

Cordero & Negrón, LLC
Certified Public Accountants

Puerto Rico Land Authority
(A component Unit of the Commonwealth)

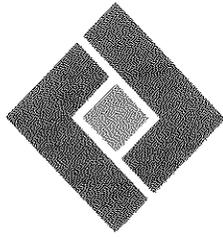
Basic Financial Statements and Required Supplementary Information as of and
for the Year Ended June 30, 2014,
and Independent Auditors' Report

Puerto Rico Land Authority
(A Component Unit of the Commonwealth)

YEAR ENDED JUNE 30, 2014

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Cordero & Negrón, LLC

Certified Public Accountants

Report of Independent Auditors

To the Board of Directors of
Puerto Rico Land Authority
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Land Authority (the "Authority"), a component unit of the Commonwealth, as of and for the year ended June 30, 2014, and the related notes to the 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Land Authority at June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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 which 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, 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 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.

November 26, 2014



Stamp No. E99678 was affixed
to the original of this report.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Year Ended June 30, 2014

(Unaudited)

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Land Authority (“the Authority”) as of and for the year ended June 30, 2014. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto.

Background

The Authority is a public corporation and a component of the Commonwealth of Puerto Rico (the “Commonwealth”). The Authority was created by Act No. 26 approved on April 1, 1941, as amended, to carry out the provisions of the Land Law of Puerto Rico. By provision of Reorganization Plan No. 1 of May 4, 1994, the Authority became a programmatic and operational component of the Department of Agriculture.

The Authority main activity consists of the rental of land held for agricultural purposes principally to farmers. The Authority is authorized by law to sell land to other governmental entities or private individuals or entities. Also, the Authority provides services to farmers for an agreed fee.

The Authority’s basic financial statements include the balance of the Integral Fund for the Agriculture Development of Puerto Rico or “Fondo Integral para el Desarrollo Agrícola” (“FIDA”), a component unit. Its primary purpose is to promote the private investment in the farm industry in general, with the approval of loans, warranties, direct and indirect investments, and other credit financing facilities, with favorable repayment conditions and interest rates to the agricultural industries.

Financial Highlights

- Total assets at June 30, 2014 amounted to \$179.9 million for a decrease of approximately \$4.4 million or 4% from the \$184.3 million at June 30, 2013.
- Net position increased from \$82.8 million at June 30, 2013 to \$84.4 million at June 30, 2014. Net position to total assets increased to 46.9% at June 30, 2014 from 44.9% at June 30, 2013.
- Net capital assets totaled \$96.8 million at June 30, 2014.
- The operating revenues increased from \$8.7 million in 2013 to \$9.3 million or approximately \$600,000 in fiscal year 2014. This increase represented a 7.3% from the previous year.
- The operating expenses decreased from \$19.1 million in 2013 to \$18.6 million or approximately \$500,000 in fiscal year 2014. This decrease represented a reduction of 2.8% from the previous year.

Overview of the Financial Statements for Business-Type Activities

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Authority. The financial statements consist of the (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flow, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are

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recognized when earned, in accordance with accounting principles generally accepted in the United States of America.

Statement of Net Position – The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets equal liabilities plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and non-current. The focus of the statement of net position is to show a picture of the liquidity and health of the Authority's financial position as of the end of the year.

The Authority's net position is reported in the following categories:

- *Net Position Invested in Capital Assets, Net of Related Debt* – this component of net position consist of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and from the operating grant allocated annually by the Commonwealth, since the capital assets themselves cannot be used to liquidate liabilities.
- *Unrestricted Net Assets* – this component includes all net assets that do not meet the definition of net assets invested in capital assets.

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position includes operating revenues which consist of land rentals and services to farmers; operating expenses, such as salaries and employee benefits, depreciation on capital assets, repairs and maintenance and other general administrative expenses; and non-operating revenue and expenses, such as the operating grants from the Commonwealth, interest and investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows – The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the Authority in that current cash flow is sufficient to pay current liabilities.

Notes to 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, defined-benefit pension plans, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority's Business-Type Activities

Total assets, liabilities and deferred inflows of resources of the Authority at June 30, 2014 amounted to \$177.6 million, \$94.0 million and \$3.9 million respectively, for a net position of \$79.6 million or 44.8% of total assets.

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Net position may serve over time, as a useful indicator of a government's financial position. This represents a decrease of \$3.2 million in 2014.

Statement of Net Position

The following caption summarizes the changes in net position between June 30, 2014 and 2013:

	2014	2013	Change	
			in dollars	in %
Assets:				
Current assets	\$ 46,892,453	\$ 51,865,629	(4,973,176)	-10%
Capital assets	96,842,231	97,540,165	(697,934)	-1%
Other non current assets	36,125,358	34,901,058	1,224,300	4%
Total assets	179,860,042	184,306,852	(4,446,810)	-2%
Liabilities:				
Current liabilities	25,956,132	24,478,031	1,478,101	6%
Long term liabilities	65,519,264	77,071,990	(11,552,726)	-15%
Total liabilities	91,475,396	101,550,021	(10,074,625)	-10%
Deferred inflows of resources	3,948,033	-	3,948,033	100%
Net position:				
Invested in capital assets	96,842,231	97,540,165	(697,934)	-1%
Unrestricted	(12,405,618)	(14,783,334)	2,377,716	-16%
Total net position	\$ 84,436,613	\$ 82,756,831	1,679,782	2%

The change in net position serves over time as a useful indicator of the Authority's financial position. The Authority's assets exceeded its liabilities and deferred inflows of resources by \$84.4 million at June 30, 2014, compared to \$82.8 million at June 30, 2013.

The largest portion of the Authority's net position each year represents its investment in capital assets (e.g. land, equipment, etc.).

In addition, the Authority, through its component unit FIDA provides lines of credit as permitted by law to certain governmental and private entities. FIDA finances these lines of credit with advances obtained from Governmental Development Bank (GDB), a component unit of the Commonwealth of Puerto Rico, under a line of credit agreement. The notes receivable outstanding, both current and long term, for lines of credit provided by FIDA at June 30, 2014 amounted to \$24.8 million as compared to \$22.4 million at June 30, 2013.

