AUTOMOBILE ACCIDENTS

COMPENSATIONS ADMINISTRATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Automobile Accidents Compensations Administration
San Juan, Puerto Rico

We have audited the accompanying financial statements of Automobile Accidents Compensations Administration (the Administration), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Administration as of June 30, 2008, were audited by other auditors whose report dated December 12, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over the financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Automobile Accidents Compensations Administration as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standard*, we have also issued our report dated December 31, 2009, on our consideration of the Administration's internal control over financial reporting and 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of management inquiries regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Aquino, De Cordova, Alfaro & Co. LLP

December 31, 2009

Stamp number 2479694
has been affixed to the
original report

In accordance with *Government Auditing Standard*, we have also issued our report dated December 31, 2009, on our consideration of the Administration's internal control over financial reporting and 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of management inquiries regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Aquino, De Cordova, Alfaro Co. LLP

December 31, 2009

2479694

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial report of the Automobile Accidents Compensations Administration ("hereinafter referred to as the Administration") represents a narrative overview and analysis of the financial performance and activities for the fiscal years ended June 30, 2009 and 2008. The information presented herein should be read in conjunction with the attached financial statements, including the notes thereto.

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

FINANCIAL HIGHLIGHTS

- The loss from insurance operations increased $51.6 million, 419.4% more than the previous year ($63.9 million in 2009 vs. $12.3 million in 2008). This is mainly due to an increase in the Reserve for Future Benefits in 2009 of $51.2 million, in addition to a prior period adjustment of $6.3 million to correct the 2008 gross insurance premiums earned.
- The total benefits and expenses increased by $50.4 million, 52.5% more when compared with prior year total expenses incurred ($146.6 million in 2009 vs. $96.2 million in 2008). This is mainly due to the increase in the Reserve for Future Benefits mentioned previously.
- General and administrative expenses are $1.5 million more than previous year ($19.1 million in 2009 vs. $17.6 million in 2008).
- Gross insurance premiums earned decreased by $1.6 million, 1.9%, when compared with prior fiscal year ($86.5 million in 2009 vs. $88.1 million in 2008).
- Total assets decreased by $52.1 million ($181.4 million in 2009 vs. $233.6 million in 2008).
- The Administration's liabilities exceeded assets by $67.9 million as of June 30, 2009. Total net assets decreased $83.1 million when compared with the end of prior fiscal year (-$67.9 million in 2009 vs. $15.2 million in 2008) mainly due to the increase in the Reserve for Future Benefits of $51.2 million.
- Total liabilities increased $30.9 million ($249.3 million in 2009 vs. $218.4 million in 2008).
- Investments and the collateral received under the securities lending program decreased $52.1 million (26%).
- The investments portfolio experienced a realized loss of $13 million and an unrealized loss of $12.6 million during the year ended June 30, 2009.

OVERVIEW OF THE FINANCIAL REPORT

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

The Administration's financial statements are presented attached to this document and report the financial position and results of operation of the Administration as of June 30, 2009 and 2008, and for the years ended.

OVERVIEW OF THE FINANCIAL REPORT - CONTINUED

The financial statements include a statement of net assets, statement of revenues, expenses and changes in net (deficit) assets, statement of cash flows, and the notes to financial statements.

STATEMENT OF NET ASSETS

The statement of net assets presents the Administration's statement of position as of June 30, 2009 and 2008, showing information that includes all of the Administration's assets and liabilities, as well as the net (deficit) assets. Evaluation of the overall financial health of the Administration would extend to other external factors, such as the quality of the portfolio of investments and their related market conditions, the experience of gains and losses that may be affected by demographic variables, and the inflationary increase of medical costs.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET (DEFICIT) ASSETS

The statement of revenues, expenses and changes in net (deficit) assets shows how the Administration's net assets changed during the fiscal year. All current fiscal year revenues and expenses are included regardless of when the cash is received or paid. An important purpose of the design of this statement is to show the financial reliance of the Administration's functions on premium revenues earned.

STATEMENT OF CASH FLOWS

The statement of cash flows presents the sources and uses of cash flows divided in categories: operating 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 loss with the cash used in operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, benefits and expenses, and net assets.

NOTES TO FINANCIAL STATEMENTS

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

DETAILED FINANCIAL ANALYSIS

The Administration was created in 1968 by virtue of Law 138 as a public corporation of the Commonwealth of Puerto Rico. It operates a system of compulsory insurance for vehicles licensed for the use of public highways in Puerto Rico. The insurance covers bodily injuries

DETAILED FINANCIAL ANALYSIS – CONTINUED

caused by automobile accidents and has an annual premium, which was established back in 1968, of $35 per motor vehicle. The Administration, therefore, is responsible for managing the risks of insurance established in the Law and provides adequate resources for insured beneficiaries by managing premiums, claims and expenses.

The financial position of the Administration as of June 30, 2009, changed with respect to that of the prior year as follows:

			Variance	
	2009	**2008**	**Dollars**	**Percent**
Cash and cash equivalents	$ 6,409,787	$ 2,730,876	$ 3,678,911	134.72%
Collateral received under securities lending program	28,723,099	47,043,819	(18,320,720)	-38.94%
Investments, at fair value	119,429,306	153,245,916	(33,816,610)	-22.07%
Accounts receivable	17,564,085	21,258,855	(3,694,770)	-17.38%
Capital assets	9,218,892	9,278,876	(59,984)	-0.65%
Other assets	26,064	10,363	15,701	151.51%
Total Assets	$ 181,371,233	$ 233,568,705	$ (52,197,472)	-22.35%
Reserves for future benefits	$ 166,351,764	$ 115,085,300	$ 51,266,464	44.55%
Deferred premiums revenue	39,106,307	41,312,318	(2,206,011)	-5.34%
Obligation to return collateral under securities lending program	28,723,099	47,043,819	(18,320,720)	-38.94%
Payable for acquisition of investments	4,699,213	5,340,717	(641,504)	-12.01%
Accounts payable	5,362,821	3,994,306	1,368,515	34.26%
Accrued liabilities	5,065,763	5,626,401	(560,638)	-9.96%
Total liabilities	249,308,967	218,402,861	30,906,106	14.15%
Net (deficit) assets	(67,937,734)	15,165,844	(83,103,578)	-547.97%
Total Liabilities and Net Assets	$ 181,371,233	$ 233,568,705	$ (52,197,472)	-22.35%

TOTAL ASSETS

Total assets decreased by $52.2 million or 22.35% due to the net effect of the following:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased $3.7 million for the year ended June 30, 2009. It should be noted that the net cash used in operating activities amounted to $3.8 million during the fiscal year 2009 vs. $13.2 million the year before. The decrease of $9.4 million in the net cash used for operating activities was due to a reduction of $12.6 million in payments for benefits and expenses ($92.6 million in 2009 vs. $105.2 million in 2008) which had a significant impact in the reduction of the cash used in operating activities. Management performed a strict strategic and financial planning of withdrawals needed for the operating activities.

