COMMONWEALTH OF PUERTO RICO
AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A COMPONENT UNIT OF THE DEPARTMENT OF AGRICULTURE)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(WITH THE ADDITIONAL REPORTS REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

CPA DIAZ-MARTINEZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

This page intentionally left blank.

continue

PART I

FINANCIAL

This page intentionally left blank.

CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

202 Gautier Benitez Ave.
Consolidated Mall C-31
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 1185 / 1370
Fax: (787) 746-0525
cpadiazmartinez.com

INDEPENDENT AUDITOR'S REPORT

To the Administrator of the
Agricultural Enterprises Development Administration
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Agricultural Enterprises Development Administration of the Commonwealth of Puerto Rico (AEDA)**, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **AEDA**'s basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the 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 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 **AEDA**'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 the 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 our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the **Agricultural Enterprises Development Administration of the Commonwealth of Puerto Rico**, as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of **AEDA** is intended to present the financial position and the changes in financial position of only that portion of the governmental activities and business-type activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of **AEDA**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Newly Adopted Standards

As discussed in Note 10 to the financial statements, **AEDA** adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65*, Items Previously Reported as Assets and Liabilities,* Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25,* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* effective July 1, 2013. Our opinions is not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 9 to the financial statements, the 2013 financial statements have been restated to correct misstatements. Our opinions is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 16, and budgetary comparison information on pages 61 and 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **AEDA**'s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization,* on pages 64 and 65, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 on our consideration of **AEDA**'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 the 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* in considering **AEDA**'s internal control over financial reporting and compliance.

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
December 18, 2014

Stamp No. E135428 was affixed to
the original report.

This page intentionally left blank.

The following is a discussion and analysis of the Agricultural Enterprises Development Administration (AEDA)'s financial performance, including an overview and analysis of the financial activities of the AEDA for the fiscal year ended June 30, 2014. Readers should consider this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the AEDA's financial statements, including the notes to the financial statements, which are located after this analysis.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The government-wide financial statements report information about the AEDA as a whole using the economic resources measurement focus and accrual basis of accounting:

- Net Position of the AEDA Governmental Activities, on a government-wide basis, decreased at the close of fiscal year 2014 by ($8,724,044), and 2013 increased by $12,692,440.
- Net Position of the AEDA Business-Type Activities, on a government-wide basis, presented a deficit at the close of fiscal year 2014 by ($84,254,817) and 2013 by ($102,590,467), as restated.
- Net Position of the AEDA, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2014 by $75,957, and 2013 by $8,800,001, as restated.
- Total Revenues of the AEDA Governmental Activities, on a government-wide basis, decreased by $3.5 million (4.0%) and expenses increased $1.7 million (2.0%) in comparison with year 2013.
- Total Revenues of the AEDA Business-Type Activities, on a government-wide basis, increase by $11,140,464 (11.0%) and expenses decreased ($3,778,258) (4.0%) in comparison with year 2013, due principally activities of a coffee program.
- Total net change in net position, on a government-wide basis, amounted to ($9,611,606), a decrease of ($7,146,624) (43.0%) with respect to prior year (2013) net change, due principally activities of a coffee program.

Fund Highlights

The fund financial statements provide detailed information about the AEDA's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the AEDA's governmental funds reported combined ending fund balances of $112,868,119, a decrease of $8.5 million in comparison with the prior year, as restated.
- The General Fund reported an excess of expenditures over revenues and other financing sources and uses of ($15,799,929) and unassigned fund balance deficit of (81,162,836).
- Proprietary funds reported combined fund net deficit of (84,254,817), an increase of $19,587.012 in comparison with prior year.
- The business-type activities of the AEDA include the Agricultural Services.

General Financial Highlights

- The net investment in capital assets from governmental activities as of June 30, 2014 was $7,654,541 (net of accumulated depreciation of $13,620,325), and $19,587,012 (net of accumulated depreciation of $20,858,636) from business-type activities.
- Long term debt notes payable and line of credit decreased to $131,204,197, approximately a decrease of 0.75% ($978,089) with respect to prior year balance.
- Other noncurrent liabilities increases and net reductions from payments amounted to $2,107,266 and ($1,619,893), respectively from governmental activities, and increases $1,886,470 and net reduction of ($2,835,702) from business-type activities.
- On a budgetary basis, actual expenditures exceeded actual revenues by $12,079,393.

continue

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the AEDA's basic financial statements, which include three components: (1) Governmental-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements. The focus is on both the AEDA as a whole (governmental-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the AEDA's accountability.

The AEDA's basic financial statements consist of two kinds of statements, each with a different view of the AEDA's finances. The Government-Wide Financial Statements provide both long-term and short-term information about the AEDA's overall financial status. The Fund Financial Statements focus on major aspects of the AEDA's operations, reporting those operations in more detail than the government-wide statements. The following figure summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

	GOVERNMENT-WIDE STATEMENTS	FUND FINANCIAL STATEMENTS	
		GOVERNMENTAL	PROPRIETARY
SCOPE	Entire entity	The day-to-day operating activities of the AEDA for basic governmental services	The day-to-day operating activities of the AEDA for business-type enterprises
ACCOUNTING BASIS AND MEASUREMENT FOCUS	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
TYPE OF ASSET AND LIABILITY INFORMATION	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term
TYPE OF INFLOW AND OUTFLOW INFORMATION	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid

Basic Financial Statements

- ***Government-Wide Financial Statements***

  The government-wide statements report information about the AEDA as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

  Statement of Net Position –The *Statement of Net Position* presents information on all of the AEDA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

continue

Statement of Activities – The *Statement of Activities* presents information showing how the AEDA's net position (deficit) changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected service charges and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the AEDA that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the AEDA include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through legislative appropriations (governmental activities) and intergovernmental revenues. The business-type activities of the AEDA include the purchase and sale of different kind of agricultural products like coffee, chicken meat, vegetables and other agricultural services.

The government-wide financial statements can be found on pages 17-19 of this report.

- ***Fund Financial Statements***

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The AEDA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the AEDA can be divided into two categories: governmental funds and proprietary funds. The fund financial statements provide more detailed information about the AEDA's most significant funds. Funds are accounting devices that the AEDA uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Government regulations, as well by bond covenants.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the AEDA's near-term financing requirements.

As required by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the AEDA's governmental funds reported combined ending fund balances of $112.9 million. Of this amount there is a deficit on the General Fund of ($82.2 million), therefore there's no available balance for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

continue

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The AEDA maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for two major funds and an aggregate total for all non-major funds. The AEDA's major governmental funds are the General Fund and Incentives Fund.

The General Fund is the chief operating fund of the AEDA. At the end of the current fiscal year, the General Fund balance was ($82,162,835).

The governmental fund financial statements can be found on pages 20-23 of this report.

The AEDA adopts an annual appropriated budget for its general fund. A Budgetary Comparison Schedule – Budget and Actual has been provided for the General Fund to demonstrate compliance with this budget (pages 61-62).

Proprietary Funds – The AEDA maintain only one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The AEDA uses enterprise funds to account for its Agricultural Services Enterprise.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary funds financial statements provide separate information of Agricultural Services Enterprises, which are considered to be major proprietary fund of the AEDA.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

- ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the basic financial statements can be found on pages 27-59 of this report.

This space intentionally left blank.

continue

FINANCIAL ANALYSIS OF THE AEDA AS A WHOLE

Government-Wide Financial Statements Analysis

The following table presents a summary of the Statements of Net Position as of June 30, 2014 and 2013:

Table 1

Commonwealth of Puerto Rico
Agricultural Enterprises Development Administration
(A Component Unit of the Puerto Rico Department of Agriculture)
Statement of Net Position
As of June 30,

	Governmental Activities		Business-Type Activities		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Current and Non-current Assets (as Restated)	$ 143,752,464	$ 190,099,735	$ 52,978,107	$ 84,487,154	$ 196,730,571	$ 274,586,889
Capital Assets (as Restated)	7,654,541	8,334,349	19,587,012	20,697,271	27,241,553	29,031,620
Total Assets	**151,407,005**	**198,434,084**	**72,565,119**	**105,184,425**	**223,972,124**	**303,618,509**
Current Liabilities	67,858,403	90,140,156	137,138,296	187,038,911	204,996,699	277,179,067
Noncurrent Liabilities	83,472,645	99,493,927	19,681,640	20,735,981	103,154,285	120,229,908
Total Liabilities	**151,331,048**	**189,634,083**	**156,819,936**	**207,774,892**	**308,150,984**	**397,408,975**
Net Position:						
Net Investment in Capital Assets	7,654,541	8,334,349	19,587,012	20,697,271	27,241,553	29,031,620
Restricted	191,660,359	183,651,599	-	-	191,660,359	183,651,599
Unrestricted	(199,238,943)	(183,185,947)	(103,841,829)	(123,287,738)	(303,080,772)	(306,473,685)
Total Net Position	**$ 75,957**	**$ 8,800,001**	**$ (84,254,817)**	**$ (102,590,467)**	**$ (84,178,860)**	**$ (93,790,466)**

Analysis of Net Position

As noted earlier, net position (deficit) may serve over time as a useful indicator of a government's financial position. AEDA's liabilities exceeded its assets by ($97.0 million) at the close of the most recent fiscal year.

A portion of the AEDA's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, motor vehicles, and machinery and equipment) for $27.2 million [total capital assets less accumulated depreciation]. The AEDA uses these assets to provide services to its citizens and consequently, these assets are not available for future spending.

Restricted net position represent resources that are subject to external restrictions on how they may be used.

