$100 and the economic incentive payment will be free from the payment of income tax and the opportunity of entering in a talent bank for access to new job opportunities in the private sector or in non-profit entities. Non-eligible participants will be employees whose salaries are paid wholly or in part with federal funds, temporary employees, employees of trust, except those who are entitled to reinstatement to career positions. If so, the employee must be reinstated to his career position before applying for the program.

About 26 employees of the Administration accepted this retirement proposal. The impact was liquidation of benefits of approximately \$2.2 million including the recognition of a retirement expense in fiscal year 2018.

**REQUIRED SUPPLEMENTARY INFORMATION**

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
TEN - YEAR CLAIMS DEVELOPMENT INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017**

	ACAA 10 YEAR PAYMENT HISTORY AND NET PREMIUMS COLLECTED										
	Health Care Benefits					Financial Benefits					Net Premiums Collected
	Basic Benefits		Extended Benefits			Death	Disability	Funeral	Dismemberment	Total	
Hospital Medical	Rx	Hospital Medical	Rx	Total							
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	1,782,017	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	
2014-15	38,180,025	447,662	1,736,975	149,833	1,558,570	812,784	197,590	80,350	43,163,789	78,000,000	
2015-16	35,333,629	457,076	1,377,935	175,050	1,453,972	600,839	223,086	106,000	39,727,587	78,000,000	
2016-17	26,679,595	472,227	1,912,464	169,573	1,409,186	583,923	191,608	95,900	31,514,476	78,000,000	
Total	\$ 363,325,276	\$ 9,959,599	\$ 19,174,557	\$ 2,761,540	\$ 21,187,118	\$ 18,294,791	\$ 2,597,338	\$ 1,089,910	\$ 438,390,129	\$ 786,167,560	

See accompanying independent auditors' report.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF STATUTORILY REQUIRED EMPLOYER CONTRIBUTIONS PENSION PLAN**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Year Ended June 30,	(a) Statutorily Required Contribution	(b) Contributions in Relation to Statutorily Required Contributions	(a-b) Contribution Deficiency (Excess)	(c) Authority's Covered Payroll	(b/c) Contributions as a Percent of Covered Payroll
2015	\$ 3,170,233	\$ 3,170,233	\$ -	\$ 16,885,589	18.77 %
2016	\$ 3,556,536	\$ 3,556,536	\$ -	\$ 17,579,851	20.23 %
2017	\$ 3,793,316	\$ 3,793,316	\$ -	\$ 16,187,568	23.43 %

Fiscal year 2015 was the first year that the new requirements of GASB 68 were implemented at the Administration. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Year Ended June 30,	(a) Authority's Proportion of the Net Pension Liability	(b) Authority's Proportionate Share of the Net Pension Liability	(c) Authority's Covered Payroll	(b/c) Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position (Deficit) as a Percentage of Total Pension Liability
2015	<u>0.44130 %</u>	<u>\$ 133,003,155</u>	<u>\$ 16,885,589</u>	<u>7.877 %</u>	<u>0.27 %</u>
2016	<u>0.47684 %</u>	<u>\$ 158,966,133</u>	<u>\$ 17,579,851</u>	<u>9.043 %</u>	<u>(2.05)%</u>
2017	<u>0.46824 %</u>	<u>\$ 176,519,772</u>	<u>\$ 16,187,568</u>	<u>10.905 %</u>	<u>(3.47)%</u>

Fiscal year 2015 was the first year that the new requirements of GASB 68 were implemented at the Authority. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION  
(A Component Unit of the Commonwealth of Puerto Rico)  
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN  
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability- projected unit credit (b)	Unfunded actuarial liability (b)-(a)	Funded ratio (a)/(b)	Covered payroll (c)	Unfunded actuarial liability as a percented of covered payroll (b)-(a)/(c)
July 1, 2016	-	\$ 3,421,368	\$ 3,421,368	-	\$ 16,909,438	20%
July 1, 2015	-	3,821,451	3,821,451	-	17,579,851	22%
July 1, 2014	-	4,132,840	4,132,840	-	16,885,589	24%
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%

\*The most recent actuarial valuation was performed on July 1, 2016.

See accompanying independent auditors' report.





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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Automobile Accidents Compensation Administration Administration  
(a Component Unit of the Commonwealth of Puerto Rico):

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, 2017 and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements and have issued our report thereon dated May 29, 2019.

**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 first paragraph of this section 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 did identify certain deficiencies in internal control that we reported to the Administration's management in a separate letter dated May 29, 2019.



To the Board of Directors of  
Automobile Accidents Compensation Administration  
(a Component Unit of the Commonwealth of Puerto Rico)  
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### 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 May 29, 2019. 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

May 29, 2019

Certified Public Accountants  
(of Puerto Rico)

License No.53 Expires December 1, 2018  
Stamp E370888 of P.R. Society of  
Certified Public Accountants has been  
affixed to the file copy of this report