Our investments provided $8.3 million this year, while last year provided $9 million to the cash position, which represents a decrease of $700 thousand or 7.4%. During fiscal year 2009, withdrawals from the investment portfolio were $15.8 million, $3.1 million less than 2008 and $10.7 million less than 2007. This practice did not affect operational activities.

INVESTMENTS

For the last twenty years, the premium income received during the year has been insufficient to cover the operating expenses. As a result, withdrawals from the investment portfolio were frequently made to cover operating funding needs. During this year, withdrawals totaled $15.8 million, $3.1 million less than previous year. It is worth mentioning that the Administration's investment strategies, as well as the investment market conditions, were taken into account during each withdrawal of funds.

The Administration experienced a decrease in the investments at fair value of $33.8 million. The decrease of $18.3 million in the collateral received under the securities lending program is offset by the corresponding obligation to return it (see liabilities), and both of them are dependent on the amount of instruments that are delivered to satisfy the needs of the program.

The following are the rationales for the decrease of $33.8 million in the fair market value of the investments portfolio:

- Realized losses in the sales of investments were $13 million vs. $4.3 million of realized gains last year, a decrease of $17.3 million or 399%.
- Unrealized loss on investments amounted to $12.6 million, while last year experienced an unrealized loss of $17 million. This represents a net change of $4.4 million.

INVESTMENT MARKET CONDITIONS

The market condition during this year was unfavorable, leading to a net decrease of $33.8 million in the investments portfolio at fair market value. Like every investor, the Administration is subject to the market risk, which consists of changes in market rates and prices that may adversely affect the financial condition or the results of operations. The financial situation of the Administration provokes a net loss for the fiscal year of $83.1 million.

The unfavorable market conditions for the second quarter of 2009 were experienced as a result of a recession. There were some indicators that confirm and give support to our argument:

- The financial sector confronted difficulties in their performance; they are mired in assets write-downs and liquidity constraints.
- The credit crisis affected the willingness of banks to lend money and consumers to spend it.
- The Federal Reserve made cuts to the Fed Funds rate to further bolster economic activity.
- Increases in oil, energy and food prices provoked a slowing economy and inflation problems.
- Inflationary pressures and declining consumer spending power reduced the economic growth and corporate profitability.

The Administration will evaluate very closely the performance of the investments' money managers in fiscal year 2009-2010.

ACCOUNTS RECEIVABLE

The decrease in accounts receivable of $3.7 million was mainly caused by fluctuations in the premiums due from the Treasury Department at year end. Premiums receivable are estimated based on information provided by the Treasury Department and are subject to change if new information is provided.

CAPITAL ASSETS

The decrease shown in the net capital assets was $60 thousand ($9.219 million in 2009 vs. $9.279 million in 2008), and was directly related to the net effect of acquisitions, retirements and depreciation charges during the fiscal year. The few property acquisitions made by the Administration during the year were made to maximize the services and enhance the efficiency of operations. During the year, the Administration has been working on new software and technology developments designed to help speed up the claim processing area, as well as control the disbursement procedures in the years to come.

LIABILITIES AND NET (DEFICIT) ASSETS

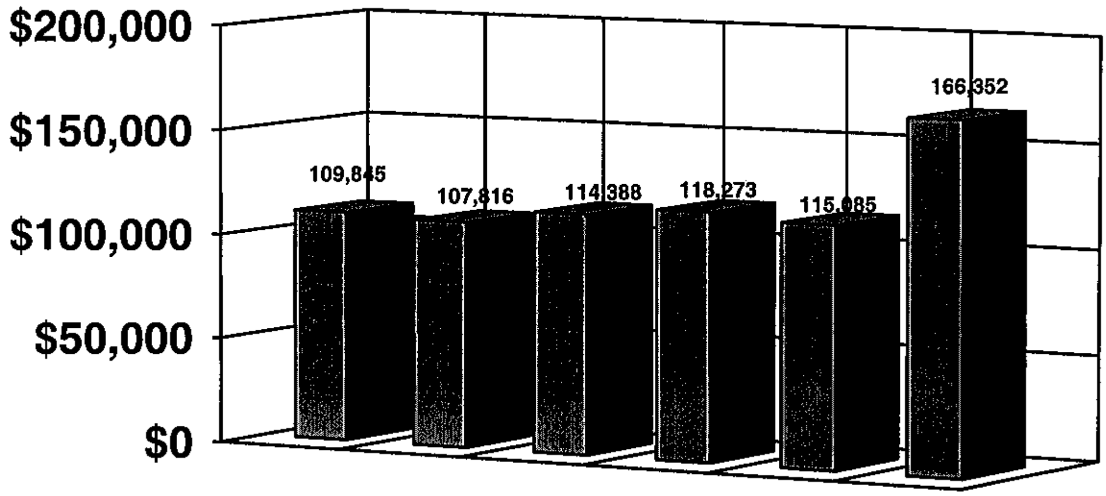
Below is a general discussion of the liabilities and net assets section of the Administration's financial position.

RESERVES FOR FUTURE BENEFITS

The composition of the reserves for future benefits as of the end of the last six fiscal years was as follows:

Description	2004	2005	2006	2007	2008	2009
Death	$ 11,132	$ 9,668	$ 13,171	$ 12,424	$ 13,249	$ 17,988
Funeral	279	651	816	409	362	360
Disability	4,003	5,342	5,942	5,310	6,337	5,548
Medical hospital:						
Basic	40,170	40,089	41,265	44,671	35,788	42,124
Extended Benefit	53,979	51,872	52,903	55,132	59,024	99,944
Dismemberment	282	194	291	327	325	388
Total	$109,845	$107,816	$114,388	$118,273	$115,085	$166,352

Total Reserve for Future Benefits (Thousand)



INCREASE IN RESERVES FOR FUTURE BENEFITS

A reserve for future benefits is an estimate of the liability for 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 figure for fiscal year ended June 30, 2009 shows an increase of $51.2 million or 44.55% ($166.3 million in 2009 vs. $115.1 million in 2008). According to the actuarial report, the Reserve for Future Benefits is segregated into six major areas: benefits for Death, Funeral, Disability, Dismemberment and Medical Hospital Benefits, basic and extended. Each major area is evaluated separately and a reserve is estimated for each of them.

The main reason for this increase was the recording of the 2009 reserve following the undiscounted basis. The effect from this election caused an increase related to the discount portion not recognized of $29.9 million. In 2008 the discount included in the reserve amounted to $33.9 million. In addition to that, the estimate of the reserve was prepared by a different actuarial consultant who applied other judgments in developing the estimate.