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Current Assets

Major components of current assets are the following:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	
			<u>in dollars</u>	<u>in %</u>
Cash and cash equivalents	\$ 16,446,574	\$ 21,019,011	\$ (4,572,437)	-22%
Certificates of deposits, with maturities of more than three months	12,374,746	12,338,659	36,087	0%
Rent and other receivables	18,053,872	18,387,604	(333,732)	-2%
Prepaid expenses	17,261	120,355	(103,094)	-86%
Total current assets	<u>\$ 46,892,453</u>	<u>\$ 51,865,629</u>	<u>\$ (4,973,176)</u>	<u>-10%</u>

Capital assets

Capital assets consist principally of land held for sales or rent. During the year ended June 30, 2014 the Authority sold various tracks of land generating a net gain on the sales of approximately \$737,000.

Non-current assets

The largest portion of non-current assets consists of the long-term portion of notes receivable and investments in private agricultural businesses. FIDA is authorized by law to provide line of credits to private and governmental entities. The long-term portion represents the estimated amount that will not be collected during the next fiscal year. In addition, FIDA is authorized by law to invest in private entities which are dedicated to agricultural activities in Puerto Rico. At the end of the fiscal year, management evaluates the investments and record valuation allowances for amounts deemed doubtful of realization.

Current liabilities

Current liabilities at June 30, 2014 and 2013 consist of:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	
			<u>in dollars</u>	<u>in %</u>
Accounts payable and accrued liabilities	\$ 23,138,762	\$ 21,558,789	\$ 1,579,973	7%
Advances for farming development	2,817,370	2,919,242	(101,872)	-3%
Total current liabilities	<u>\$ 25,956,132</u>	<u>\$ 24,478,031</u>	<u>\$ 1,478,101</u>	<u>6%</u>

Long-term Liabilities

Long-term liabilities at June 30, 2014 include a long-term financing related to the real estate program with the Puerto Rico Public Finance Corporation (PFC), a component unit of the Commonwealth. This financing is repaid through appropriations made by the Commonwealth. In addition, FIDA has a non-revolving line of credit with Government Development Bank with an outstanding balance of approximately \$34 million. Borrowings under the note are paid from the coffee and sugar tax allocations and are due in March 2027.

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Statement of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of revenues, expenses, and changes in net position of the Authority for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	
			<u>in dollars</u>	<u>in %</u>
Operating revenues	\$ 9,317,303	\$ 8,682,072	\$ 635,231	7%
Operating expenses	18,565,865	19,092,793	(526,928)	-3%
Operating loss	(9,248,562)	(10,410,721)	(1,162,159)	11%
Non-operating revenues	10,928,344	11,047,898	(119,554)	-1%
Change in net position	1,679,782	637,177	\$ (1,042,605)	-164%
Net position:				
Beginning of year	82,756,831	82,119,654		
End of year	<u>\$ 84,436,613</u>	<u>\$ 82,756,831</u>		

Operating revenues during the year ended June 30, 2014 and 2013 consisted of:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	
			<u>in dollars</u>	<u>in %</u>
Rental income	\$ 6,638,516	\$ 7,148,027	\$ (509,511)	-7%
Services to farmers	1,119,029	301,705	817,324	271%
Interest income	1,053,412	943,206	110,206	12%
Other	506,346	289,134	217,212	75%
Total operating revenues	<u>\$ 9,317,303</u>	<u>\$ 8,682,072</u>	<u>\$ 635,231</u>	

The Authority as permitted by law enters into lease agreements on the land and properties it owns with governmental and private entities. Sales are generally made at the estimated market value of the property. Interest income consists of the amounts charged by FIDA on the financing provided to governmental and private entities. Service to farmers consists of assistance provided to farmers principally related to the development of the agricultural business.

Operating revenues increased by approximately \$600,000 principally due to an increase in services to farmers.

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Operating expenses during the years ended June 30, 2014 and 2013 consist of:

	2014	2013	Change	
			in dollars	in %
Program for production of farming products	\$ 5,214,282	\$ 3,305,456	\$ 1,908,826	58%
Payroll and fringe benefits	9,239,687	9,885,338	(645,651)	-7%
Repairs and maintenance	195,970	622,448	(426,478)	-69%
Utilities	894,425	974,485	(80,060)	-8%
Professional services	756,577	658,684	97,893	15%
Depreciation	972,442	1,018,549	(46,107)	-5%
Bad debts	604,780	1,173,061	(568,281)	-48%
Other	687,702	1,454,772	(767,070)	-53%
Total operating expenses	<u>\$ 18,565,865</u>	<u>\$ 19,092,793</u>	<u>\$ (526,928)</u>	<u>-3%</u>

During the year ended June 30, 2014 operating expenses decreased by approximately \$500,000 principally, due to the effort made by management to reduce expenses.

Non-operating revenues (expenses) during the years ended June 30, 2014 and 2013 consisted of the following:

	2014	2013	Change	
			in dollars	in %
Sales of Land	\$ 737,355	\$ 486,217	\$ 251,138	52%
Coffee and sugar tax appropriation	12,866,028	13,589,441	(723,413)	-5%
Grants from the Commonwealth	327,353	401,828	(74,475)	-19%
Interest expense	(3,408,098)	(3,441,401)	33,303	-1%
Interest income	405,706	11,813	393,893	3334%
Total non-operating income	<u>\$ 10,928,344</u>	<u>\$ 11,047,898</u>	<u>\$ (119,554)</u>	<u>-1%</u>

FIDA receives an allocation from the coffee and sugar tax collected by the Commonwealth to finance its operations. In addition, the Commonwealth provides operating grants to finance the operations of the real estate program.

Interest expense represents the amount charged to FIDA and the real estate program for approved lines of credit and other financings.

Capital assets

The Authority, as permitted by law, enters into lease agreements on the land and properties it owns with governmental and private entities. The agreements vary in prices and terms depending on the public interest,

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use, and benefits to the Commonwealth. In addition, the Authority acquires and sells to other governmental agencies or private entities, land and other property that have been determined to be used or developed for public interest. Sales are generally made at the estimated market value of the property.