Unrestricted net position are the part of the net position that can be used to finance day-to-day operations without constrains established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2014 the AEDA presented unrestricted net position of ($84.1 million). This balance was affected by long term obligations such as compensated absences $5,359,618, and other debts for the amount of $25,679,705 (including an increase in Termination Benefits – Law 70 - obligation of $24,935,331) for which the AEDA did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. There is ($84,254,817) in deficit in net position reported in connection with the AEDA's business-type activities and $79,957 in governmental activities.

continue

Changes in Net Position

The following table summarizes the changes in net position for the years ended June 30, 2014 and 2013:

Table 2

Commonwealth of Puerto Rico
Agricultural Enterprises Development Administration
(A Component Unit of the Puerto Rico Department of Agriculture)
Changes in Net Position
For the Years Ended June 30,

	Governmental Activities		Business-Type Activities		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Revenues:						
Program Revenues:						
Charges for Services	$ -	$ -	$ 109,734,497	$ 99,169,789	$ 109,734,497	$ 99,169,789
Operating Grants and Contributions	81,288,445	86,393,831	3,184,000	2,331,024	84,472,445	88,724,855
Capital Grants and Contributions	2,021,988	-	-	-	2,021,988	-
General Revenues:						
Interest Income	6,597	35,177	38,597	-	45,194	35,177
Rent Income	292,989	294,162	4,500	500	297,489	294,662
Other General Revenues	912,248	1,272,350	37,165	356,982	949,413	1,629,332
Total Revenues	84,522,267	87,995,520	112,998,759	101,858,295	197,521,026	189,853,815
Governmental Activities Expenses:						
Incentives and Subsidies	64,556,800	59,122,029	-	-	64,556,800	59,122,029
General Government - Administrative and Operating	20,545,721	17,371,919	-	-	20,545,721	17,371,919
Interest Costs	416,178	7,364,406	-	-	416,178	7,364,406
Total Expenses	85,518,699	83,858,354	-	-	85,518,699	83,858,354
Business-Type Activities Expenses:						
Agricultural Services	-	-	94,663,109	98,441,367	94,663,109	98,441,367
Total Expenses	-	-	94,663,109	98,441,367	94,663,109	98,441,367
Increase (Decrease) in Net Position Before Transfer	(996,432)	4,137,166	18,335,650	3,416,928	17,339,218	7,554,094
Transfer-in (Out)	(7,727,612)	8,555,275	-	648,861	(7,727,612)	9,204,136
Changes in Net Position	**(8,724,044)**	**12,692,441**	**18,335,650**	**4,065,789**	**9,611,606**	**16,758,230**
Net Position - Beginning	8,800,001	(3,892,440)	(102,590,467)	(106,656,256)	(93,790,466)	(110,548,696)
Net Position - Ending	**$ 75,957**	**$ 8,800,001**	**$ (84,254,817)**	**$ (102,590,467)**	**$ (84,178,860)**	**$ (93,790,466)**

Analysis of Changes in Net Position

The AEDA's net position overall increase by $9,611,606 during fiscal year 2013-2014, compared to a $16,758,230 increase last fiscal year. The governmental activities component of 2013-2014 change was a ($8,724,044) decrease, and business-type activities increase of $18,335,650, that compare with the prior year net change of $16,758,000. A discussion of these changes is presented in the government and business-type activities below.

Governmental Activities. The AEDA's net position decreased by ($8,724,044) during the current fiscal year. For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Also, non-capitalized expenses were incurred for maintenance of capital assets. Principal decrease was in the Legislative Appropriation revenues which presented a decrease of ($5.2 million) during fiscal year 2013-2014.

continue

Approximately 96% of the AEDA's revenues came from state grants and contributions, and 4% from other sources. The AEDA's expenses cover a range of services. The largest expenses are general administration with 25.1%, and agricultural services with 74.9% of total expenses.

Expenses increase less of 0.2% or ($1,660,345) in comparison with 2013 year principally from payroll & related benefits expenditures.

Business-Type Activities. The proprietary fund net position increased by $18,335,650 during the current fiscal year. The increase in charges for services corresponds to the coffee program and sales to the Puerto Rico Department of Education.

The following table focuses on the cost of each of the AEDA's largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program–specific intergovernmental aid):

Table 3

Commonwealth of Puerto Rico
Agricultural Enterprises Development Administration
(A Component Unit of the Puerto Rico Department of Agriculture)
Agency Cost of Programs/Functions
Fiscal Years Ended June 30,

	Total Cost of Services		Net Cost of Services	
	2014	**2013**	**2014**	**2013**
Governmental Activities:				
Incentives and Subsidies	$ 64,556,800	$ 59,122,029	$ (15,630,943)	$ (27,271,802)
General Government - Administrative and Operating	20,545,721	17,371,919	17,423,031	17,371,919
Interest Costs	416,178	7,364,406	416,178	7,364,406
Total Expenses	85,518,699	83,858,354	2,208,266	(2,535,477)
Business-Type Activities:				
Agricultural Services	94,663,109	98,441,367	(18,255,388)	(3,059,446)
Total Expenses	94,663,109	98,441,367	(18,255,388)	(3,059,446)
Total Expenses	**$ 180,181,808**	**$ 182,299,721**	**$ (16,047,122)**	**$ (5,594,923)**

This space intentionally left blank.

continue

FINANCIAL ANALYSIS OF THE AEDA'S FUNDS

Governmental Funds

The focus of the AEDA's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the AEDA's financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent (see Table 4).

Table 4

Commonwealth of Puerto Rico
Agricultural Enterprises Development Administration
(A Component Unit of the Puerto Rico Department of Agriculture)
Fund Balance
As of June 30,

	2014	2013
Fund Balances:		
Nonexpendable	$ 1,093,051	$ 152,047
Restricted	193,937,904	183,651,599
Committed	-	-
Assigned	-	-
Unassigned	(82,162,836)	(62,403,408)
Total	$ 112,868,119	$ 121,400,238

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the AEDA's governmental funds reported combined ending fund balances of $112.9 million. No amount is available for spending at the government's discretion (Unassigned Fund Balance) since a deficit is reported. The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed. For the fiscal year ended June 30, 2013, the governmental funds reported combined ending fund balances of $121.4 million, as restated, with a net decrease of approximately ($8.5 million) in the current year. This decrease was due primarily by excess of expenditures over revenues on the general fund.

The general fund is the operating fund of the AEDA. Unassigned Fund Balance of the General Fund presents a deficit of ($81.2 million) represents approximately 54.9% of total fund balances.

For the year ended June 30, 2014, the fund balance of the general fund decreased by ($15.8 million) when in the prior year there is a decrease of ($13.1 million).

This space intentionally left blank.

continue

Table 5

Commonwealth of Puerto Rico

Agricultural Enterprises Development Administration

(A Component Unit of the Puerto Rico Department of Agriculture)

General Fund

As of June 30,

Description	2014	2013
Revenues:		
Appropriation from Commonwealth	$ 3,122,690	$ 4,089,107
Federal Grants	-	-
Interests	1,964	79
Rent	292,989	294,162
Other	176,175	303,118
Total Revenues	3,593,818	4,686,466
Expenditures:		
Incentives, Subsidies and Other Services	-	-
General Government - Administrative and Operatinag Activities	19,339,849	14,945,925
Capital Outlay	35,858	-
Debt Service Principal and Interest	1,394,267	11,915,527
Total Expenditures	20,769,974	26,861,452
Net Transfer In (Out)	1,376,227	9,060,647
Net Change in Fund Balance	**$ (15,799,929)**	**$ (13,114,339)**

Proprietary Funds

The AEDA's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2013-2014 was equal to the prior year budget. Actual revenues were more than the revised budgeted revenues by $2.8 million due to receipt of additional legislative appropriations and other revenues.

The AEDA reported increase expenditures mainly related to payroll and public services increases when compared to prior year.

continue

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the AEDA has invested $27,241,553 (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, vehicles and equipment. This amount represents a net decrease of $1,790,068 or 6.2% less than prior year.

The AEDA acquired a total of $393,081 of capital assets during the fiscal year 2013-2014. Governmental Activities additions were $35,858 and Business-Type Activities were $357,223.

Governmental Activities - Prior year adjustment was presented for motor vehicles and machinery and equipment for a total amount of $835,425 (net). During the year, motor vehicles, and machinery and equipment was retired resulting in a loss of ($30,581).

Business-Type Activities- Prior year adjustment was presented for equipment for a total amount of $1.7 million.

This space intentionally left blank.

continue

Table 6 present the components of capital assets during the fiscal years 2014 and 2013:

Table 6

Commonwealth of Puerto Rico
Agricultural Enterprises Development Administration
(A Component Unit of the Puerto Rico Department of Agriculture)
Capital Assets, Net
As of June 30,

Description	2014	2013
Governmental Activities:		
Non-Depreciable Capital Assets:		
Land	$ 546,678	$ 546,678
Depreciable Capital Assets (Net):		
Buildings	1,729,533	1,987,450
Equipment	4,867,406	5,279,845
Furniture & Fixtures	413,022	422,220
Motor Vehicles	89,514	89,516
Other	8,388	8,640
Total Governmental Capital Assets	7,654,541	8,334,349
Business-Type Activities:		
Non-Depreciable Capital Assets:		
Land	3,192,804	3,192,804
Depreciable Capital Assets (Net):		
Buildings	11,224,227	12,261,419
Equipment	4,204,901	4,443,391
Furniture & Fixtures	223,327	234,633
Motor Vehicles	713,475	536,456
Other	28,278	28,569
Total Business-Type Capital Assets	19,587,012	20,697,272
Total	**$ 27,241,553**	**$ 29,031,621**

Additional information on the AEDA's capital assets can be found in Note 5 to the basic financial statements on pages 42-43 of this report.