INCREASE IN RESERVES FOR FUTURE BENEFITS - CONTINUED

In addition, there was an increase in the figure of the Reserve for Future Benefits that is due to an increment in the ultimate cost estimates for all statutory benefits. As of fiscal year end, the Medical Hospital benefits (basic and extended) represent 85% of the total reserve (83% in 2008). It should be noted that most payments for Funeral and Dismemberment benefits are settled within two years, while the Disability benefits may perhaps run for two years. Other benefits settlements may depend on the composition and age distribution of the beneficiaries.

OBLIGATION TO RETURN COLLATERAL UNDER THE SECURITIES LENDING PROGRAM

The decrease of $18.3 million or 39% in the obligation of collateral to be returned under the securities lending program was due to the same reasons as explained above for the collateral received (contra-account).

PAYABLE FOR ACQUISITION OF INVESTMENT

Payable for the acquisition of investments decreased by $642 thousand when compared to prior year ($4.7 million on 2009 vs. $5.3 million on 2008). The reason for this variation depends on the pending transactions in the investment portfolio.

ACCOUNTS PAYABLE

Accounts payable increased by $1.4 million or 34.26% when compared to prior year ($5.4 million on 2009 vs. $4 million on 2008). The main reason for this increment is the accrual of pending transactions corresponding to vendors of the Puerto Rico Safety Traffic Commission and legal contingency accruals.

ACCRUED LIABILITIES

Accrued liabilities decreased by $561 thousand or 10% when compared to prior year ($5.1 million on 2009 vs. $5.6 million on 2008). The main reason for this reduction was the pressure placed by management on employees to use their excess accrued vacation time.

NET (DEFICIT) ASSETS AT END OF YEAR

The net assets figure for the fiscal year ended June 30, 2009 decreased by $83.1 million. This decrease in net assets was primarily related to a decrease in the investment portfolio and an increase of $51.2 million in the Reserve for Future Benefits as shown before.

NET (DEFICIT) ASSETS AT END OF YEAR - CONTINUED

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. Also, if in any year the receipts and the reserves accrued are not sufficient to cover the losses and the expenses incurred, the Secretary of the Treasury shall provide, as an advance to the Administration, the sums required to remediate the deficiency. Such advance would be obtained from any funds available in the general Government fund.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET (DEFICIT) ASSETS

The following statement presents a detail of the Administration's revenues, expenses and change in net (deficit) assets:

			Variance	
	2009	**2008**	**Dollars**	**Percent**
Net insurance premiums earned	$ 82,730	$ 83,867	$ (1,137)	-1.36%
Benefits incurred	102,928	54,500	48,428	88.86%
Beneficiaries' services	24,624	24,028	596	2.48%
General and administrative expenses	19,063	17,638	1,425	8.08%
Total benefits and expenses	146,615	96,166	50,449	52.46%
Loss from insurance operations	(63,885)	(12,299)	(51,586)	419.43%
Interests and dividends - net	4,504	5,329	(825)	-15.48%
Realized (loss) gain on sales of investments	(12,994)	4,345	(17,339)	-399.06%
Unrealized loss on investments	(12,584)	(17,049)	4,465	-26.19%
Other income - net	1,855	2,031	(176)	-8.67%
Net loss	$ (83,104)	$ (17,643)	$ (65,461)	371.03%

REVENUES FROM INSURANCE PREMIUMS

The premiums are earned ratably over the one-year term of coverage, and it is anticipated to remain in-line with the prior year if no significant change in premiums collected is established. The insurance premium rate per vehicle per year is $35 and has remained the same for over 40 years. Net revenues from insurance premiums experienced a decrease of $1.1 million or 1.4% over last year ($82.7 million in 2009 vs. $83.9 million in 2008). The decrease resulted from estimates based on information provided by the Treasury Department, which is subject to future changes based on new information that may be provided.

REVENUES FROM INSURANCE PREMIUMS - CONTINUED

It is important to mention that prior year gross insurance premiums earned were restated with an increase of $6.6 million.

SERVICE FEES

Law No. 233 was introduced during the fiscal year ended June 30, 2004. This Law allows the Puerto Rico Treasury Department to charge a fee of 5% over all revenues collected by the Treasury Department for collection expense purposes. On a full year basis, this charge reached an amount of $3.8 million for the fiscal year 2008-09, in comparison to $4.3 million charged on fiscal year 2007-08. This amount is also estimated from information provided by the Treasury Department, which is subject to future changes based on new information that may be provided.

BENEFITS EXPENSES INCURRED

During fiscal year ended June 30, 2009, the benefits incurred figure experienced a combined 88.9% increase or $48.4 million ($102.9 million in 2009 vs. $54.5 in 2008). This increase was mainly caused by the election to record the current year reserve for benefits on the undiscounted basis, as explained in the Reserve for Future Benefits section.

It is important to notice that the Administration continued an aggressive cost reduction plan through instructional letters and sound approval procedures. In addition, a change in the Prescription Benefit Manager and the implementation of new pharmacy policies contributed to a reduction of the actual benefits paid without considering the reserve adjustment.

BENEFICIARIES' SERVICES

The beneficiaries' services expense experienced an increase of $596 thousand or 2.5% ($24.6 million in 2009 vs. $24 million in 2008). The main cause of the increase is costs related to the invoice payment process. That includes a new Review and Utilization Program for hospital claims in addition to the overall increase of General and Administrative expenses related to the services provided to the beneficiaries.

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses line item experienced an increase of $1.4 million when compared with the previous year ($19.1 million in 2009 vs. $17.6 million in 2008). The main cause for this increase was an increment in the bad debt expense and legal contingency accrual.

GENERAL AND ADMINISTRATIVE EXPENSES - CONTINUED

The Administration will evaluate the possibility of implementing a Reduction in Force (RIF) in fiscal year 2009-2010. Also, by December 31, 2009, the Administration expects the voluntary retirement of approximately 25 employees which will not be replaced, generating savings of approximately $2 million.

DISTRIBUTION OF TOTAL BENEFITS AND EXPENSES

In summary, as previously explained, the total benefits and expenses incurred during the year ended June 30, 2009 increased $50.4 million when compared with the prior year ($146.6 million in 2009 vs. $96.2 million in 2008). The composition of the Administration's total benefits and expenses as compared with the previous five fiscal years is as follows:

	2004	2005	2006	2007	2008	2009
Death & funeral benefits	$ 2,247	$ 2,585	$ 7,335	$ 2,230	$ 4,087	$ 7,907
Disability benefits	4,222	5,802	5,491	4,150	5,061	2,778
Accident & health benefits	53,715	49,984	52,010	56,426	45,352	92,243
G & A	14,189	15,908	18,240	19,889	17,638	19,063
Beneficiaries' services	19,172	20,826	22,033	22,180	24,028	24,624
Total Expenses	$ 93,545	$ 95,105	$ 105,109	$ 104,875	$ 96,166	$ 146,615

In order to reduce benefits expenses, the Administration will evaluate entering into negotiations with private entities that in turn will rent space and establish a radiology center, orthopedist and physical therapy facilities at the Administration's main office premises. These private entities will provide various services such as X-ray, MRI, CT-Scan, orthopedist and physical therapy to beneficiaries, as well as to private patients. In return of the Administration providing the volume of patients, the private entities will reduce the actual pricing rates for those services by 30%. These initiatives will generate savings approximately between $2 and $2.5 million and generate an annual rental income of approximately $250 thousand.