The following table summarizes the capital assets of the Authority at June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>	<u>Change</u>	
			<u>in dollars</u>	<u>in %</u>
Assets not being depreciated				
Land held for sale or rent	\$ 87,436,128	\$ 87,530,050	\$ (93,922)	0%
Construction in progress	894,229	667,736	226,493	34%
Total	<u>88,330,357</u>	<u>88,197,786</u>	<u>132,571</u>	<u>0%</u>
Assets being depreciated				
Buildings and improvements	6,964,996	6,961,450	3,546	0%
Infrastructure	16,057,958	16,057,958	-	0%
Industrial equipment	2,413,817	2,413,817	-	0%
Machinery and equipment	7,418,399	7,463,671	(45,272)	-1%
Motor vehicles	704,373	772,192	(67,819)	-9%
Furniture and fixtures	2,848,687	2,773,486	75,201	3%
	<u>36,408,230</u>	<u>36,442,574</u>	<u>(34,344)</u>	<u>0%</u>
Accumulated depreciation	<u>(27,896,356)</u>	<u>(27,100,195)</u>	<u>(796,161)</u>	<u>3%</u>
	<u>8,511,874</u>	<u>9,342,379</u>	<u>(830,505)</u>	<u>-9%</u>
Capital assets - net	<u>\$ 96,842,231</u>	<u>\$ 97,540,165</u>	<u>\$ (697,934)</u>	

Debt Administration

FIDA maintains a non-revolving line of credit with GDB in which FIDA may borrow up to \$94 million. Proceeds from this line of credit are used by FIDA to fund investments in agricultural business, loans to farmers and contributions as permitted by laws and regulations. Repayment of principal and interests are made from the collection of coffee and sugar taxes allocated by the Commonwealth. The outstanding amount bears interest at a rate of 5.00% and is due on March 1, 2027.

In addition, the Real Estate Program has a long-term debt with PFC which consists of the Authority's participation in various appropriation bonds issued by PFC. The outstanding balance bears interest at an annual rate equal to the rate of the related bonds and is due in fiscal year 2031. The annual debt service is funded with appropriations from the Commonwealth.

Contacting the Authority's Management

The financial report has the purpose of providing the Commonwealth's residents and taxpayers, and our clients with a general financial overview of the Authority's finances and to comply with the Authority's accountability of the assets, funds and appropriations it holds and receives.

Puerto Rico Land Authority
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Management's Discussion and Analysis
Year Ended June 30, 2014

(Unaudited)

If you have any questions about this report or need additional information, contact, Finance Director, at Puerto Rico Land Authority, 1311 Fernández Juncos Avenue, 19 ½, San Juan, Puerto Rico.

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Puerto Rico Land Authority
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STATEMENT OF NET POSITION
JUNE 30, 2014

	Real Estate Program	FIDA	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 2,521,252	\$ 13,925,322	\$ 16,446,574
Certificates of deposit, with maturities over three months	374,746	12,000,000	12,374,746
Rent and other receivables - net	7,822,078	10,231,794	18,053,872
Internal balances	(2,611,436)	2,611,436	-
Prepaid and other current assets	14,635	2,626	17,261
Total current assets	<u>8,121,275</u>	<u>38,771,178</u>	<u>46,892,453</u>
Capital assets:			
Assets not being depreciated	88,330,357	-	88,330,357
Assets being depreciated	8,468,604	43,270	8,511,874
Total capital assets, net	<u>96,798,961</u>	<u>43,270</u>	<u>96,842,231</u>
Other assets:			
Notes receivable, net	3,387,777	24,774,738	28,162,515
Investments in agricultural businesses	-	6,302,392	6,302,392
Due from Commonwealth of Puerto Rico	338,850	-	338,850
Escrow deposits	1,321,601	-	1,321,601
Total other assets	<u>5,048,228</u>	<u>31,077,130</u>	<u>36,125,358</u>
Total assets	<u>\$ 109,968,464</u>	<u>\$ 69,891,578</u>	<u>\$ 179,860,042</u>

(Continued)

The accompanying notes are an integral part of the financial statements

Puerto Rico Land Authority
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STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Real Estate Program</u>	<u>FIDA</u>	<u>Total</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 21,038,403	\$ 2,100,359	\$ 23,138,762
Advances for farming development	2,817,370	-	2,817,370
Total current liabilities	<u>23,855,773</u>	<u>2,100,359</u>	<u>25,956,132</u>
Non-current liabilities:			
Notes and loans payable	17,051,349	34,408,772	51,460,121
Deposits on rent of land	2,251,900	-	2,251,900
Compensated absences	917,666	192,786	1,110,452
Accrued legal claims	10,696,791	-	10,696,791
Total non-current liabilities	<u>30,917,706</u>	<u>34,601,558</u>	<u>65,519,264</u>
Total liabilities	<u>54,773,479</u>	<u>36,701,917</u>	<u>91,475,396</u>
Deferred inflows of resources	<u>3,948,033</u>	<u>-</u>	<u>3,948,033</u>
Net position:			
Invested in capital assets, net	96,798,961	43,270	96,842,231
Unrestricted	<u>(45,552,009)</u>	<u>33,146,391</u>	<u>(12,405,618)</u>
Total net position	<u>51,246,952</u>	<u>33,189,661</u>	<u>84,436,613</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 109,968,464</u>	<u>\$ 69,891,578</u>	<u>\$ 179,860,042</u>

(Concluded)

The accompanying notes are an integral part of the financial statements

Puerto Rico Land Authority
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	Real Estate Program	FIDA	Total
Operating revenues:			
Rental income	\$ 6,638,516	\$ -	\$ 6,638,516
Service to farmers	1,119,029	-	1,119,029
Interest income	-	1,053,412	1,053,412
Other	471,467	34,879	506,346
Total operating revenues	<u>8,229,012</u>	<u>1,088,291</u>	<u>9,317,303</u>
Operating expenses:			
Program for the production of farming products	1,560,202	3,654,080	5,214,282
Payroll and fringe benefits	8,117,427	1,122,260	9,239,687
Repairs and maintenance	188,898	7,072	195,970
Utilities	894,425	-	894,425
Professional services	660,147	96,430	756,577
Depreciation and amortization	958,661	13,781	972,442
Bad debts	604,780	-	604,780
Other	608,342	79,360	687,702
Total operating expenses	<u>13,592,882</u>	<u>4,972,983</u>	<u>18,565,865</u>
Operating loss	<u>(5,363,870)</u>	<u>(3,884,692)</u>	<u>(9,248,562)</u>

(Continued)