This space intentionally left blank.

continue

Noncurrent Liabilities

At year-end, the AEDA had $162,243,520 in outstanding debt including short-term lines of credit and legal claims, and long-term debt with Governmental Development Bank and private banking institutions. This amount represents a decrease of $1,822,368, or (1.8%) with respect to prior year. Following is a summary of the AEDA's outstanding long-term debts as of June 30, 2014 and 2013:

Table 7

Commonwealth of Puerto Rico
Agricultural Enterprises Development Administration
(A Component Unit of the Puerto Rico Department of Agriculture)
Outstanding Long-Term Debts
As of June 30,

	2014	2013
Governmental Activities:		
Notes Payable	$ 97,355,015	$ 98,333,104
Compensated Absences	1,992,389	1,908,706
Post-Employment Termination Benefits	6,536,799	6,860,428
Total	$ 105,884,203	$ 107,102,238
Business-Type Activities:		
Notes Payable	$ 1,475,673	$ 1,475,673
Compensated Absences	3,367,229	3,014,391
Post-Employment Termination Benefits	18,398,532	19,700,602
Total	$ 23,241,434	$ 24,190,666

More detailed information about the AEDA's short-term and long-term liabilities is presented in Note 6 to the basic financial statements on pages 44-46 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The AEDA applied a conservative approach in development budget estimates. The AEDA expects limited changes in revenues for the next year due to Puerto Rico economic rescission. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with pending internal revenue code reform during the year 2014-2015.

CONTACTING THE AEDA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the AEDA's finances and to demonstrate the AEDA's accountability for the money it receives. If you have questions about this report or need additional information, contact the AEDA's Office of Finance Affairs at (787) 304-5350 Ext. 2159 or P.O. Box 9200, San Juan, Puerto Rico 00908-0200.

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets:			
Cash	$ 41,353,944	$ -	$ 41,353,944
Receivables (Net):			
Trade	304,282	320,139	624,421
Governmental Entities	28,536	46,060,605	46,089,141
Internal Balance	99,375,440	(99,375,440)	-
Legislative Appropriations	39,950	-	39,950
Loans and Notes Receivable	1,518,046	-	1,518,046
Other	39,216	22,970	62,186
Inventory		6,554,692	6,554,692
Office Supplies	150,860	-	150,860
Prepaid Expenses	942,190	19,701	961,891
Total Current Assets	**143,752,464**	**(46,397,333)**	**97,355,131**
Non-Current Assets:			
Property, Plant and Equipment, Net	7,654,541	19,587,012	27,241,553
TOTAL ASSETS	**151,407,005**	**(26,810,321)**	**124,596,684**

continue

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
LIABILITIES:			
Current Liabilities:			
Accounts Payable Trade	$ 13,558,912	$ 15,237,079	$ 28,795,991
Accounts Payable Farmers	5,994,475	264,254	6,258,729
Due to Governmental Units	4,467,092	1,600	4,468,692
Accrued Expenses	6,009,734	144,748	6,154,482
Deferred Revenues - Federal Grants	854,130	-	854,130
Short-Term Obligations:			
Line of Credit	13,818,128	18,555,381	32,373,509
Notes Payable	3,817,575	-	3,817,575
Accrued Legal Claims	744,374	-	744,374
Compensated Absences	950,280	1,604,920	2,555,200
Post-Employment Termination Benefits	694,546	1,954,874	2,649,420
Total Current Liabilities	**50,909,246**	**37,762,856**	**88,672,102**
Non-Current Liabilities:			
Notes Payable	93,537,440	1,475,673	95,013,113
Compensated Absences	1,042,109	1,762,309	2,804,418
Post-Employment Termination Benefits	5,842,253	16,443,658	22,285,911
Total Non-Current Liabilities	**100,421,802**	**19,681,640**	**120,103,442**
TOTAL LIABILITIES	**151,331,048**	**57,444,496**	**208,775,544**
NET POSITION:			
Net Investment in Capital Assets	7,654,541	19,587,012	27,241,553
Restricted for:			
Capital Projects	5,966,603	-	5,966,603
Subsidies and Incentives	185,693,756	-	185,693,756
Unrestricted (Deficit)	(199,238,943)	(103,841,829)	(303,080,772)
TOTAL NET POSITION	**$ 75,957**	**$ (84,254,817)**	**$ (84,178,860)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this Statement.

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Position: Governmental Activities	Changes in Net Position: Business - Type Activities	Changes in Net Position: Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
Incentives and Subsidies	$ 64,556,800	$ -	$ 78,165,755	$ 2,021,988	$ 15,630,943	$ -	$ 15,630,943
General Government - Administrative and Operating	20,545,721	-	3,122,690	-	(17,423,031)	-	(17,423,031)
Interest on Long-Term Debts	416,178	-	-	-	(416,178)	-	(416,178)
Total Governmental Activities	**85,518,699**	**-**	**81,288,445**	**2,021,988**	**(2,208,266)**	**-**	**(2,208,266)**
Business - Type Activities:							
Agricultural Services	94,663,109	109,734,497	3,184,000	-	-	18,255,388	18,255,388
Total Business - Type Activities	**94,663,109**	**109,734,497**	**3,184,000**	**-**	**-**	**18,255,388**	**18,255,388**
Total Primary Government	**$ 180,181,808**	**$ 109,734,497**	**$ 84,472,445**	**$ 2,021,988**	**(2,208,266)**	**18,255,388**	**16,047,122**
General Revenues:							
Interests					6,597	38,597	45,194
Rent					292,989	4,500	297,489
Other Income					912,248	37,165	949,413
Transfers from Other Agencies					3,944,095	-	3,944,095
Transfers to Other Agencies					(11,671,707)	-	(11,671,707)
Total General Revenues and Transfers					(6,515,778)	80,262	(6,435,516)
CHANGES IN NET POSITION					**(8,724,044)**	**18,335,650**	**9,611,606**
Net Position – Beginning of Year, As Restated					8,800,001	(102,590,467)	(93,790,466)
NET POSITION – ENDING OF YEAR					**$ 75,957**	**$ (84,254,817)**	**$ (84,178,860)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this Statement.

This page intentionally left blank.

	GENERAL FUND	INCENTIVES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash	$ 6,451,285	$ 31,160,946	$ 3,741,713	$ 41,353,944
Receivables (Net):				
Trade	265,348	38,934	-	304,282
Governmental Entities	26,793	-	1,743	28,536
Due from Other Funds	-	181,033,425	3,538,844	184,572,269
Legislative Appropriations	-	-	39,950	39,950
Loans and Notes Receivable	1,518,046	-	-	1,518,046
Other	29,191		10,025	39,216
Inventory Supplies	150,860	-	-	150,860
Prepaid Expenses	768,135	51,311	122,745	942,191
Total Assets	**$ 9,209,658**	**$ 212,284,616**	**$ 7,455,020**	**$ 228,949,294**
LIABILITIES:				
Accounts Payable Trade	$ 3,721,589	$ 9,225,248	$ 612,077	$ 13,558,914
Accounts Payable Farmers	-	5,994,475	-	5,994,475
Due to Governmental Units	1,041,561	3,425,531	-	4,467,092
Due from Other Funds	85,196,829	-	-	85,196,829
Accrued Expenses	493,520	5,494,005	22,210	6,009,735
Total Liabilities	**90,453,499**	**24,139,259**	**634,287**	**115,227,045**
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenues - Federal Grants	-	-	854,130	854,130
Total Deferred Inflows of Resources	**-**	**-**	**854,130**	**854,130**
FUND BALANCES:				
Nonspendable - Inventory and Prepaid	918,995	51,311	122,745	1,093,051
Spendable:				
Restricted	-	188,094,046	5,843,858	193,937,904
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned (Deficit)	(82,162,836)	-	-	(82,162,836)
Total Fund Balances	(81,243,841)	188,145,357	5,966,603	112,868,119
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 9,209,658**	**$ 212,284,616**	**$ 7,455,020**	**$ 228,949,294**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this Statement.

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total Fund Balances – Government Funds (Page 20)		**$ 112,868,119**
Amount reported for Governmental Activities in the Statement of Net Position (Page 18) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Capital Assets	$ 21,274,866	
Accumulated Depreciation	(13,620,325)	
Total Capital Assets		7,654,541
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Notes Payable	(111,173,143)	
Legal Claims	(744,374)	
Post-Employment Termination Benefits	(6,536,799)	
Accrued Compensated Absences	(1,992,387)	
Total Long-Term Liabilities		(120,446,703)
Total Net Position of Governmental Activities (Page 18)		**$ 75,957**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this Statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND	INCENTIVES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Appropriation from Commonwealth	$ 3,122,690	$ 76,450,000	$ 2,021,988	$ 81,594,678
Federal Grants	-	-	1,715,755	1,715,755
Interests	1,964	2,161	2,472	6,597
Rent	292,989	-	-	292,989
Other	176,175	736,073	-	912,248
Total Revenues	**3,593,818**	**77,188,234**	**3,740,215**	**84,522,267**
EXPENDITURES:				
Current:				
Incentives, Subsidies and Other Services	-	59,328,110	5,228,690	64,556,800
General Government - Administrative and Operating Activities	19,339,849	-	-	19,339,849
Capital Outlays	35,858	-	-	35,858
Debt Service:				
Principal	978,089	-	-	978,089
Interest	416,178	-	-	416,178
Total Expenditures	**20,769,974**	**59,328,110**	**5,228,690**	**85,326,774**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(17,176,156)**	**17,860,124**	**(1,488,475)**	**(804,507)**
OTHER FINANCING SOURCES (USES):				
Transfers from Other Agencies		3,944,095	-	3,944,095
Transfers to Other Agencies		(11,671,707)	-	(11,671,707)
Transfers – In	1,376,227	-	-	1,376,227
Transfers – Out	-	(1,376,227)	-	(1,376,227)
Total Other Financing Sources (Uses)	**1,376,227**	**(9,103,839)**	**-**	**(7,727,612)**
Net Change in Fund Balances	**(15,799,929)**	**8,756,285**	**(1,488,475)**	**(8,532,119)**
Fund Balances (Deficit) – Beginning, As Restated	(65,443,912)	179,389,072	7,455,078	121,400,238
FUND BALANCES (DEFICT) – ENDING	**$ (81,243,841)**	**$ 188,145,357**	**$ 5,966,603**	**$ 112,868,119**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this Statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances – Government Funds (Page 22)		**$ (8,532,119)**
Amount reported for Governmental Activities in the Statement of Activities (Page 19) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Depreciation Expense	$ (685,084)	
Capital Outlays	35,858	
Excess of Depreciation Expense over Capital Outlays		(649,226)
Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were		978,089
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Change in Compensated Absences	(83,683)	
Change in Legal Claims	(760,735)	
Change in Post-Employment Termination Benefits	323,630	
Total Additional Expenses		(520,788)
Change in Net Position of Governmental Activities (Page 19)		**$ (8,724,044)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this Statement.