Also, the Administration will evaluate entering in negotiation with a private entity that in turn will rent space and establish a medical equipment storage at the Administration's main office premises to serve all beneficiaries by establishing a per diem rate for the purchase and rental of medical equipment using US government Medicare guidelines. This initiative will save the Administration approximately $1 million and generate a rental income of approximately $100 thousand.

STATEMENT OF CASH FLOWS

The Administration's cash flow for the year resulted in a net increase in cash and cash equivalents of $3.7 million, as shown below (000's omitted):

			Variance	
	2009	**2008**	**Dollars**	**Percent**
Cash flows used in operating activities:				
Cash received from insured	$ 83,571	$ 83,267	$ 304	0.37%
Cash paid for benefits and expenses	(92,619)	(105,174)	12,555	-11.94%
Interest and dividends receipts, net	4,660	7,845	(3,185)	-40.60%
Other operating receipts	554	861	(307)	-35.66%
Net cash used by operating activities	(3,834)	(13,201)	9,367	-70.96%
Cash flows used in capital and related financing activities - capital expenditures	(784)	(620)	(164)	26.45%
Cash flows from investing activities:				
Proceeds from sale of investments	161,039	177,330	(16,291)	-9.19%
Purchase of investments	(152,742)	(168,374)	15,632	-9.28%
Net cash provided by investing activities	8,297	8,956	(659)	-7.36%
Net increase (decrease) in cash and cash equivalents	$ 3,679	$ (4,865)	$ 8,544	-175.62%

CASH FLOWS USED IN OPERATING ACTIVITIES

The cash received from insurance premiums during the fiscal year increased by $304 thousand or .37% over the same period last year ($83.6 million in 2009 vs. $83.3 million in 2008). This variance was considered immaterial. But we must remember that, on the other hand, in 2004 the collections were reduced by 5.0% due to the implementation of Law No. 233, which resulted in a service charge by the Puerto Rico Treasury Department for the collection of the premiums. The fees charged amounted to $3.8 million in 2009, $4.3 million in 2008, $4.2 million in 2007, $4.0 million in 2006, $3.9 million in 2005, and $965 thousand in 2004.

CASH FLOWS USED IN OPERATING ACTIVITIES - CONTINUED

Also, other areas affecting the cash from operating activities included payments for benefits and expenses. During the year, a decrease of $13 million or 12% was experienced in the payments for benefits and expenses ($92.6 million in 2009 vs. $105.2 million in 2008). On the other hand, the interest and dividend receipts and other operating activities experienced a considerable decrease of $3.2 million and $307 thousand, respectively, due to the deteriorated investment market conditions.

CASH FLOWS FROM INVESTING ACTIVITIES

Also as shown, the net cash provided by investing activities was $8.3 million, which partly provided the Administration with cash to pay for benefits and expenses. This line item provided the net cash position with $660 thousand less than last year. Purchases and sales of securities for the period ended June 30, 2009 aggregated $152,742 and $161,039, respectively. These amounts represent a 7.4% net decrease.

CONTACTING THE ADMINISTRATION'S FINANCIAL MANAGEMENT

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

AUDITED FINANCIAL STATEMENTS

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 6,409,787	$ 2,730,876
Collateral received under securities lending program	28,723,099	47,043,819
Investments, at fair value	119,429,306	153,245,916
Accounts receivable:		
Premiums	8,998,191	12,045,417
Accrued interest and dividends	781,848	937,638
Receivable from sale of investments	4,548,663	5,249,264
Other, net	3,235,383	3,026,536
	17,564,085	21,258,855
	172,126,277	224,279,466
CAPITAL ASSETS, net	9,218,892	9,278,876
OTHER ASSETS	26,064	10,363
	$ 181,371,233	$ 233,568,705

See accompanying notes to financial statements.

	2009	2008
LIABILITIES AND NET (DEFICIT) ASSETS		
LIABILITIES		
Reserves for future benefits:		
Accident and health	$ 142,456,207	$ 95,137,335
Death and funeral	18,347,683	13,610,628
Disability	5,547,874	6,337,337
	166,351,764	115,085,300
Deferred premiums reserve	39,106,307	41,312,318
Obligation to return collateral under securities lending program	28,723,099	47,043,819
Payable for acquisition of investments	4,699,213	5,340,717
Accounts payable	5,362,821	3,994,306
Accrued liabilities	5,065,763	5,626,401
TOTAL LIABILITIES	249,308,967	218,402,861
COMMITMENTS AND CONTIGENCIES		
NET (DEFICIT) ASSETS	(67,937,734)	15,165,844
	$ 181,371,233	$ 233,568,705

See accompanying notes to financial statements.

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET (DEFICIT) ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
PREMIUMS		
Gross insurance premiums earned	$ 86,494,398	$ 88,147,332
Less services fee	(3,764,246)	(4,280,134)
NET INSURANCE PREMIUMS EARNED	82,730,152	83,867,198
BENEFITS AND EXPENSES		
Death and funeral benefits	7,906,945	4,086,689
Disability benefits	2,778,132	5,061,366
Accident and health benefits	92,242,415	45,351,941
Beneficiaries services	24,624,022	24,028,431
General and administrative expenses	18,218,775	16,537,187
Depreciation and amortization expense	843,565	1,100,702
TOTAL BENEFITS AND EXPENSES	146,613,854	96,166,316
LOSS FROM INSURANCE OPERATIONS	(63,883,702)	(12,299,118)
OTHER INCOME (LOSS)		
Interest and dividends, net of administration costs	4,291,573	5,096,935
Interest - securities lending	672,982	2,532,437
Realized (losses) gains on sales of investments	(12,994,483)	4,344,655
Unrealized losses on investments	(12,584,379)	(17,048,475)
Other	1,854,948	2,030,578
TOTAL OTHER LOSS	(18,759,359)	(3,043,870)
INTEREST, FEES AND OTHER EXPENSES OF SECURITIES LENDING	460,517	2,299,677
NET LOSS	(83,103,578)	(17,642,665)
NET ASSETS AT BEGINNING OF YEAR	15,165,844	32,808,509
NET (DEFICIT) ASSETS AT END OF YEAR	$ (67,937,734)	$ 15,165,844

See accompanying notes to financial statements.