The accompanying notes are an integral part of the financial statements

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	<u>Real Estate Program</u>	<u>FIDA</u>	<u>Total</u>
Operating loss from previous page	\$ (5,363,870)	\$ (3,884,692)	\$ (9,248,562)
Non-operating income (expenses):			
Sales of land	737,355	-	737,355
Coffee and sugar tax appropriations	-	12,866,028	12,866,028
Grant from Commonwealth of Puerto Rico	327,353	-	327,353
Interest income	405,706	-	405,706
Interest expense	<u>(983,409)</u>	<u>(2,424,689)</u>	<u>(3,408,098)</u>
Total non-operating income	<u>487,005</u>	<u>10,441,339</u>	<u>10,928,344</u>
Change in net position	(4,876,865)	6,556,647	1,679,782
Net position:			
Beginning of year	<u>56,123,817</u>	<u>26,633,014</u>	<u>82,756,831</u>
End of year	<u>\$ 51,246,952</u>	<u>\$ 33,189,661</u>	<u>\$ 84,436,613</u>

(Concluded)

The accompanying notes are an integral part of the financial statements

Puerto Rico Land Authority
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STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	Real Estate Program	FIDA	Total
Operating activities:			
Cash received from customers for:			
Rental charges	\$ 6,638,516	\$ -	\$ 6,638,516
Services to farmers	1,119,029	-	1,119,029
Miscellaneous collections	471,467	34,879	506,346
Payments to employees for services	(8,117,427)	(1,122,260)	(9,239,687)
Payments to suppliers for goods and services	(3,431,674)	(4,994,955)	(8,426,629)
Net cash used in operating activities	<u>(3,320,089)</u>	<u>(6,082,336)</u>	<u>(9,402,425)</u>
Non-capital financing activities:			
Contributions from Commonwealth	327,353	-	327,353
Repayment on deposits on sale and rent of land	592,999	-	592,999
Repayment of advances from farming development	(401,316)	-	(401,316)
Coffee and sugar tax appropriations	-	10,976,982	10,976,982
Interest paid	(983,409)	(2,028,458)	(3,011,867)
Issuance of notes payable	-	1,663,913	1,663,913
Repayment of notes payable	-	(4,723,523)	(4,723,523)
Internal balances	722,390	(722,390)	-
Net cash provided by non-capital financing activities	<u>258,017</u>	<u>5,166,524</u>	<u>5,424,541</u>
Total to next page	<u>(3,062,072)</u>	<u>(915,812)</u>	<u>(3,977,884)</u>

(Continued)

The accompanying notes are an integral part of the financial statements

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	Real Estate Program	FIDA	Total
Total from previous page	\$ (3,062,072)	\$ (915,812)	\$ (3,977,884)
Capital and related financing activities:			
Proceeds from sales of land	737,355	-	737,355
Capital expenditures	(565,413)	(2,223)	(567,636)
Net cash used in financing activities	171,942	(2,223)	169,719
Investing activities:			
Collection of principal on notes receivable	469,145	3,046,528	3,515,673
Origination of notes receivable	(32,627)	(5,299,746)	(5,332,373)
Increase in escrow deposits	(984)	-	(984)
Interest income collected	-	1,053,412	1,053,412
Net cash provided by investing activities	435,534	(1,199,806)	(764,272)
Net increase (decrease) in cash and cash equivalents	(2,454,596)	(2,117,841)	(4,572,437)
Cash and cash equivalents:			
At July 1, 2013, beginning of year	4,975,848	16,043,163	21,019,011
At June 30, 2014, end of year	\$ 2,521,252	\$ 13,925,322	\$ 16,446,574

(Concluded)

The accompanying notes are an integral part of the financial statements

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	<u>Real Estate Program</u>	<u>FIDA</u>	<u>Total</u>
Reconciliation of operating loss with net cash used in operating activities:			
Operating loss	\$ (5,363,870)	\$ (3,884,692)	\$ (9,248,562)
Adjustment to reconcile net operating loss to net cash used in operating activities:			
Depreciation	958,661	13,781	972,442
Bad debts	604,780	-	604,780
Interest income	-	(1,053,412)	(1,053,412)
Net change in operating assets and liabilities:			
Rental and other accounts receivable	35,359	-	35,359
Prepaid and other assets	(103,039)	-	(103,039)
Investments in private agricultural business	-	-	-
Accounts payable and accrued liabilities	548,020	(1,158,013)	(609,993)
Net cash used in operating activities	<u>\$ (3,320,089)</u>	<u>\$ (6,082,336)</u>	<u>\$ (9,402,425)</u>

The accompanying notes are an integral part of the financial statements

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

1. Reporting Entity

The Puerto Rico Land Authority (“the Authority”) is a public corporation and a component unit of the Commonwealth of Puerto Rico (the “Commonwealth”). The Authority was created by Act No. 26 approved on April 12, 1941, as amended, to carry out the provisions of the Land Law of Puerto Rico. By provision of Reorganization Plan No. 1 of May 4, 1994, the Land Authority became a programmatic and operational component of the Department of Agriculture.

The Authority main activity consists of the rental of land held for agricultural purposes principally to farmers (the real estate program). The Authority is authorized by law to sell land to other governmental entities or private individuals or entities. Also the Authority provides services to farmers for an agreed fee.

Act No. 26 authorizes the Authority to carry out the following:

- Acquiring land with agricultural potential through purchase, transfer, exchange, bequest and donation or by the exercise of power of forceful expropriation.
- Selling land that has no agricultural use.
- Maintaining land with agricultural potential under lease.
- Leasing heavy agricultural machinery and equipment.
- Conducting all types of transactions related to land purchase, sale and leasing applications.
- Making appraisals of land to be sold.
- Preparing plans and control of land for sale and rent.

The Authority manages infrastructure projects on behalf of the Department of Agriculture. Legislative funds were appropriated to create and improve drainage systems, water and sewer systems, bridges, roads, lakes, lighting systems and others. The Authority’s basic financial statements do not reflect effects of transactions related to such infrastructure projects.

The Authority’s basic financial statements include the balances of the Integral Fund for the Agriculture Development of Puerto Rico or “Fondo Integral para el Desarrollo Agrícola” (“FIDA”), a component unit. FIDA was created during fiscal year 2002. Its primary purpose is to promote private investment in the farm industry in general, with the approval of loans, warranties, direct and indirect investments, and other credit financing facilities, with favorable repayment conditions and interest rates to the agricultural industries.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

2. Basis of Presentation and Summary of Significant Accounting Policies

The accounting and reporting policies of the Authority conform to generally accepted accounting principles in the United States of America (“U.S. GAAP”), as applicable to governmental entities. The Authority follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, in the preparation of its financial statements. The Authority has elected to apply all Financial Accounting Standards Board’s pronouncements issued after November 30, 1989, in accounting and reporting for its business type activities to the extent they do not conflict with GASB pronouncements.