ASSETS:	
Current Assets:	
Cash	$ -
Receivables (Net):	
Trade	320,139
Governmental Entities	46,060,605
Other	22,970
Inventory	6,554,692
Office Supplies	-
Prepaid Expenses	19,701
Total Current Assets	**52,978,107**
Non-Current Assets:	
Property, Plant and Equipment, Net	19,587,012
TOTAL ASSETS	**72,565,119**
LIABILITIES:	
Current Liabilities:	
Accounts Payable Trade	13,384,212
Accounts Payable Farmers	264,254
Bank Overdraft	1,852,867
Due to Governmental Units	1,600
Due to Other Funds	99,375,440
Accrued Expenses	144,748
Short-Term Obligations:	
Notes Payable	18,855,381
Compensated Absences	1,604,920
Post-Employment Termination Benefits	1,954,874
Total Current Liabilities	**137,438,296**
Non-Current Liabilities:	
Notes Payable	1,175,673
Compensated Absences	1,762,309
Post-Employment Termination Benefits	16,443,658
Total Non-Current Liabilities	**19,381,640**
TOTAL LIABILITIES	**156,819,936**
NET POSITION:	
Net Investment in Capital Assets	19,587,012
Restricted	-
Unrestricted (Deficit)	(103,841,829)
TOTAL NET POSITION	**$ (84,254,817)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

OPERATING REVENUES:	
Sales of Goods	$ 109,734,497
Rent	4,500
Other	37,165
Total Operating Revenues	109,776,162
OPERATING EXPENSES:	
Cost of Sales	78,045,401
Administrative and Operating Expenses	15,170,735
Depreciation	1,446,973
Total Operating Expenses	94,663,109
Operating Income	15,113,053
NON-OPERATING REVENUES (EXPENSES):	
Intergovernmental Grants and Contributions	3,184,000
Interest, Net of Interest Income	38,597
Total Non-Operating Revenues (Expenses)	3,222,597
Changes in Net Position	**18,335,650**
Net Position, Beginning, As Restated	(102,590,467)
NET POSITION, ENDING	$ (84,254,817)

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers and Users	$ 97,576,210
Payments to Suppliers and Employees	(98,317,619)
Net Cash Provided (Used) by Operating Activities	(741,409)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase from Other Funds	(10,955,034)
Borrowing of Lines of Credit	53,228,296
Repayment of Lines of Credit	(54,072,575)
Intergovernmental Grants and Contributions	3,184,000
Interest Received	38,597
Net Cash Provided (Used) by Noncapital Financing Activities	(8,576,716)
CASHFLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisitions of Property and Equipments, Net	(142,579)
Net Cash Provided (Used) by Investing Activities	(142,579)
Net Increase (Decrease) in Cash and Cash Equivalents	**(9,460,704)**
Cash and Cash Equivalents at Beginning of Year	9,460,704
Cash and Cash Equivalents at End of Year	**$ -**

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income	$ 15,113,053
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,446,973
(Increase) Decrease in Current Assets and Liabilities:	
Accounts and Loans Receivables	2,703,305
Due from Governmental Units	(8,097,457)
Allowance for Doubtfull Accounts	(7,457,755)
Inventory	(958,754)
Inventory of Supplies	54,440
Other	651,956
Accountss Payable	(2,994,166)
Accrued Expenses	(253,771)
Accrued Compensated Absences	352,837
Post-Employment Termination Benefits	(1,302,070)
Net Cash Provided (Used) by Operating Activities	**$ (741,409)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

This page intentionally left blank.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Agricultural Enterprises Development Administration ("AEDA") is a component unit of the Commonwealth of Puerto Rico created under the Reorganization Plan No. 4 of the Department of Agriculture (the Department) of July 29, 2010. The Reorganization Plan eliminated the Rural Development and Agricultural Enterprises Service and Development Administration. The functions of these two entities were transferred to AEDA, which was created to provide a wide variety of services and incentives to the agricultural sector. Under the Reorganization Plan AEDA has fiscal and operational autonomy, and receive administrative support from the Department.

The Commonwealth of Puerto Rico was constituted on July 25, 1952, under the provisions of its Constitution as approved by the people of Puerto Rico and the Congress of the United States of America. The Commonwealth's Constitution provides for the assignation of powers to the executive, legislative and judicial branches of the government. The Commonwealth assumes responsibility for public safety, public health, public housing, wealth, education and economic development.

The Secretary of Agricultures: a) implements AEDA's public policy and approve the necessary, appropriate, and suitable standards, rules and regulations, to exercise the power and comply with the purposes of the Reorganization Plan and any applicable law; b) appoints the Administrator, who administers AEDA in accordance with the provisions of the Reorganization Plan; and c) may delegate to the Administrator and, at the same time, other employees of AEDA, such powers and duties as it deems necessary, except the power to regulate.

Financial Reporting Entity

AEDA is for financial reporting purposes, part of the Department of Agriculture of the Commonwealth of Puerto Rico. Because AEDA is part, for financial reporting purposes, of the Commonwealth, its financial data is included as part of the Commonwealth of Puerto Rico financial statements.

The PRDH accompanying financial statements are issued solely to comply with the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156 and for the information and use of the AEDA management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The accompanying basic financial statements includes the organization units governed by AEDA's management. In evaluating AEDA as a reporting entity, management has addressed the entire potential component unit. The basic criteria for including a potential component unit within the reporting entity is if potential component unit are financially accountable and other organization for which the nature and significance of their relationship with the entity ate that exclusion would cause AEDA's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) AEDA's ability to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on AEDA.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components unit are to be included as part of the reporting entity. Our specific evaluation of the criteria applicable to AEDA indicates that no organization meet the criteria to be included as component units. Accordingly, these basic financial statements present only AEDA as the reporting entity.

AEDA's management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with AEDA may be such that exclusion of their basic financial statements from those of AEDA would cause AEDA's basic financial statements to be misleading or incomplete.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

AEDA's management has concluded that, based on the criteria set forth by GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, there are no legally separate entities or organizations that should be reported as component units of AEDA as of June 30, 2014 nor for the year then ended.

The accompanying basic financial statements present the financial position of the governmental activities, business-type activities, each major governmental fund, and the aggregate remaining fund information of AEDA at June 30, 2014, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2014 in conformity with GAAP.

The minimum required financial statement presentation applicable to AEDA is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

Financial Statement Presentation

The basic financial statements of AEDA have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units. The basic financial statements include both government-wide (based on AEDA as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type.

The financial information of AEDA is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of AEDA's financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of AEDA. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for AEDA's governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by AEDA's management are not presented as restricted net position.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different business-type activities of AEDA and for each function of AEDA's governmental activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds and Proprietary Fund Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Position*] provide information about AEDA's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Non-major funds are summarized into a single column.

This presentation deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how AEDA's actual experience conforms to the budgeted fiscal plan.

The accounts of AEDA are organized on the basis of governmental funds. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures.

Fund financial statements report detailed information about AEDA. The focus of GFFS is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Position*] provide information about AEDA's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Non-major funds are summarized into a single column.

This presentation deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how AEDA's actual experience conforms to the budgeted fiscal plan.

The following are the governmental funds presented in the financial statements as of, and for the year ended June 30, 2014:

General Fund – This fund includes the current financial resources, which relate to the general operations of AEDA. These operations consist of the general administration and other activities not accounted for in the Incentive Fund and other non-major funds.

Incentive Fund – This major fund accounts for resources devoted to provide farmers support, subsidies and economic incentives, protection and provision of agricultural resources to develop infrastructure, entrepreneurship, and implementation of necessary technology for industries: apiculture, poultry, coffee, livestock, dairy, fisheries, swine, vegetable, fruit, and food, producers of rabbits, goats, fruits and sheep.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2014 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2014.

AEDA includes as operating transactions in the enterprise funds any activity undertaken in the course of ordinary business, as well as ancillary activities or activities that are a natural extension of, or that result from, these activities. Transactions resulting from events or transactions clearly distinct from the ordinary activities and which are not expected to occur frequently or regularly are reported as non-operating transactions.

This fund account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

The following is the proprietary fund presented in the financial statements as of, and for the year ended June 30, 2014:

Agricultural Services Fund – This fund account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

The financial statements of the proprietary funds are the following:

Statement of Net Position – Assets and liabilities are presented in a classified format to distinguish between current and long term assets and liabilities. No deferred outflows/inflows of resources are presented.

Statement of Revenues, Expenses and Changes in Fund Net Position – Revenues and expenses are reported by distinguishing between operating and non-operating revenues and expenses.