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS USED IN OPERATING ACTIVITIES		
Cash received from insured	$ 83,571,367	$ 83,267,159
Cash paid for benefits and expenses	(92,619,633)	(105,173,532)
Interest and dividends receipts, net of related costs	4,659,828	7,844,591
Other operating receipts	554,085	860,863
NET CASH USED BY OPERATING ACTIVITIES	(3,834,353)	(13,200,919)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(783,581)	(620,427)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	161,038,535	177,329,754
Purchases of investments	(152,741,690)	(168,374,111)
NET CASH PROVIDED BY INVESTING ACTIVITIES	8,296,845	8,955,643
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,678,911	(4,865,703)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,730,876	7,596,579
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,409,787	$ 2,730,876

See accompanying notes to financial statements.

AUTOMOBILE ACCIDENTS COMPENSATIONS ADMINISTRATION
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net loss	$ (83,103,578)	$ (17,642,665)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	843,565	1,100,702
Provision for doubtful accounts	1,092,016	527,745
Loss on disposal	-	24,011
Decrease in fair value of investments	12,584,379	17,048,475
Realized losses (gains) in sale of investments	12,994,483	(4,344,655)
Changes in assets and liabilities:		
Premiums receivable	3,047,226	(9,816,121)
Accrued interest and dividends	155,790	215,219
Other accounts receivable	(1,300,863)	(1,697,460)
Other assets	(15,701)	26,543
Reserve for future benefits	51,266,464	(3,187,557)
Accounts payable	1,368,515	(476,983)
Accrued liabilities	(560,638)	85,879
Deferred premium reserve	(2,206,011)	4,935,948
NET CASH USED IN OPERATING ACTIVITIES	$ (3,834,353)	$ (13,200,919)

SUPPLEMENTAL DISCLOSURES OF NON CASH AND RELATED FINANCING ACTIVITIES:

	2009	2008
Retirement of fully depreciated property and equipment	$ 38,475	$ -
Retirement of property and equipment:		
Cost	$ -	$ 8,208,078
Accumulated depreciation	$ -	$ 8,184,067

See accompanying notes to financial statements.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Summary of Significant Accounting Policies

The Automobile Accidents Compensations Administration (the "Administration") 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 highways in Puerto Rico. This insurance covers bodily injuries and compensation for beneficiaries (and their dependants) caused by automobile accidents. The annual premium is $35 per motor vehicle.

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

A summary of the Administration's significant accounting policies used in the preparation of the accompanying financial statements follows:

Basis of Accounting

The Administration reports its financial position and results of operations as an enterprise fund (i.e., similar to private business enterprises) where the periodic determination of revenues earned, expenses incurred, and/or net income is based the on accrual basis of accounting.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *"Accounting and Financial Reporting for Proprietary Fund and other Governmental Entities that Use Proprietary Fund Accounting,"* the Administration has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that are not in conflict with GASB pronouncements.

Insurance Premiums

Insurance premiums are collected in advance by the Treasury Department and recognized ratably as income during the policy year. As per Law No. 233 of September 2, 2003, the Puerto Rico Treasury Department of the Commonwealth of Puerto Rico charges a 5% service fee over all revenue collected by the Treasury Department. The service charges during the years ended June 30, 2009 and 2008, amounted to approximately $3,760,000 and $4,280,000, respectively. The portion of premiums that will be earned in the future is deferred and reported as Deferred premiums reserve.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2009 and 2008, consist of funds invested in money market accounts.

Investments

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

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

Receivables or Payables Resulting from the Sale or Acquisition of Investments

Investment transactions at or close to June 30, 2009, for which the settlement date occurs after the fiscal year ends, are recorded separately for financial statement purposes.

Accounts Receivable

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

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

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable - Continued

Accrued interest and dividends represent uncollected income earned on investments.

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 life of the assets. Leasehold improvements are amortized over the respective lease terms or the estimated useful life of the improvements, whichever is shorter. Expenditures for maintenance and repairs that do not extend the life of the assets are charged to operations, while those for renewals and betterments 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 life from one or more years.

Estimated useful life is as follow:

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

Benefits Expenses and Change in Accounting Estimate

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.

Until June 30, 2008, certain items of the Reserve for future benefits were determined based on a discounted method. However, during the current year ended June 30, 2009, the Administration decided to determine such amount based on an undiscounted method. Based on General Accepted Accounting Principles the resulting difference between both methods, was reflected in the result of current year operations (see Note G).

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.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Benefits Expenses and Change in Accounting Estimate – Continued

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 shall provide as an advance to the Administration the sums required to remediate the deficiency. Such advance would be obtained from any funds available in the general fund of the Commonwealth of Puerto Rico.

During the year ended June 30, 2009, the independent actuary recommended to estimate the liabilities for the payment of future benefits based on an undiscounted basis instead of discounted. Management adopted the actuary's recommendation and therefore presented the Reserve for future benefits based on the undiscounted method.

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 accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave annually. 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 with over ten (10) years of service are entitled upon retirement to a lump-sum payment equal to $130 for each year of service.

Pension Cost

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

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pension Cost - Continued

The Statement defines that pension expense is equal to the statutory required contribution to the employee retirement system. A pension liability or asset is reported equal to the cumulative differences between statutory required contributions and actual contributions up to June 30, 2009 and 2008.

Termination Benefits

The Administration accounts for termination benefits in accordance with the provision of GASB Statement No. 47, "Accounting for Termination Benefits". This Statement establishes accounting standards for termination benefits. Pursuant to this Statement, the Administration should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. At June 30, 2009 and 2008, no formal voluntary termination benefits were incurred.

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 generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimated amounts. The accounts requiring the use of significant estimates include certain receivables, reserve for future benefits, deferred premiums reserve, and useful lives of property and equipment.