The preparation of financial statements in conformity with U.S. 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 reported period. Actual results could differ from those estimates.

A summary of the Authority’s significant accounting policies applied in the preparation of the accompanying financial statements is summarized as follows:

Measurement Focus and Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred. Enterprises funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including depreciation and interest.

Cash Equivalents

In the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates. In particular, they include short-term investments with original maturities of three months or less.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing notes, rent, and other receivables that may become uncollectible based on collection analyses and prior credit loss experience. Because of uncertainties inherent in the estimation process, management’s estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Investments in Agricultural Businesses

Investments in private entities are reported at cost, since these are not intended to obtain profit, but rather to promote agricultural and related businesses. During the year ended June 30, 2014, the Authority evaluated its investments in agricultural businesses for impairment and determined that no impairment of investments had occurred.

Capital Assets

The Authority defines capital assets as assets with an individual cost of more than \$100 and a useful life of three (3) years or more. Assets to be depreciated were assigned a residual value of 10% of original cost. Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

<u>Description</u>	<u>Useful life (in years)</u>
Building and improvements	20-40
Infrastructure	10-20
Machinery equipment	5-20
Furniture and fixtures	3-7
Vehicles	3-7

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

Accounting for Impairment of Capital Assets

The Authority follows GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2014, the Authority evaluated its capital assets for impairment under the guidance of such statement and determined that no impairment of capital assets had occurred.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Compensated Absences

The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed. The financial statements present the cost of accumulated vacation and sick leave as a liability.

Net position

Net position is classified in the following components in the accompanying statements of net position:

Invested in capital assets, net of related debt

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted

This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Operating Revenues and Expenses

The Authority distinguishes between operating and non-operating revenues and expenses in its Statement of Revenues, Expenses, and Changes in Net Position. The principal revenues of the Authority are charges for land rental service to farmers. The Authority also recognizes as operating revenue interest income generated on loans granted by FIDA. Operating expenses for the Authority include the costs of developing farming products, payroll and fringe benefits, and other administrative expenses, such as utilities, repairs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenue recognition

All leases are deemed operating leases, therefore rental income is recognized as operating revenue over the term of the lease. Advance lease payments are recorded as deferred revenue and recognized as rental revenue when earned over the lease period. Rental income consists of the rent charge plus the property tax calculated using the Municipal Revenues Collection Center tax rate times the number of lots leased.

Revenue from services to farmers is recognized as revenue when the service is rendered.

Revenues from sales of land and other properties are recognized when the title is transferred to the buyer.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Pension Costs

The Authority's employees participate in the retirement system of the Commonwealth, a multiemployer cost sharing plan. Accordingly, pension costs recorded in the accompanying financial statements equal the statutory required contributions with a liability recorded for any unpaid required contributions.

Contributions

The Authority receives an operating grant from the Commonwealth. This grant, which is subject to annual appropriations, is used to partially finance the operations of the real estate program. Amounts received under this grant are recorded as revenues in the period stated in the grant.

In addition, FIDA receives an allocation of sugar and coffee taxes from the Commonwealth. This allocation is recognized as non-operating revenue when received by FIDA.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the last three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

Accrual for Legal Claims

The estimated amount of the liability for legal claim is recorded on the accompanying Statements of Net Assets based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such legal claims. The Authority consults with legal counsel to determine whether an unfavorable outcome is probable. Because of uncertainties inherent in the estimation process, management's estimate of the liability for legal claims may change in the near term.

Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which is effective for periods beginning after December 15, 2012.
- GASB Statement No. 66, Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62, which is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, which is effective for periods beginning after June 15, 2014.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

- GASB Statement No. 69, Government Combinations and Disposals of Government Operations, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 70, Accounting and Reporting for Non-exchange Financial Guarantees, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, the provisions for this Statement should be applied simultaneously with the provisions of Statement No. 68.

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

3. Cash and Cash Equivalents

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority.

Pursuant to the Investment Guidelines for the Commonwealth adopted by Government Development Bank for Puerto Rico (GDB), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. At June 30, 2014, there was \$12,374,746 invested in certificates of deposit.

For deposits, custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. The bank balance of the Authority's deposit at June 30, 2014, excluding deposits in GDB and Economic Development Bank of Puerto Rico (EDB) described below, amounted to \$946,034.

In addition, at June 30, 2014 the Authority maintained cash deposited at GDB and EDB, in the amount approximately \$15,210,000. These amounts are uncollateralized since by law, the governmental banks of the Commonwealth are exempt of the requirement of insuring the deposits of funds of the entities of the Commonwealth.

The Authority received cash which is restricted for the payment of matters related to infrastructure projects and other matters. Cash and cash equivalents at June 30, 2014 included \$3,121,560 of restricted cash. The Authority recognizes a liability when the cash is received until the cash is expended for its intended purposes.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2014

4. Notes Receivable

The following summarizes the activity of notes receivable during the year ended June 30, 2014:

	<u>Balance</u> <u>06/30/13</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/14</u>
Real Estate Program				
Family Farms Program	\$ 3,824,296	32,625	(469,144)	\$ 3,387,777
FIDA				
Private entities	7,284,787	3,154,479	(766,050)	9,673,216
Governmental entities	15,144,788	5,299,746	(5,343,012)	15,101,522
Total notes receivable	<u>\$ 26,253,871</u>	<u>8,486,850</u>	<u>(6,578,206)</u>	<u>\$ 28,162,515</u>

Family Farms Program

The Family Farms Program (the“Program”) was the main program of Corporación Para el Desarrollo Rural (“CDR”), a component unit of the Department of Agriculture of the Commonwealth (“Department of Agriculture”). The Program was created for the purpose of stimulating the use of agricultural land by individuals who meet certain requirements. The land transferred to qualified individuals under the program is granted in usufruct. The usufructuary is obligated to use the land for agricultural purposes only.

The value of the usufruct is the market value of the land and will be paid by the usufructuary over a period of 40 years plus annual interest of 3% on the unpaid balance. In case the usufructuary does not comply with the payment requirements or with other conditions specified in the program the usufructuary is considered terminated.