Statement of Cash Flows – The primary purpose of the *Statement of Cash Flows* is to provide relevant information about the cash receipts and disbursements of AEDA during the fiscal year. The information of the *Statement of Cash Flows* should help financial report users assess (a) AEDA's ability to generate future net cash flows; (b) ability to meet its obligation as they come due; (c) its needs for external financing; (d) the reasons for differences between operating income and associated cash receipts and disbursements and the effects on the entity's financial position of operating, capital and related financing activities, non-capital related financing activities and investment activities during the period.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations AEDA has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

AEDA reports its financial position (*Balance Sheet*) and results of operations [*Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Position*] in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide and Proprietary Financial Statements

The government-wide and proprietary financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which AEDA gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

The enterprise funds follows the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash, respectively. The enterprise funds also distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The *Statement of Net Position* and the *Statement of Activities* display information of all of the non-fiduciary activities of AEDA, the primary government, as a whole. AEDA activities are considered governmental type.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

For the most part, the effect of inter-fund activity has been removed from these statements. The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, and program revenues for each of the programs of the governmental activities of AEDA.

Direct expenses are those that are specifically associated with a service or program and therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs and functions using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not.

Program revenues include changes paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues.

The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws for the general revenues of AEDA.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, AEDA considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that AEDA earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2014, all revenues sources met this availability criterion.

Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet*. All other revenue items are considered to be measurable and available only when cash is received by AEDA.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims an judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on notes payable are recorded when they matured (when payment is due). Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds*.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

Stewardship, Compliance, and Accountability

AEDA's total available spending authorization, which is considered its budget, is adopted in accordance with a statutory basis of accounting, which is not in accordance with the modified accrual basis of accounting. Revenues are generally recognized when cash is received.

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrance was established, by means of Act No. 123 from August 17, 2001, which amended the existing appropriations and encumbrances lapsing provision of Act No. 230 from July 23, 1974.

Amounts required setting claims and judgments against AEDA, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, AEDA uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In AEDA governmental funds, encumbrance is a significant aspect to budget control.

Budgetary Control

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is purchase orders, contracts and other commitments of appropriated resources) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances, outstanding at fiscal year-end are reported as reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis, because such commitments will be honored during the subsequent fiscal year. The legal of budgetary control at AEDA is for general fund expenditures.

Cash and Cash Equivalents

AEDA considers all highly liquid investments with maturity of three (3) months or less when purchased to be cash equivalents. The cash balances are available to meet current operating requirements in various interest bearing accounts with the Governmental Development Bank, and Commercial Banks.

Federal Grants

Contributions received from federal grants are credited to operating revenues under the U.S. Department of Agriculture's programs in the accounting period in which they are earned and become measurable.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Inter-Fund Balances

Activities between funds that are representative of lending, borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds/ (i.e. the current portion of inter-fund loans).

Eliminations are made in the government-wide financial statements of the amounts reported as inter-fund receivables and payables.

Inventories and Prepaid Items

All inventories are valued at cost using the first-on/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as “interfund balances”.

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2014. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly service charges corresponding to June revenues collected during July and August 2014. Intergovernmental receivables in the other governmental funds represent amounts owed to AEDA for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

Risk Financing

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for AEDA. The AEDA reimburses the Commonwealth for premium payments made on its behalf. AEDA’s current insurance policies have not been canceled or terminated.

For workers’ compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers’ compensation insurance to AEDA’s employees.

AEDA is authorized to deposit only in financial institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of AEDA. The restricted cash includes purchase option deposits to be credited to sales of housing properties. The deposits are transferred to the general account when the sale is consummated.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Capital Assets

Capital assets, which include buildings and improvement, equipment, furniture and fixtures, and motor vehicles, are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets are defined by AEDA as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than $5,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset.

As the AEDA constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations AEDA values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent AEDA capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset acquired. Depreciation and amortization expense is recorded only in the GWFS. No depreciation is recorded for land and construction in progress. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	40
Building Improvement	20
Equipment, Furniture & Fixture, and Motor Vehicles	5-10

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

Impaired capital assets that will no longer be used by AEDA, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by AEDA are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

Deferred Outflows/Inflows of Resources

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. AEDA has no items that qualify for reporting in this category.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. AEDA has no items that qualify for reporting in this category.

AEDA has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue,* is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Unearned Revenues

In the GWFS, unearned revenues arise only when AEDA receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

Long-Term Obligations

The liabilities reported in the GWFS include the long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties). Premiums and discounts, if any, are deferred and amortized over the life of the notes using the effective interest method. Notes payable are reported net of the applicable premium or discount, if any.

In the GFFS, governmental fund types recognize premiums and discounts, if any, as other financing sources and uses, respectively, and issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and incentives fund are recognized in the corresponding fund when due.

Compensated Absences

Compensated absences are accounted for under the provisions of GASB Accounting Standards Codification Section C60, *Compensated Absences*. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying Statement of Net Position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2014 and (2) is not contingent on a specific event (such as illness) that is outside the control of AEDA and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and Medicare taxes).

The employees of AEDA are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacations time accumulated is fully vested to employees from the first day of work. As per Law Number 156 of August 20, 1996, for fiscal year beginning on July 1, 1997, the employee has the right to accumulate the excess of 60 and 90 days in vacation and sick leaves, respectively, until December 31st of each year. The excess should be paid to the employee before March 31st of the following year.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the *Statement of Net Position*.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum of sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of 90 days. Also, in the case of regular sick leave, if the employee terminates his or her employment with AEDA before reaching 10 years of services, such regular sick leave is not paid. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Non-Current Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

Accounting for Pension Costs

AEDA accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and Defined Contribution Hybrid Program, in which the employees of the AEDA participate. AEDA is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 7).

Post-employment Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits program, the Administration will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement.

Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Administration.

The financial impact resulting for the benefits granted to participants was the recognition within the ADEA's financial statements of a liability of $24,935,331 in the *Statement of Net Position* as of June 30, 2014 and a charge in the amount of $2,104,344 in the *Statement of Activities* for the year then ended. At June 30, 2014, unpaid long-term benefits granted on this program were discounted at 1.66%.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of AEDA's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS and Proprietary Funds Financial Statements utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets.

  For Governmental and Business-Type Activities, net investment in capital assets is comprised only on Capital Assets, Net of Accumulated Depreciation. No Outstanding Balance on Related Debt or Unspent Capital Debt Proceeds exists.

- *Restricted Net Position* – These result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consist of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes AEDA will fund outlays for a particular purpose from both restricted (e.g., restricted notes or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is AEDA's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

B) Fund Balance

Beginning with fiscal year 2011, AEDA implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors), through constitutional provisions, or by enabling legislations.
- Committed – amounts constrained to specific purposes by AEDA itself, using its highest level of decision-making authority (such as legislation). To be reported as committed, amounts cannot be used for any other purpose unless AEDA takes the same highest level action to remove or change the constraint.
- Assigned – amounts the AEDA intends to use for a specific purpose. Intent can be expressed by AEDA or by an official or body to which AEDA delegates the authority.
- Unassigned – all amounts not included in other spendable classifications.

C) Components of Fund Balance

	GENERAL FUND	INCENTIVES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable:	$ 918,995	$ 51,311	$ 122,745	$ 1,093,051
Restricted For:				
Capital Projects	-	-	5,843,858	5,843,858
Subsidies and Incentives	-	188,094,046	-	188,094,046
Total Restricted	**-**	**188,094,046**	**5,843,858**	**193,937,904**
Committed To:				
Total Committed	**-**	**-**	**-**	**-**
Assigned To:				
Total Assigned	**-**	**-**	**-**	**-**
Unassigned	**(82,162,836)**	**-**	**-**	**(82,162,836)**
Total Fund Balances	**$ (81,243,841)**	**$ 188,145,357**	**$ 5,966,603**	**$ 112,868,119**

AEDA establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by AEDA through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2014:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency though revised and new note disclosures and required supplementary information.

The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

- Based on the their respective individual proportion to the collective net pension liability of all the governments participating

- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values.

This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 (FY 2014-2015), and should be applied on a prospective basis.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation.

This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2014-2015).

AEDA has not yet determined the effect these statements will have on AEDA's basic financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS, AND RESTRICTED DEPOSITS

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. AEDA is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, AEDA invests its funds in interest bearing bank accounts and certificates of deposit. AEDA is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of AEDA. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation. During the year ended June 30, 2014, AEDA invested its funds in bank accounts bearing interest.

AEDA maintains cash balances in commercial banks. These balances are insured by the Federal Deposit Insurance Corporation up to $250,000. As of June 30, 2014, the uninsured portion of this balance was $24.6 million.

In addition, as of June 30, 2014, AEDA's custodial credit risk was approximately $8.3 million, which was the bank balance of cash deposited at the Government Development Bank for Puerto Rico (as fiscal agent). These deposits are exempt from the collateral requirement established by the Commonwealth.