Reclassification

Certain amounts in the 2008 financial statements were reclassified to conform to the 2009 presentation.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value of Financial Instruments

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

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2009 and 2008, cash and cash equivalents consist of deposits in banks and money market accounts categorized as follows:

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

A summary of the Administration's cash and cash equivalents by category of risk as of June 30, 2009 and 2008, are shown below:

	2009			
	Credit Risk Category 1	Credit Risk Category 2	Bank Balance	Carrying Amount
Unrestricted cash	$ 7,682,367	$ -	$ 7,682,367	$ 3,831,866
Restricted cash	705,363	-	705,363	461,564
Money Market Accounts	-	2,116,357	2,116,357	2,116,357
	$ 8,387,730	$ 2,116,357	$ 10,504,087	$ 6,409,787

	2008			
	Credit Risk Category 1	Credit Risk Category 2	Bank Balance	Carrying Amount
Unrestricted cash	$ 5,425,140	$ -	$ 5,425,140	$ 1,023,892
Restricted cash	642,597	-	642,597	317,618
Money Market Accounts	-	1,389,366	1,389,366	1,389,366
	$ 6,067,737	$ 1,389,366	$ 7,457,103	$ 2,730,876

NOTE C - INVESTMENTS

The Administration invests in stocks, bonds, real estate, United States obligations, and cash equivalents as described more fully in its investment policy. Also, it can invest in international securities. As of June 30, 2009 and 2008, the credit quality rating for the investment securities portfolio was comprised of the following:

	2009				
	Credit Risk Rating				
Investment Type:	AAA to A	BBB + to B	CCC	Not Rated	Total
Corporate bonds	$ 19,831,360	$ 6,989,255	$ -	$ 6,706,587	$ 33,527,202
U.S. sponsored agencies notes:					
Federal Home Loan Bank (FHLB)	3,921,112	-	-	-	3,921,112
Fedral Home Mortgage Corporation (FHLMC)	2,252,690	-	-	-	2,252,690
Federal National Mortgage Association (FNMA)	3,635,607	-	-	-	3,635,607
Federal Farm Credit Bank (FFCB)	1,592,820	-	-	-	1,592,820
U.S. government bonds	8,358,672	-	-	552,163	8,910,835
Mortgage and assets-backed securities:					
Government National Mortgage Association (GNMA)	-	-	-	52,780	52,780
FNMA	-	-	-	3,574,119	3,574,119
FHLMC	-	-	-	2,169,864	2,169,864
Other fixed income	-	-	-	11,198	11,198
Asset Backed Securities	324,017	-	5,987	198,240	528,244
Commercial Mortgage - Backed	3,598,101	-	-	-	3,598,101
Municipal/provincial bonds	1,788,703	1,127,975	-	-	2,916,678
U.S. corporate stocks	-	-	-	37,053,577	37,053,577
Non U.S. corporate stocks	-	-	-	10,287,182	10,287,182
Real Estate	-	-	-	5,397,297	5,397,297
Total investments	$ 45,303,082	$ 8,117,230	$ 5,987	$ 66,003,007	$119,429,306

NOTE C – INVESTMENTS - CONTINUED

	2008				
	Credit Risk Rating				
Investment Type:	AAA to A	BBB + to B	CCC	Not Rated	Total
Corporate bonds	$ 13,772,011	$ 5,880,937	$ -	$ 6,563,900	$ 26,216,848
U.S. sponsored agencies notes:					
Federal Home Loan Bank (FHLB)	7,175,878	-	-	-	7,175,878
Fedral Home Mortgage Corporation (FHLMC)	3,294,913	-	-	-	3,294,913
Federal National Mortgage Association (FNMA)	5,128,537	-	-	-	5,128,537
U.S. government bonds	17,870,354	-	-	51,858	17,922,212
Mortgage and assets-backed securities:					
Government National Mortgage Association (GNMA)	-	-	-	187,032	187,032
FNMA	-	-	-	2,961,576	2,961,576
FHLMC	-	-	-	1,233,803	1,233,803
Asset Backed Securities	1,831,377	-	19,260	192,253	2,042,890
Commercial Mortgage - Backed	2,717,324	-	-	-	2,717,324
Municipal/provincial bonds	3,266,701	97,277	-	148,547	3,512,525
U.S. corporate stocks	-	-	-	54,634,129	54,634,129
Non U.S. corporate stocks	-	-	-	18,455,401	18,455,401
Real Estate	-	-	-	7,762,848	7,762,848
Total investments	$ 55,057,095	$ 5,978,214	$ 19,260	$ 92,191,347	$ 153,245,916

The custody of these investments is held by a custodial bank in the name of the Administration. The instruments portfolio is managed by an internal group of employees together with six asset management firms and external consultants.

NOTE C - INVESTMENTS - CONTINUED

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 62% (69% in 2008) and not less than 33% in fixed income securities, and not more than 62.5% and not less than 24% (34% in 2008) in equity securities. From the equity securities, not more than 17.5% (15% in 2008) may be invested in international markets. Investments in real estate should not exceed 7% of the total investment portfolio.

Equity investments will not be considered speculative in nature and will be those traded on the major national and international securities exchanges. Equity investments may only be acquired with a market capitalization of more than $200 million and will not be unduly concentrated in anyone industry or economic sector, with the exception of Puerto Rico Stocks.

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

The Administration's investment in real estate consists of contributions to the Invesco Real Estate Fund I and II, LP, which are a funds organized to invest in diversified real estate assets. The total commitment to the Fund I and II requires contributions that will amount to $10,000,000 for each fund. Total contributions to the Fund I and II at June 30, 2009, amounted to $8,248,389 and $3,375,333, respectively, and total return of capital amounted to approximately $1,994,440 and $0, respectively. At June 30, 2008, total contributions amounted to $7,748,389 and $904,619, respectively, and total return of capital amounted to approximately $1,484,000 and $74,433, respectively.

At June 30, 2009, the cumulative unrealized loss for both funds were $2,183,373 and $2,290,154, respectively. Fair value of the investments at June 30, 2009 and 2008, amounted to $5,397,297 and $7,762,848, respectively. Off-balance-sheet derivatives, option contracts, commodities, private placements, limited partnerships other than real estate, and venture-capital investments are among the assets that are specifically prohibited.

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

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

NOTE C - INVESTMENTS – CONTINUED

The estimated market value of debt securities at June 30, 2009 and 2008, 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:

	2009					
Investment Type:	Within One Year	After one to Five Years	After Five to Ten Years	After Ten Years	Whiout Maturity	Total
Corporate bonds	$ 301,612	$ 13,871,809	$ 13,930,096	$ 5,423,685	$ -	$ 33,527,202
U.S. sponsored agencies notes:						
Federal Home Loan Bank (FHLB)	200,456	3,720,656	-	-	-	3,921,112
Fedral Home Mortgage Corporation (FHLMC)	1,572,444	502,016	-	178,230		2,252,690
Federal National Mortgage Association (FNMA)	-	3,309,828	325,780	-		3,635,608
Federal Farm Credit Bank (FFCB)	-	1,592,820	-	-		1,592,820
U.S. government bonds	-	6,950,526	510,489	1,449,819		8,910,834
Mortgage and assets-backed securities:						
Government National Mortgage Association (GNMA)	-	-	37,179	15,601	-	52,780
FNMA	1,093	9,074	439,035	3,124,918	-	3,574,120
FHLMC	-	214,564	97,648	1,857,652	-	2,169,864
Other fixed income	-	-	-	-	11,198	11,198
Asset Backed Securities	-	125,428	396,829	5,987	-	528,244
Commercial Mortgage - Backed	-	-	-	3,598,101	-	3,598,101
Municipal/provincial bonds	500,652	1,317,069	408,308	690,648	-	2,916,677
U.S. corporate stocks	-	-	-	-	37,053,577	37,053,577
Non U.S. corporate stocks	-	-	-	-	10,287,182	10,287,182
Real Estate	-	-	-	-	5,397,297	5,397,297
Total investments	$ 2,576,257	$ 31,613,790	$ 16,145,364	$ 16,344,641	$ 52,749,254	$ 119,429,306