During the calendar year 2010, the Legislature of the Commonwealth approved the Reorganization Plan No. 7 of the Department of Agriculture (“the Reorganization Plan”). Under the Reorganization Plan, the Program was transferred from CDR to the Authority, which will assume all responsibilities and obligations under the Program. The Reorganization Plan required CDR to transfer to the Authority all notes receivable and the title of all agricultural land under the Program.

As the result, during the year ended June 30, 2011, the Authority recorded notes receivable in the amount of \$3,722,000 under the Program which consisted of total notes receivable received from CDR \$11,333,000 net of an allowance of, for notes receivable considered doubtful of collection in the amount of \$7,611,000.

At June 30, 2014, the notes receivable are recorded net of an allowance for bad debts in the amount of approximately \$3,388,000. In addition, the Authority has not recorded the cost of any land available under the Program or the land that should be recorded for terminated usufruct as explained above.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

FIDA

FIDA, as permitted by law, has entered into line of credit agreements with certain governmental entities and private agricultural businesses. The outstanding balances are unsecured and bear interest at rates ranging from 5% to 9% for governmental entities and from 7% to 10% for private agricultural businesses.

The outstanding balance at June 30, 2014, is presented net of an allowance for doubtful notes in the amount of approximately \$5,078,000.

During the year ended June 30, 2014, interest income recognized on notes receivable from governmental entities amounted to approximately \$1,053,000. Also, at June 30, 2014, the Authority has a note receivable from a governmental entity with an outstanding balance of approximately \$4,992,000 for which no interest is charged as approved by the Authority's board of directors.

5. Rent and Other Receivables

Rents and other receivables at June 30, 2014 consist of:

	<u>Real Estate Program</u>	<u>FIDA</u>	<u>Total</u>
Rent receivable:			
Private entities	\$ 19,278,839	\$ -	\$ 19,278,839
Governmental entities	88,144	-	88,144
Coffee and sugar tax appropriations	-	10,216,794	10,216,794
Sugar Corporation of Puerto Rico	4,460,946	-	4,460,946
Other	148,223	15,000	163,223
Total	<u>23,976,152</u>	<u>10,231,794</u>	<u>34,207,946</u>
Less: allowance for doubtful accounts	<u>(16,154,074)</u>	<u>-</u>	<u>(16,154,074)</u>
Rent and other receivables - net	<u>\$ 7,822,078</u>	<u>\$ 10,231,794</u>	<u>\$ 18,053,872</u>

During the year ended June 30, 2014, the Authority recorded rental income to governmental entities amounting to \$361,097.

The Sugar Corporation of Puerto Rico is a component unit of the Commonwealth and in accordance with Act. No. 189 of September 5, 1996 is in the process of liquidation. Management expects to collect the above balance from funds provided by the Commonwealth of Puerto Rico.

The Authority has a policy of including the allowances for doubtful accounts in all balances over one year old, except for certain balances, principally with governmental entities, that management believes are collectible.

Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

6. Investments in Agricultural Businesses

FIDA is authorized by law to invest in private entities which are dedicated to agricultural activities in Puerto Rico. The activity of such investments during the year ended June 30, 2014 is summarized below:

	<u>Balance</u> <u>06/30/13</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/14</u>
Investments in agricultural business	\$ 6,439,474	207,767	(344,849)	6,302,392

The investments are in convertible preferred stock. Under the terms of the investment contracts FIDA will receive the investment par value plus any accrued and unpaid dividends plus a premium depending on the year the stocks are redeemed as defined in the investment contracts. Generally the redemption premiums range from 2.5% to 30%.

The investments require a payment of dividends at a rate that generally range from 5% to 7.5%. The dividends are cumulative and the investee cannot pay any dividends on common stock until all accrued dividends on the preferred stocks are paid. Dividends not declared and therefore in arrears at June 30, 2014 amount to approximately \$1,855,000.

During each year management evaluates the recoverability of the investments and records a valuation allowance for investments which are deemed as doubtful of realization. As of June 30, 2014, the balance of the investments is net of an allowance of \$2,470,235 for investments considered doubtful of realization.

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Puerto Rico Land Authority
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2014

7. Capital Assets

Capital assets at June 30, 2014 consist of the following:

Description	Beginning balance	Increase	Decrease	Ending balance
Capital assets not being depreciated:				
Land	\$ 87,530,050	-	(93,922)	\$ 87,436,128
Construction in progress	667,736	397,855	(171,362)	894,229
	<u>88,197,786</u>	<u>397,855</u>	<u>(265,284)</u>	<u>88,330,357</u>
Capital assets being depreciated:				
Buildings and improvements	6,961,450	-	-	6,961,450
Infrastructure	16,057,958	-	-	16,057,958
Industrial equipment	2,413,817	-	-	2,413,817
Machinery and equipment	7,463,671	159,055	(91,869)	7,530,857
Vehicles	772,192	-	(67,819)	704,373
Furniture and fixtures	2,773,486	14,961	(52,218)	2,736,229
	<u>36,442,574</u>	<u>174,016</u>	<u>(211,906)</u>	<u>36,404,684</u>
Less: accumulated depreciation	(27,100,195)	-	(792,615)	(27,892,810)
	<u>9,342,379</u>	<u>174,016</u>	<u>(1,004,521)</u>	<u>8,511,874</u>
Total capital assets, net	<u>\$ 97,540,165</u>	<u>571,871</u>	<u>(1,269,805)</u>	<u>\$ 96,842,231</u>

By virtue of Act No. 189 of September 5, 1996, known as the "Negotiation for the transfer of Assets and Liabilities of the Sugar Corporation and/or the Land Authority Act", the Sugar Corporation and the Authority were authorized to transfer certain assets used in the production, marketing and selling of sugar to the sugarcane farmers ("Colonos"). The Act imposed several restrictions upon the assets transferred to the sugar cane owners in order to maintain the benefits of the Act. Because of the restrictions imposed by the Act and because of the infringement by the sugarcane growers of said restrictions, the assets were returned to the Sugar Corporation and the Land Authority. On September 2, 2004, the "Agroindustria Azucarera del Oeste, Inc., the Authority and the Sugar Corporation, agreed to return all assets by virtue of Act. No. 189 in exchange of payments of certain obligations and release of debt owed to the Sugar Corporation to return all assets by virtue of Act. No. 189 in exchange of payments of certain obligations and release of debt owed to the Sugar Corporation.