NOTE 3 – INTERGOVERNMENTAL ACCOUNTS RECEIVABLE

Intergovernmental account receivables from governmental entities totaled $28,536. In addition, from business-type entities it totaled $46.0 million from the Puerto Rico Department of Education.

continue

NOTE 4 – INVENTORY

Inventory are stated at the lower of cost (determined on a first-in, first-out) or market. The inventory balance by location as of June 30, 2014 was as following:

Description	Location	Valuation
Coffee - Yahuecas	Adjuntas	$ 3,937,831
Pets Control	Various	1,965,197
Seed Program	Various	449,824
Lime Carbonate Program	Various	58,121
Other Products	Various	143,719
Total		$ 6,554,692

NOTE 5 – CAPITAL ASSETS

A summary of the activity of capital assets for the Governmental Activities and Business-Type Activities groups follows:

Description	Balance at June 30, 2013	Adjustments & Transfers	Additions	Retirements	Balance at June 30, 2014
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	**$ 546,678**	**$ -**	**$ -**	**$ -**	**$ 546,678**
Depreciable Capital Assets:					
Buildings	3,307,252	-	-	-	3,307,252
Buildings Improvements	2,308,434	(2,308,434)		-	-
Equipment	13,673,383	15,745	527	(305,814)	13,383,841
Furniture & Fixtures	3,023,779	1,575	35,331	-	3,060,685
Motor Vehicles	878,229	16,887	-	-	895,116
Other	81,586	(292)	-	-	81,294
Total Depreciable Capital Assets	**23,272,663**	**(2,274,519)**	**35,858**	**(305,814)**	**20,728,188**
Less: accumulated depreciation					
Buildings	(1,319,802)	-	(257,917)	-	(1,577,719)
Buildings Improvements	(1,269,639)	1,269,639	-	-	-
Equipment	(8,403,993)	(5,290)	(382,385)	275,233	(8,516,435)
Furniture & Fixtures	(2,598,958)	(4,176)	(44,529)	-	(2,647,663)
Motor Vehicles	(790,402)	(15,198)	(2)	-	(805,602)
Other	(266,773)	194,119	(252)	-	(72,906)
Total Accumulated Depreciation	**(14,649,567)**	**1,439,094**	**(685,085)**	**275,233**	**(13,620,325)**
Total Depreciable Capital Assets (Net)	**8,623,096**	**(835,425)**	**(649,227)**	**(30,581)**	**7,107,863**
CAPITAL ASSETS, NET	**$ 9,169,774**	**$ (835,425)**	**$ (649,227)**	**$ (30,581)**	**$ 7,654,541**

continue

NOTE 5 – CAPITAL ASSETS – continuation

Description	Balance at June 30, 2013	Adjustments & Transfers	Additions	Retirements	Balance at June 30, 2014
Business-Type Activities:					
Non-Depreciable Capital Assets:					
Land	**$ 3,192,804**	**$ -**	**$ -**	**$ -**	**$ 3,192,804**
Depreciable Capital Assets:					
Buildings	20,312,858	-	-	(50,000)	20,262,858
Buildings Improvements	-	-		-	-
Equipment	10,129,807	(15,745)	101,474	(15,380)	10,200,156
Furniture & Fixtures	1,202,373	(1,575)	29,973	-	1,230,771
Motor Vehicles	5,343,035	(16,887)	211,413	(115,347)	5,422,214
Other	122,190	292	14,363	-	136,845
Total Depreciable Capital Assets	**37,110,263**	**(33,915)**	**357,223**	**(180,727)**	**37,252,844**
Less: accumulated depreciation					
Buildings	(8,051,439)	-	(1,029,755)	42,563	(9,038,631)
Buildings Improvements	-	-	-	-	-
Equipment	(5,675,961)	5,290	(338,426)	13,842	(5,995,255)
Furniture & Fixtures	(970,341)	4,176	(41,279)	-	(1,007,444)
Motor Vehicles	(4,804,890)	15,198	(22,859)	103,812	(4,708,739)
Other	(1,825,293)	1,731,380	(14,654)	-	(108,567)
Total Accumulated Depreciation	**(21,327,924)**	**1,756,044**	**(1,446,973)**	**160,217**	**(20,858,636)**
Total Depreciable Capital Assets (Net)	**15,782,339**	**1,722,129**	**(1,089,750)**	**(20,510)**	**16,394,208**
CAPITAL ASSETS, NET	**$ 18,975,143**	**$ 1,722,129**	**$ (1,089,750)**	**$ (20,510)**	**$ 19,587,012**

Depreciation expenses of Governmental Activities were charged to general governmental function and for Business-Type Activities to agricultural services for the fiscal year ended June 30, 2014.

continue

NOTE 6 – SHORT AND LONG TERM OBLIGATIONS

Short-term obligations as of June 30, 2014, are composed of the followings:

Governmental Activities:

Revolving line of credit of $7,800,000 with "Fondo Integral para el Desarrollo Agrícola de Puerto Rico" with a maturity date of June 24, 2014, at a fixed interest rate of 6.00%.	$ 1,052,964
Revolving line of credit of $17,242,726 with Governmental Development Bank with a maturity date of June 30, 2040, at a fixed interest rate of 7.00%.	12,746,206
Revolving line of credit of $7,757,274 with Governmental Development Bank with a maturity date of June 30, 2040, at a fixed interest rate of 7.00%.	18,958
Subtotal Governmental Activities	13,818,128

Business-Type Activities:

Revolving line of credit of $20,000,000 with Governmental Development Bank for schools lunch purchase program. The school lunch purchase line has a first line over all coffee inventories stored at AEDA's warehouses and a first priority assignment of all coffee accounts receivable. The maturity date of the line of credit is July 1, 2014. The interest rate is defined at prime rate plus 4.50%.	18,555,381
Total Short-Term	$ 32,373,509

At June 30, 2014 AEDA has another line of credit of $20.0 million with Governmental Development Bank for coffee program. Effective November 2014 this line of credit was reduced to $5.0 million. The maturity date of the line is June 30, 2015. The interest rate is defined at prime rate plus 1.25%. At June 30, 2014, AEDA had no outstanding balance on this line of credit.

	Balance at June 30, 2013	Increase	Decrease	Balance at June 30, 2014	Due within One (1) Year	Due after One (1) Year
Short-Term Obligations:						
Governmental Activities:						
Revolving Line of Credit	$ 13,818,128	$ -	$ -	$ 13,818,128	$ 13,818,128	$ -
Business-Type Activities:						
Revolving Line of Credit	19,399,660	53,228,296	(54,072,575)	18,555,381	18,555,381	-
TOTAL	$ 33,217,788	$ 53,228,296	$ (54,072,575)	$ 32,373,509	$ 32,373,509	$ -

continue

NOTE 6 – SHORT AND LONG TERM OBLIGATIONS – continuation

Long-term obligations as of June 30, 2014, are composed of the followings:

Governmental Activities:

Long-term obligation of $11,800,000 with "Fondo Integral para el Desarrollo Agrícola de Puerto Rico" with a maturity date of June 30, 2016, payable in six (6) equal annual installments of $2,407,367 of principal and fixed interest rate of 6.00%.	$ 6,224,941
Long-term obligation of $67 million with Governmental Development Bank with a maturity date of June 30, 2040, at 7.00% interest rate or at the interest rate the Governmental Development Bank may determine and is payable in annual installments, including interest. The annual payments will be based on an amortization table of 30 years, using the principal and interest at December 31 of each year, starting such 30 years period since 2010. Payable with the designation of legislative appropriation from the General Fund or with funds from the issuance or the commitment to issue bonds by the "Corporación del Fondo de Interés Apremiante de Puerto Rico (COFINA)".	47,180,917
Long-term obligation of $65 million with a maturity date of June 30, 2030. The annual payments will be determined by the Governmental Development Bank and the Governor's Office of Budget and Management with the designation of legislative appropriations from the General Fund. The interest will be computed, with a variable interest, on a daily basis and will be reviewed on a quarterly basis on the first day of January, April, July and October of each year. The interest rate is stated at Prime plus 1.5% and will not be greater than 12% but not less of 5%.	43,949,157
Subtotal Governmental Activities	97,355,015

Business-Type Activities:

Long-term obligation of $65 million with a maturity date of June 30, 2030. The annual payments will be determined by the Governmental Development Bank and the Governor's Office of Budget and Management with the designation of legislative appropriations from the General Fund. The interest will be computed, with a variable interest, on a daily basis and will be reviewed on a quarterly basis on the first day of January, April, July and October of each year. The interest rate is stated at Prime plus 1.5% and will not be greater than 12% but not less of 5%.	1,475,673
Total Long-Term	$ 98,830,688

	Balance at June 30, 2013	Increase	Decrease	Balance at June 30, 2014	Due within One (1) Year	Due after One (1) Year
Long-Term Obligations:						
Governmental Activities:						
Note Payable	$ 98,333,104	$ -	$ (978,089)	$ 97,355,015	$ 3,817,575	$ 93,537,440
Business-Type Activities:						
Note Payable	1,475,673	-	-	1,475,673	-	1,475,673
TOTAL	$ 99,808,777	$ -	$ (978,089)	$ 98,830,688	$ 3,817,575	$ 95,013,113

continue

NOTE 6 – SHORT AND LONG TERM OBLIGATIONS – continuation

At June 30, 2014, scheduled aggregate principal and interest maturities of notes payable were approximately as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 36,191,084	*	$ 36,191,084
2016	2,407,367	*	2,407,367
2017	-	*	-
2018	381,909	618,091	1,000,000
2019	2,968,128	3,312,789	6,280,917
2020-2024	25,130,464	16,036,203	41,166,667
2025-2029	35,105,937	6,060,729	41,166,666
2030-2034	15,619,308	15,547,358	31,166,666
2035-2039	11,166,667	*	11,166,667
2040	2,233,333	*	2,233,333
Total	$ 131,204,197	$ 41,575,170	$ 172,779,367

* Interest are computed on a variable basis with differrent percentages points over Libor.

Compensated Absences and Post-Employment Termination Benefits

The following summarizes the activities of the compensated absences and post-employment termination benefits obligations for the fiscal year ended June 30, 2014:

	Balance at June 30, 2013	Increase	Decrease	Balance at June 30, 2014	Due within One (1) Year	Due after One (1) Year
Governmental Activities:						
Compensated Absences	$ 1,908,706	$ 994,050	$ (910,367)	$ 1,992,389	$ 950,280	$ 1,042,109
Legal Claims	17,055	738,902	(11,583)	744,374	744,374	-
Post-Employment Termination Benefits	6,860,428	374,314	(697,943)	6,536,799	694,546	5,842,253
TOTAL	$ 8,786,189	$ 2,107,266	$ (1,619,893)	$ 9,273,562	$ 2,389,200	$ 6,884,362
Business-Type Activities:						
Compensated Absences	$ 3,014,391	$ 1,782,139	$ (1,429,301)	$ 3,367,229	$ 1,604,920	$ 1,762,309
Post-Employment Termination Benefits	19,700,602	104,331	(1,406,401)	18,398,532	1,954,874	16,443,658
TOTAL	$ 22,714,993	$ 1,886,470	$ (2,835,702)	$ 21,765,761	$ 3,559,794	$ 18,205,967

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN

Employees of AEDA participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. The ERS is a pension trust of the Commonwealth. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately $22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in $120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. An appropriation for such additional contribution of approximately $120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately $90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to $28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

(a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

(b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)

(c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013 shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars ($500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars ($500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars ($500).