NOTE C - INVESTMENTS - CONTINUED

	2008					
Investment Type:	Within One Year	After one to Five Years	After Five to Ten Years	After Ten Years	Whiout Maturity	Total
Corporate bonds	$ 1,280,314	$ 7,184,749	$ 11,498,633	$ 6,253,152	$ -	$ 26,216,848
U.S. sponsored agencies notes:						
Federal Home Loan Bank (FHLB)	3,130,572	4,045,306	-	-	-	7,175,878
Fedral Home Mortgage Corporation (FHLMC)	-	2,807,830	200,930	286,153		3,294,913
Federal National Mortgage Association (FNMA)	-	4,823,190	305,347	-		5,128,537
U.S. government bonds	-	9,673,922	8,196,432	51,858		17,922,212
Mortgage and assets-backed securities:						
Government National Mortgage Association (GNMA)	-	-	44,866	142,166	-	187,032
FNMA	2,381	28,197	115,254	2,815,744	-	2,961,576
FHLMC	23,908	16,449	305,075	888,371	-	1,233,803
Asset Backed Securities	-	1,641,430	382,200	19,260	-	2,042,890
Commercial Mortgage - Backed	-	-	-	2,717,324	-	2,717,324
Municipal/provincial bonds	1,116,672	1,436,312	243,888	715,653	-	3,512,525
U.S. corporate stocks	-	-	-	-	54,634,129	54,634,129
Non U.S. corporate stocks	-	-	-	-	18,455,401	18,455,401
Real Estate	-	-	-	-	7,762,848	7,762,848
Total investments	$ 5,553,847	$ 31,657,385	$ 21,292,625	$ 13,889,681	$ 80,852,378	$ 153,245,916

NOTE C - INVESTMENTS - CONTINUED

During the fiscal years ended June 30, 2009 and 2008, the Administration sold a number of investments as part of its investment strategy. The results of said sales are as follow:

	2009	2008
Proceeds from sale of investments	$ 161,038,535	$ 177,329,754
Amortized cost of investments and net effect of receivable/payable on sale/purchase transactions	174,033,018	(172,985,099)
Realized (losses) gains in sales of investments	$ (12,994,483)	$ 4,344,655

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

	2009	2008
Realized (losses) gains in sales of investments	$ (12,994,483)	$ 4,344,655
Change in fair value of investments securities	(12,584,379)	(17,048,475)
Net change in fair value of investments	$ (25,578,862)	$ (12,703,820)

NOTE D - SECURITIES LENDING PROGRAM

The Administration lends securities to brokers/dealers and other entities (borrowers) for collateral that will be returned in the future as part of a securities lending program. The custodian bank manages the securities lending program and receives cash, government securities and letters of credit as collateral. The collateral received cannot be pledged or sold by the Administration unless the borrower defaults. The program provides for an initial minimum collateralization of 102 percent of the market value of the securities lent plus accrued income.

NOTE D - SECURITIES LENDING PROGRAM - CONTINUED

Additional collateral has to be provided by the close of the next business day if its value falls to less than 100 percent. The contract with the custodian bank requires that should a collateral deficiency occur beyond custodian's responsibilities the deficiency should be allocated among all client lenders within the program.

Either the custodian bank or the borrower can terminate all securities loans at any time. Cash collateral is invested in the program's agent short-term investment pools, which at fiscal year end had a weighted average maturity of 134 days. Cash collateral may also be invested separately in "term loans" in which case the investments match the loan term. The relationship between securities of the investment pool and Administration's loans cannot be determined.

During 2009, the Administration incurred into a collateral deficiency loss amounting to $205,219, of which $88,931 and $116,288 are recognized as a realized and as unrealized loss, respectively. As of June 30, 2009, the Administration owes the custodian bank the total amount of $205,219, which is included in payables for the acquisition of investments. The balance does not bear interest and is due on demand.

The following represents the balances relating to the securities on loan as of June 30, 2009 and 2008:

	2009	
	Fair Value of Securities Lending	Amount of Cash Collateral
Stocks	$ 10,430,940	$ 10,750,268
Corporate bonds	5,706,561	5,882,297
U.S. Treasury bills, bonds and notes	8,512,396	8,700,142
U.S. Agencies	3,309,907	3,390,392
	$ 27,959,804	$ 28,723,099

NOTE D - SECURITIES LENDING PROGRAM – CONTINUED

	2008		
	Fair Value of Securities Lending	Amount of Cash Collateral	Amount of Non-Cash Collateral
Stocks	$ 18,958,211	$ 19,095,988	$ 425,412
Corporate bonds	1,674,561	1,722,560	-
U.S. Treasury bills, bonds and notes	13,169,540	13,273,349	199,345
U.S. Agencies	12,632,717	12,951,922	-
	$ 46,435,029	$ 47,043,819	$ 624,757

NOTE E - OTHER ACCOUNTS RECEIVABLE

Other accounts receivable consist of the following:

	2009	2008
Commonwealth of Puerto Rico:		
State insurance fund corporation	$ 1,094,932	$ 1,110,379
Government agencies and Puerto Rico Safety Traffic Commision	1,214,840	1,078,723
Sub Total	2,309,772	2,189,102
Recovery from beneficiaries	6,229,583	5,396,889
Insurance companies	2,407,691	2,250,267
All others	540,987	350,912
	11,488,033	10,187,170
Less allowance for doubtful accounts	(8,252,650)	(7,160,634)
	$ 3,235,383	$ 3,026,536

NOTE F - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2009 and 2008, were as follow:

	2009			
	June 30, 2008	Additions	Retirements	June 30, 2009
Building	$ 6,975,930	$ -	$ -	$ 6,975,930
Equipment	938,250	-	-	938,250
Computer and software	6,527,143	625,859	(13,789)	7,139,213
Motor Vehicles	171,239	-	-	171,239
Furniture and fixtures	2,061,194	15,372	(24,686)	2,051,880
Leasehold improvements	3,259,753	142,350	-	3,402,103
	19,933,509	783,581	(38,475)	20,678,615
Less accumulated depreciation and amortization:				
Building and leasehold improvements	(5,677,696)	(367,409)	-	(6,045,105)
Other	(5,877,818)	(476,156)	38,475	(6,315,499)
	8,377,995	(59,984)	-	8,318,011
Land	900,881	-	-	900,881
	$ 9,278,876	$ (59,984)	$ -	$ 9,218,892