The assets received have an estimated book value of \$4,090,000 and consist of the following:

Land	\$1,535,000
Buildings	873,000
Machinery and equipment	<u>1,682,000</u>
Total	<u>\$4,090,000</u>

Puerto Rico Land Authority
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

The Act establishes that in case of infringement, all assets transferred would be returned at cost or fair market value, whichever is lower. Due to significant adverse environmental damages, equipment becoming obsolete and unfit for industrial purposes and a projection of future costs associated to clean up premises and legal actions involved, the Authority considered this property as fully impaired; therefore, no value had been assigned in the accompanying financial statements. The Authority is trying to consolidate all impaired equipment and obsolete structures in sugar mills to convert into disposal material to be sold. As of June 30, 2014, the Authority cannot determine future losses or gains related to these impaired assets.

8. Deposits on Sale of Land

The Authority is authorized by the Land Law of Puerto Rico to sell surplus land and properties that have no agricultural use to other governmental entities and individuals. The liability for deposits reflected in the accompanying statement of net assets represents amounts received in connection with land transactions in process. It also includes legal foreclosures and expropriations cases not finally executed by court.

9. Notes Payable

Notes payable at June 30, 2014 consist of the following:

Real Estate Program

Participation in bonds payable issued by

Puerto Rico Finance Corporation

\$17,051,349

On December 27, 2001, the Authority entered into a loan agreement (“the Note”) with the GDB to refinance certain debts, as authorized by Act No. 164 of December 17, 2001. The Puerto Rico Public Finance Corporation (“PFC”) acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds (“PFC Bonds”). The PFC Bonds were issued under a trust indenture whereby the PFC pledged and sold the Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold.

During June 2004, the PFC issued PFC 2004 series A and B bonds and advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164 of December 17, 2001. The Authority recognizes a mirror effect of this advance refunding by the PFC in its own notes payable in proportion to the portion of the Authority’s notes payable included in the PFC refunding. The aggregate debt service requirements of the notes will be funded with annual appropriations from the Commonwealth.

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Puerto Rico Land Authority
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

During the fiscal year ended June 30, 2012, PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds and refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2004 and before under Act No. 164 of December 17, 2001, including \$15,099,000 of the Authority corresponding portion of the debt. The Authority recognizes a mirror effect of these current refunding by the PFC in its own notes payable in proportion to the portion of the Authority's notes payable included in the PFC refunding.

The Authority recorded a due from Commonwealth amounting to \$338,850 at June 30, 2014 for advances made to the bond trustee to cover future debt service requirements of the refunded notes. The aggregate debt service requirements of the refunded notes in excess of the advances already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

In December 2011, the Puerto Rico Sales Tax Financing Corporation (known as "COFINA" by its Spanish acronym), issued bonds and a portion of the proceeds from such bond issuance was used to cancel certain appropriations bonds of the Commonwealth and its agencies, departments and certain component units, including \$8,355,950 of the Authority's note payable to PFC. As a result of this bond defeasance, the Authority recognized a contribution from COFINA of \$8,555,495 and recognized a loss on extinguishment of debt of \$54,886 for the year ended June 30, 2012.

The Note's outstanding balance at June 30, 2014, was \$17,051,349 and matures throughout August 1, 2030. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164.

The activities of the notes payable during the year ended June 30, 2014 is as follows:

	<u>Balance</u> <u>06/30/13</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/14</u>
Notes payable	\$ 17,051,349	-	-	\$ 17,051,349

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Puerto Rico Land Authority
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

The estimated repayment schedule of the notes payable during the next years follows:

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 952,879	\$ 952,879
2016	500,968	939,912	1,440,880
2017	407,204	925,611	1,332,815
2018-2022	2,280,051	4,363,069	6,643,120
2023-2027	2,322,464	3,827,408	6,149,872
2028-2032	11,540,662	1,039,287	12,579,949
Totals	\$ 17,051,349	\$ 12,048,166	\$ 29,099,515

FIDA

FIDA maintains a non-revolving line of credit with the GDB in which FIDA may borrow up to \$94 million. Proceeds from this line of credit are used by FIDA to fund investments in agricultural businesses, loans to farmers and contributions as permitted by laws and regulations. Repayment of principal and interest is made from the collection of coffee and sugar taxes allocated by the Commonwealth. The note does not have a formal repayment schedule. The outstanding bear interest at an annual rate of 5.00% and is due on March 1, 2027.

A summary of the activity in the line of credit during the year ended June 30, 2014 follows:

	Balance 06/30/13	Increase	Decrease	Balance 06/30/14
Line of credit payable to GDB	\$ 37,018,382	1,663,913	(4,273,523)	\$ 34,408,772

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10. Non-Current Liabilities

Changes in noncurrent liabilities, other than the notes and loans payable due to governmental entities described above, for the year ended June 30, 2014 are summarized as follows:

	Balance 06/30/13	Increase	Decrease	Balance 06/30/14	Due within one year
Compensated absences	\$ 1,847,101	228,491	-	\$ 2,075,592	\$ 965,140
Accrued legal claims	11,181,178	-	(484,387)	\$ 10,696,791	-
	<u>\$ 13,028,279</u>	<u>228,491</u>	<u>(484,387)</u>	<u>\$ 12,772,383</u>	<u>\$ 965,140</u>

11. Accounts and Accrued Expenses Payable

Accounts and accrued expenses payable at June 30, 2014 consist of the following:

	Real Estate		
	Program	FIDA	Total
Suppliers	\$ 1,077,461	\$ 1,510,483	\$ 2,587,944
Agencies and public corporations of the Commonwealth of Puerto Rico	-	-	-
Payrolls and withholdings	16,700,110	-	16,700,110
Compensated absences	1,951,052	-	1,951,052
Accrued interest	965,140	-	965,140
	344,640	589,876	934,516
	<u>\$ 21,038,403</u>	<u>\$ 2,100,359</u>	<u>\$ 23,138,762</u>

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12. Operating Leases

The Authority leases land, principally for agricultural purposes, to farmers and certain governmental under operating leases. The lease terms varies from 5 to 100 years and in certain instances includes renewal additional periods. Applicable real estate taxes, insurance and maintenance are paid by lessees.