NOTE F - CAPITAL ASSETS - CONTINUED

	2008			
	June 30, 2007	Additions	Retirements	June 30, 2008
Building	$ 6,975,930	$ -	$ -	$ 6,975,930
Equipment	957,929	-	(19,679)	938,250
Computer and software	12,221,974	496,025	(6,190,856)	6,527,143
Motor vehicles	334,949	-	(163,710)	171,239
Furniture and fixtures	3,882,743	12,284	(1,833,833)	2,061,194
Leasehold improvements	3,147,635	112,118	-	3,259,753
	27,521,160	620,427	(8,208,078)	19,933,509
Less accumulated depreciation and amortization:				
Building and leasehold improvements	(5,327,084)	(350,612)	-	(5,677,696)
Other	(13,311,795)	(750,090)	8,184,067	(5,877,818)
	8,882,281	(480,275)	(24,011)	8,377,995
Land	900,881	-	-	900,881
	$ 9,783,162	$ (480,275)	$ (24,011)	$ 9,278,876

NOTE G - RESERVES FOR FUTURE BENEFITS

The balance of the estimated liabilities for the payment of future benefits consists of the following:

	2009	2008
Death and funeral:		
Death	$ 17,987,974	$ 13,249,238
Funeral	359,709	361,390
Disability	5,547,874	6,337,337
Accident and health:		
Medical hospitalization - basic	42,124,420	35,788,118
Medical hospitalization - extended benefits	99,944,281	59,024,118
Dismemberment	387,506	325,099
	$ 166,351,764	$ 115,085,300

NOTE G - RESERVES FOR FUTURE BENEFITS - CONTINUED

The activity in the reserves for future benefits for the years ended June 30, 2009 and 2008, is as follows:

	2009	2008
Reserves for future benefits at beginning of year, presented based on discounted method	$ 115,085,300	$ 118,272,857
Incurred claims:		
Provision for insured events of current year	127,551,514	55,352,207
Payment of claims:		
Current year insured events	(33,781,179)	(23,990,806)
Prior years insured events	(42,503,871)	(34,548,958)
	(76,285,050)	(58,539,764)
Reserves for future benefits at end of year, presented based on undiscounted method in 2009	$ 166,351,764	$ 115,085,300

The effect on current year results of operation of the change in accounting estimate from discounted to undiscounted method is as follows:

Current year operations

Current year net loss	$ 83,103,578
Approximate effect of the changes in accounting estimates	34,000,000
Current year losses before the effect of the change in accounting estimates	$ 49,103,578

NOTE G - RESERVES FOR FUTURE BENEFITS - CONTINUED

Reconciliation of reserve for future benefits

Balance as of June 30, 2008, based on discounted method	$ 115,085,300
Effect of the changes from discounted to undiscounted	34,000,000
Balance as of June 30, 2008, based on undiscounted method	149,085,300
Undiscounted method current year effect	17,266,464
	$ 166,351,764

NOTE H - 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 year 2018.

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

Year ending June 30,	Amount
2010	$ 949,723
2011	681,499
2012	652,569
2013	559,361
2014	469,386
2015-2018	617,672
	$ 3,930,210

Rent expense for the years ended June 30, 2009 and 2008, was approximately $1,049,000 and $1,237,000, respectively.

NOTE I - RETIREMENT SYSTEMS

Defined-Benefit Pension Plan

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

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

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

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

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

Defined Contribution Plan

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

NOTE I - RETIREMENT SYSTEMS - CONTINUED

Defined Contribution Plan - Continued

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

The Administration is required by Act No. 305 to contribute an amount equal to 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.

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

Total employee and employer's contributions to the above mentioned plans during the year ended June 30, 2009, was approximately $1,764,000 and $1,973,000, respectively, and the contributions for the year ended June 30, 2008, amounted to approximately $1,895,000 and $1,690,000, respectively. Loans repayments for the year ended June 30, 2009 and 2008, amounted to approximately $473,000 and $387,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand-alone financial statements for the years ended June 30, 2009 and 2008, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42005, San Juan, PR 00940-2005.

NOTE J - PUERTO RICO TRAFFIC SAFETY COMMISSION

Act No. 33, "Prevention of Traffic Accidents" of May 25, 1972, as amended, provides that the Administration should contribute to the Puerto Rico Traffic Safety Commission (the Commission) the funds needed for the Commission's operational expenses. For the years ended June 30, 2009 and 2008, the Administration contributed to the Commission approximately $1,040,000 and $1,198,000, respectively.

NOTE K - CONTINGENCIES

The Administration acts as defendant in various legal proceedings or claims in the ordinary course of its operations. Most of these lawsuits principally involve claims on policies which are typical for the Administration and for the insurance industry in general. At June 30, 2009, the Administration recorded an accrual of $555,000. Management, based on the opinion of its legal counsel, believes that the ultimate liability resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Administration's financial statements.

NOTE L - PRIOR PERIOD ADJUSTMENT

Net assets as of June 30, 2008, have been restated to correct the 2008 figures by $6,320,426, which represents the net effect of gross insurance premiums earned amounting to $6,646,964 not reported by the Treasury Department until June 30, 2009, and unrecorded general and administrative expenses amounting to $326,538.

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

To the Board of Directors of
Automobile Accidents Compensations Administration

We have audited the financial statements of Automobile Accidents Compensations Administration as of and for the year ended June 30, 2009, and have issued our report thereon dated December 31, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Administration's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the in the accompanying schedule of findings and responses to a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above does not constitute a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free of 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Administration in a separate letter dated December 31, 2009.

This report is intended solely for the information and use of the Administration's Board of Directors, others with the Administration, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties,

December 31, 2009

Aquino, De Cordova, Alfaro & Co. LLP

Stamp number 2479695
has been affixed to the
original report

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the in the accompanying schedule of findings and responses to a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above does not constitute a material weakness.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the Administration's financial statements are free of 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

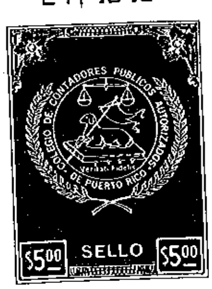
We noted certain matters that we reported to management of the Administration in a separate letter dated December 31, 2009.

This report is intended solely for the information and use of the Administration's Board of Directors, others with the Administration, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties,

Aquino, De Cordova, Alfaro & Co. LLP

December 31, 2009

2479695



SCHEDULE OF FINDINGS AND RESPONSES

1. The unadjusted trial balance provided by the entity required 24 adjustments with an increase effect on net loss of $1,364,923, without considering the adjustment corresponding to the reserve for future benefits requiring an actuarial analysis.

   As represented by the entity's management, timely procedures and account analysis will be applied to minimize the quantity of adjustments required for future period.