Future minimum lease payments receivable on existing non-cancelable operating leases at June 30, 2014, which have an initial term of one year or more, are approximately as follows:

Fiscal year ending June 30,	Amount
2015	\$ 7,017,498
2016	7,157,848
2017	7,301,005
2018	7,447,025
2019	7,447,025
2020-2024	37,235,123
2025-2029	37,235,123
2030-2034	37,235,123
2035-2039	37,235,123
2040-2044	37,235,123
Thereafter	402,139,328
	<u>\$ 624,685,344</u>

13. Contingencies

The Authority is a defendant in various claims most of them resulting from the closing of several sugar mills throughout the years and from events generally incidental to its operations. Also, it has various environmental claims and penalties imposed by The Environmental Protection Agency (EPA), mainly from the handling of pesticide warehouses. The Authority is in the process of litigating such claims. The accompanying statement of net position includes a reserve of approximately \$5.7 million in relation to these matters but the ultimate outcome is uncertain at this time and accordingly, the ultimate liability if any, cannot be presently determined.

The Authority deposited in the Superior Court in San Juan, the amount of \$5 million for expropriation of land from “Comunidad Agrícola Bianchi”. The case is still in court because “Comunidad Agrícola Bianchi” does not consider the amount given as fair value of the property. The Authority’s management believes that the case will be settled for an additional \$5 million, which was considered in the reserve for contingencies included in the accompanying basic financial statements.

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During 2006, the “Compañía de la Central Roig, Inc.,” which is one of the two corporations organized by sugarcane farmers that received 50% of the transferred assets of the Sugar Corporation (the sugar mills known as Central Roig, Central Coloso, Central Plata and Central Mercedita, together with the “Refinería Mercedita”) in compliance with and according to the provisions of Public Law No. 189 of December 26, 1997, is suing, among other parties, the Authority, alleging all sorts of action in damages against the different parties, based upon their inability to produce sugarcane as contemplated by Public Law No. 189 at the time that the aforementioned assets were transferred to them. The plaintiffs are basically alleging that because of the failure of the different governmental agencies and third parties involved, to comply with certain, undefined and allegedly multiple obligations and commitments to which they were bound, they suffered economic damages in excess of \$100 million. This case is related to two other cases considered in our contingency reserve. Management, based on advice from legal counsel, believes that no potential loss is forecasted as of this date, other than attorney’s fees and litigation expenses.

14. Retirement Plan

Defined Benefit Plan

The Government of Puerto Rico Employees Retirement System (ERS) is a cost-sharing multiple defined benefit pension plans sponsored by, and reported as a component unit of, the Commonwealth. All regular employees of the Authority under the age of 55 at the date of employment become members of the ERS as a consequence of their employment.

The ERS provides retirement plan, death, and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952. Disability retirement benefits for occupational and non-occupational disabilities are available to members enrolled in the plan before January 1, 2000. Benefits vest after ten years of plan participation.

The amount of the annuity shall be one and one half percent (1.5%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case shall the annuity be less than \$200 per month.

Participants who have completed at least thirty years of creditable service are entitled to receive a Merit Annuity. Such participants who have not attained fifty-five years of age will receive 65% of the average compensation or if they have attained fifty-five years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten years of service. No benefits are payable if participants receive a refund of their accumulated contributions.

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Commonwealth legislation requires that employees hired before April 1, 1990 contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% of their gross monthly salary in excess of \$550. Employees hired after April 1, 1990 contribute 8.275% of their gross monthly salary. The Authority's contributions are 11.275% of the gross monthly salary.

Total employer contributions during the year ended June 30, 2014 amounted to approximately \$782,000, which represented 100% of required contributions.

Defined Contribution Plan

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted for the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the ERS as of December 31, 1999 had the option to stay in the defined benefit plan or transfer to System 2000. Employees joining the Authority on or after January 1, 2000 are only allowed to become members of System 2000.

System 2000 is a defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth. The annuity is based on a formula that assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) is invested in an account, which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the ERS' investment portfolio (net of management fee), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the ERS on or after April 1, 1990. Disability pensions are not granted under System 2000.

The Authority's contributions of 11.275% of the employee's salary are used to fund the defined benefit plan. Total Authority's contributions during the fiscal year ended June 30, 2014 amounted to approximately \$690,000, which represented 100% of required contributions.

On April 4, 2013, by means of Act No. 3, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted for the purpose of establishing a new pension program effective July 1, 2013 for all active participants. Under the Act No. 3, all active participants at July 1, 2013 under Act No. 447 and Act No. 1 will join a "hybrid" program, a combination of defined benefits and defined contribution plans.

All active participants under Act No. 447 and Act No. 1 will preserve benefits accrued as of June 30, 2014. The annuity for these participants will be computed based on the average compensation multiplied by the credited years of service as of June 30, 2014 and contributions made to the new defined contribution program after June 30, 2014. For participants under System 2000, all contributions made before June 30, 2014 will be transferred to the new defined contribution program.

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To qualify for an annuity under the new “Hybrid Program”, participants have to meet two conditions: five years of credited service and \$10,000 or more in contributions made under this program.

The annuity will be based on a distribution of all contributions made, divided by a factor of life expectancy of the participant at the age of retirement.

Effective July 1, 2013, all participants will contribute a minimum of 10% with no maximum restriction of their gross monthly salary to the program. Commencing in fiscal year 2014, the Authority will contribute 12.275% of the employee’s gross monthly salary that will increase 1% per year until fiscal year 2016 and 1.25% per year until fiscal year 2021.

The new pension program also establish a new age for retirement as follows:

For participants who entered the program before April 1, 1990 Act No. 447:

<u>Age at June 30, 2014</u>	<u>Age Under New Program</u>
57 years or more	59 years
56 years but not more than 57	60 years
55 years or less	61 years

For participants who entered the program on or after April 1, 1990 through December 31, 1999 (Act No. 1):

<u>Age at June 30, 2014</u>	<u>Age Under New Program</u>
65 years or less	65 years

For participants who entered the program on or after January 1, 2000 through June 30, 2013 (System 2000):

<u>Age at June 30, 2014</u>	<u>Age Under New Program</u>
59 years	61 years
58 years	62 years
57 years	63 years
56 years	64 years
55 years or less	65 years

For participants who entered into the program on or after July 1, 2013 (Act 3) the retirement age will be sixty-seven (67) years.

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Additional information on the ERS is provided in its financial statements for the year ended June 30, 2014 a copy of which can be obtained from the Administrator of the Retirement System: PO Box 42003, San Juan, Puerto Rico 00940.

15. Subsequent Events

Subsequent events were evaluated through November 26, 2014, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2014 financial statements.

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