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

The amount of the annuity shall be one and one-half percent (1.50%) 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 (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service.

Merit Annuity – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

(1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus

(2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

(1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.

(2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.

(3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation.

As per Act No. 3 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

(1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:

   (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.

   (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.

   (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

(2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.

(3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:

(i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.

(ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

(i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.

(ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

(iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.

(iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.

(v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

(vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

(i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.

(ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.

(iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.

(iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.

(v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Coordinated Plan – Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first $6,600 of salary plus 8.275% for the excess over $6,600. For fiscal 2013-2014 the contribution was 7.00% for the first $6,600 of salary plus 10.00% for the excess over $6,600. For fiscal 2014-2015 the contribution was 8.50% for the first $6,600 of salary plus 10.00% for the excess over $6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.
- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

Non-Coordinated Plan (Supplementation Plan) – Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of salary.

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

(a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.

(b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:

   (1) Effective July 1, 2013, shall contribute 7.00% of their salaries up to $6,600 plus 10.00% of the excess over $6,600.

   (2) Effective July 1, 2014, shall contribute 8.50% of their salaries up to $6,600 plus 10.00% of the excess over $6,600.

   (3) Effective July 1, 2015, shall contribute 10.00% of their full salaries.

The participants of the Hybrid Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

(c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

(a) A Medication Bonus equal to one hundred ($100), which shall be paid no later than July 15 of each year;

(b) A Christmas Bonus equal to two hundred dollars ($200), which shall be paid no later than December 20 of each year; and

(c) A Commonwealth contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars ($100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars ($2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

continue

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN – continuation

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as "Retirement Savings Accounts Program", and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

Annual Contribution

AEDA's contributions during this year are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	DEFINED BENEFIT	HYBRID PROGRAM	ACT NO. 3
2014	$ -	$ 9,272	$ 1,518,789

Total employee contributions to the above-mentioned plans during the year ended June 30, 2014 amounted to approximately $1,170,795.

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Operating Leases

AEDA has long-term operating lease agreements for substantially all of its office facilities for periods up to thirty (30) years.

Litigation – AEDA

AEDA is a defendant in a number of lawsuits. As stated by legal counsel, AEDA has recorded a provision of $744,374 (see Note 6) in its governmental activities to cover its exposure to these lawsuits. The amount of the required reserve in other litigations that may result from the final settlement of these other lawsuits cannot be presently determined. In these cases, the ultimate amount that AEDA may be required to pay as a result of the financial settlement of these lawsuits, if any, shall be funded through an appropriation from the Legislature of the Commonwealth of Puerto Rico.

Federal and State Awards

AEDA participates in a number of federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, AEDA may be required to reimburse the grantors for such expenditures.

continue

NOTE 8 – COMMITMENTS AND CONTINGENCIES – continuation

AEDA is from time to time audited by the Office of the Comptroller for Puerto Rico ("the Comptroller") which audits could result in request for reimbursements or other resolutions. These amounts, if any, of expenditures, which may be disallowed, cannot be determined at this time. Management believes that such disallowances, if any, will not have a material effect in the financial statements of AEDA.

NOTE 9 – NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position

During the year, AEDA adjusted the governmental net position for capital assets incorrectly recognized, and invalid investment and account payable. The following schedule reconciles the June 30, 2013 Net Position, as previously reported to Beginning Net Position, as Restated, July 1, 2013, for Governmental and Business-Type Activities.

	Governmental Activities	Business-Type Activities
Beginning Net Position, As Previously Reported, June 30, 2013	$ 7,776,322	$ (104,793,525)
Adjustments to Capital Assets	(835,425)	1,722,129
Adjustments to Accounts Payable & Investment	1,859,104	480,929
Beginning Net Position, As Restated July 1, 2013	$ 8,800,001	$ (102,590,467)

B. Fund Balances

The following reconciles the June 30, 2013 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2013:

	Governmental Fund
Beginning Fund Balance, As Previously Reported, June 30, 2013	$ 119,526,914
Adjustments to Receivables	14,220
Adjustments to Accounts Payable & Investment	1,859,104
Beginning Fund Balance, As Restated July 1, 2013	$ 121,400,238

continue

NOTE 10 – NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2014:

AEDA adopted *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities* as of June 30, 2014, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as revenues and expenses. The adoption of this statement require that debt issuance costs be recognized as an expenses in the period incurred. The adoption of this standard did not have any financial impact on the financial statements.

Also, GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions.

The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing "funding-based" accounting model, where currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines the Net Pension Obligation; to an "accrual basis" model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will be applicable to the three Retirement Systems of the Commonwealth of Puerto Rico, not to the rest of the Commonwealth's agencies or any of the Commonwealth's component units. The impact of this Statement will be establishing its new net pension liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems which at June 30, 2013 amounted to approximately $34 billion.

GASB Statement No. 70 ("GASB 70"), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The guarantor agrees to pay an obligation holder in the event that the issuer of the obligation is not able to make its required payments to the obligation holder. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange.

GASB 70 does not have any impact on the AEDA's financial statements.

continue

NOTE 11 – RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2014, the AEDA entered into the following related party or intergovernmental transactions:

1. The Puerto Rico Electric Power Authority (PREPA) – electric power company and government-owned corporation of Puerto Rico responsible for electricity generation, power transmission, and power distribution in Puerto Rico. AEDA incurred in expenditures regarding the services provided by the PREPA amounting $547,870.

2. The Puerto Rico Aqueducts and Sewers Authority (PRASA) – Water company and government-owned corporation of Puerto Rico responsible for water quality, water management, and water supply in Puerto Rico. AEDA incurred in expenditures regarding the services provided by the PRASA amounting $129,333.

3. AEDA transfers funds for the operation of the programs of the “Fondo para el Fomento de la Industria Lechera (FFIL as per Spanish acronyms) and other related activities. For the fiscal year 2013-2014 total transfers were $11,671,707.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2014, the date the financial statements were available to be issued.

END OF NOTES

This page intentionally left blank.

Required Supplementary Information

This page intentionally left blank.

Budgetary Comparison Schedule – Budget and Actual – General Fund
For the Fiscal Year Ended June 30, 2014

	Budget Amounts		Actual Amounts	
	Original	Final	(Budgetary Basis)	Variance
SOURCES:				
Appropriation from Commonwealth	$ 705,000	$ 705,000	$ 705,000	$ -
Special Assigments from Commonwealth	-	-	2,417,690	2,417,690
Interests	-	-	1,964	1,964
Rent	-	-	292,989	292,989
Other	-	-	176,175	176,175
Total Revenues	705,000	705,000	3,593,818	2,888,818
APPROPRIATIONS:				
Current:				
Payroll and Related Expenses	133,000	133,000	9,232,343	(9,099,343)
Facilities and Public Service	204,000	204,000	1,627,943	(1,423,943)
Purchased Service	232,000	232,000	1,551,781	(1,319,781)
Donation and Other Distribution	90,000	90,000	-	90,000
Transportation	-	-	177,641	(177,641)
Other	3,000	3,000	1,653,378	(1,650,378)
Material and Supplies	34,000	34,000	-	34,000
Debt Service				
Principal	-	-	978,089	(978,089)
Interest	-	-	416,178	(416,178)
Capital Outlays	9,000	9,000	35,858	(26,858)
Total Expenditures	705,000	705,000	15,673,211	(14,968,211)
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ -	$ -	$ (12,079,393)	$ (12,079,393)

The notes to the Required Supplementary Information are an integral part of this Schedule.

1. RECONCILIATION OF BUDGET/ GAAP

The schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2014 is presented below for the general fund.

2. EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

		General Fund
Sources/Inflows of Resources:		
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 61)	$	3,593,818
Difference – Budget to GAAP:		
Non budgetary items – Revenues of Other Funds		-
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 22)	$	3,593,818
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 61)	$	15,673,211
Difference – Budget to GAAP:		
Non budgetary items – Expenditures of Other Funds		5,096,763
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 22)	$	20,769,974

END OF NOTES

PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

This page intentionally left blank.

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Department of Agriculture:			
Direct Programs:			
WIC Farmers' Market Nutrition Program	10.572		$ 850,880
Senior Farmers' Market Nutrition Program	10.576		864,875
Total U.S. Department of Agriculture			1,715,755
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 1,715,755**

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activities of the Agricultural Enterprises Development Administration of the Commonwealth of Puerto Rico (AEDA). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of AEDA, it is not intended to and does not present the financial position, or change in net position of AEDA.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. AEDA reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available and applicable.

3. FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

4. RELATIONSHIP TO STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Expenditures of federal awards are reported in AEDA's Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund in the Other Governmental Funds column.

END OF NOTES

CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

202 Gautier Benitez Ave.
Consolidated Mall C-31
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 1185 / 1370
Fax: (787) 746-0525
cpadiazmartinez.com

INDEPENDENT AUDITOR'S 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 Administrator of the
Agricultural Enterprises Development Administration
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Agricultural Enterprises Development Administration of the Commonwealth of Puerto Rico (AEDA**), as of and for the fiscal year ended June 30, 2014, and the related notes to basic financial statements, which collectively comprise **AEDA**'s basic financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiency in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **AEDA**'s basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **AEDA**'s basic 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 basic financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002.

AEDA's Response to Findings

AEDA's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **AEDA**'s response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on its.

Purpose of this Report

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

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
December 18, 2014

Stamp No. E135429 was affixed to
the original report.

CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

202 Gautier Benitez Ave.
Consolidated Mall C-31
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 1185 / 1370
Fax: (787) 746-0525
cpadiazmartinez.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

To the Administrator of the
Agricultural Enterprises Development Administration
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Agricultural Enterprises Development Administration of the Commonwealth of Puerto Rico** (**AEDA**)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **AEDA**'s major federal programs for the fiscal year ended June 30, 2014. **AEDA**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **AEDA**'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **AEDA**'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **AEDA**'s compliance.

Basis for Qualified Opinion (See the following Table)

As described in the accompanying Schedule of Findings and Questioned Costs, **AEDA** did not comply with requirement regarding the following:

Finding Number	CFDA Number	Program (or Cluster) Name	Compliance Requirement
2014-003	10.572 10.576	WIC Farmers' Market Nutrition Program Senior Farmers' Market Nutrition Program	Cash Management
2014-004	10.572 10.576	WIC Farmers' Market Nutrition Program Senior Farmers' Market Nutrition Program	Eligibility
2014-005	10.572 10.576	WIC Farmers' Market Nutrition Program Senior Farmers' Market Nutrition Program	Reporting
2014-006	10.572 10.576	WIC Farmers' Market Nutrition Program Senior Farmers' Market Nutrition Program	Reporting
2014-007	10.576	Senior Farmers' Market Nutrition Program	Special Test and Provision

Compliance with such requirements is necessary, in our opinion, for **AEDA** to comply with the requirements applicable to those programs.

Qualified Opinion (See the above Table)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, **AEDA** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs described in the above table for the fiscal year ended June 30, 2014.

Other Matters

AEDA's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **AEDA**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of **AEDA** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **AEDA**'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **AEDA**'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 through 2014-007 to be material weaknesses.

AEDA's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **AEDA**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
December 18, 2014

Stamp No. E135430 was affixed to
the original report.

This page intentionally left blank.

PART III

FINDINGS AND QUESTIONED COSTS

This page intentionally left blank.

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	☒ Unmodified Opinion Modified:	☐ Qualified Opinion ☐ Adverse Opinion ☐ Disclaimer Opinion
Internal control over financial reporting:		
• Material weakness (es) identified?	☒ Yes	☐ No
• Significant deficiency (ies) identified?	☐ Yes	☒ None Reported
Noncompliance material to financial statements noted?	☒ Yes	☐ No

Federal Awards

Internal control over major programs:		
• Material weakness (es) identified?	☒ Yes	☐ No
• Significant deficiency (ies) identified?	☐ Yes	☒ None Reported
Type of auditors' report issued on compliance for Major Programs:	☐ Unmodified Opinion ☒ Qualified Opinion ▪ WIC Farmers' Market Nutrition Program ▪ Senior Farmers' Market Nutrition Program ☐ Adverse Opinion	☐ Disclaimer Opinion
Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?	☒ Yes	☐ No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
10.572	WIC Farmers' Market Nutrition Program
10.576	Senior Farmers' Market Nutrition Program

Dollar threshold used to distinguish between Type A and Type B Programs:	$300,000	
Auditee qualified as low-risk auditee?	☐ Yes	☒ No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2014-001**

TYPE OF FINDING **MATERIAL WEAKNESS IN PREPARED FINANCIAL STATEMENTS**

CRITERIA

AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit,* paragraph .A11, states the follows:

"Indicators of material weaknesses in internal control include

…

- restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;

- identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and" [underlying by us]

…

Paragraph 4.23, *Communicating Deficiencies in Internal Control, Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse*, of the *Government Auditing Standards* issued by the Comptroller General of the United States, 2011 Revision, states the follows:

"**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; … "[underlying by us]

Paragraph 4.24, *Deficiencies in Internal Control*, of the *Government Auditing Standards* states the follows:

"**4.24** The AICPA requirements to communicate in writing significant deficiencies and material weaknesses identified during an audit form the basis for reporting significant deficiencies and material weaknesses in the GAGAS report on internal control over financial reporting when deficiencies are identified during the audit."

Appendix I, *Supplemental Guidance*, paragraph A.06, *Examples of Deficiencies in Internal Control*, of the *Government Auditing Standards* states the follows:

"**A.06** The following are examples of control deficiencies:

a. ...

b. ...

c. Control systems that did not prevent, or detect and correct material misstatements so that it was necessary to restate previously issued financial statements or operational results. Control systems that did not prevent or detect material misstatements in performance or operational results so that it was later necessary to make significant corrections to those results. [underlying by us]

d. Control systems that did not prevent, or detect and correct material misstatements identified by the auditor. This includes misstatements involving estimation and judgment for which the auditor identifies potential material adjustments and corrections of the recorded amounts." [Underlying by us]

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2014-001 – continuation**

CONDITION

During the preparation of the financial statements by **AEDA**, they noted material misstatements in prior year audited financial statements that required significant adjustments to the assets, capital assets, liabilities, fund balances and net position.

CAUSE

AEDA's internal control system, failed to obtain assurance of the capital assets completeness and ownership. In fact, **AEDA** don't monitor periodically the capital assets transactions in order to verify on a timely basis if adjustments need to be made to reconcile with the schedules. In addition, **AEDA** accounting system does not provide for some mechanized transaction that could lead to errors if proper trace is not maintained.

EFFECT OR POSSIBLE EFFECT

The financial statements for the fiscal year ended June 30, 2013, prepared by **AEDA** presented material adjustments and restatement of the beginning balance of the net position/fund balance in order to reconcile the trial balances and accounting records to properly present the transactions of the Governmental Activities and Business-Type Activities and the correct balances on the Fund Financial Statements.

RECOMMENDATION

We recommend **AEDA** to monitor the capital assets accountability, the financial transactions and reconcile periodically the subsidiaries of receivables and payables during the year in order to make adjustments and take the corrective actions timely.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

We are improving our internal controls to include the actions recommended by the auditors in order to adequately prepared the Administration's financial statements and provide timely and accurate data for reporting and audit purposes. The Office of Fiscal Affairs personnel will performed this duties.

IMPLEMENTATION DATE

January 2015

RESPONSIBLE PERSON

Héctor Berrios and Mirza Matos

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2014-002 (See FINDING REFERENCE NUMBER 2014-005)**

TYPE OF FINDING **MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE – REPORTING PACKAGE OF SINGLE AUDIT**

CRITERIA OMB Circular A-133, Subpart C, Section .320 (a), (c), state all the audit shall be completed and the Data Collection Form and Reporting Package shall be submitted to the Federal Audit Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

CONDITION **AEDA** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2013 during the required period.

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2014-003**
FEDERAL PROGRAM	**WIC FARMERS' MARKET NUTRITION PROGRAM (10.572)** **U.S. DEPARTMENT OF AGRICULTURE**
AWARD NUMBER	**2013IY860441; 2013IY860741; 2014IY860441; 2014IY860741**
FEDERAL PROGRAM	**SENIOR FARMERS' MARKET NUTRITION PROGRAM (CFDA NO. 10.576)** **U.S. DEPARTMENT OF AGRICULTURE**
AWARD NUMBER	**2013IY830341; 2013IY830441; 2014IY830341; 2014IY830441**
COMPLIANCE REQUIREMENT	**CASH MANAGEMENT**
TYPE OF FINDING	**MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**
CRITERIA	U.S. Department of Agriculture Common Rules at 3016.20 Standards for financial management systems states that (b) The financial management systems of other grantees and subgrantees must meet the following standards: 92) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S, Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.
CONDITION	During our financial tests of the Farmers Markets for WIC Farmers' Market Nutrition Program (FMNP) and the Seniors Farmers' Market Nutrition Program (SFMNP) we noted excess cash-on-hand at the end of the programs year 2013 markets. Both programs and their activities on November of each year, outstanding vouchers/checks to participants are cancelled at the end of November. On our test we noted that as of December 2013 for the FMNP there was a cash balance on the program's bank account of $1,029,363 and for the SFMNP a total of $221,585. This nature of these balances could not be identify by **AEDA** staff during the audit.
QUESTIONED COSTS	Indeterminable
CAUSE	**AEDA** does not have in place a closeout procedure for the Federal programs activities and its financial transactions at the end of the Federal programs year or at the end of the fiscal year. No reconciliation procedures are in place to provide reasonable assurance that all transactions and account balances are adequately identified on the general ledger, including cash balances on each program bank account.
EFFECT OR POSSIBLE EFFECT	**AEDA** noncompliance can result in administrative sanctions by the grantor agency and costs disallowances.
RECOMMENDATION	We recommend **AEDA** fiscal staff to perform an analysis of the amount available on each program's bank account to identify the source and nature of the excess cash-on-hand balance on the accounts, performed the necessary actions to reimburse the funds to the Federal grantor or **AEDA**'s other funds per the result of the analysis. Also, annual reconciliation and closeout procedures for each program must be establish that includes the reimbursements of any unused funds to the Federal grantor agency.

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2014-003** **– continuation**

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

We will be improving our closeout procedures to address the auditor's recommendations. By the end of each program year market a reconciliation of all fiscal transactions will be performed and certify by our fiscal office. As for the available balance a reconciliation has been requested to identify the source of the balance and performed the necessary adjustments needed to correct the condition identified.

IMPLEMENTATION DATE June 2015

RESPONSIBLE PERSON Héctor Berrios and Mirza Matos

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2014-004**
FEDERAL PROGRAM	**WIC FARMERS' MARKET NUTRITION PROGRAM (10.572) U.S. DEPARTMENT OF AGRICULTURE**
AWARD NUMBER	**2013IY860441; 2013IY860741; 2014IY860441; 2014IY860741**
FEDERAL PROGRAM	**SENIOR FARMERS' MARKET NUTRITION PROGRAM (CFDA NO. 10.576) U.S. DEPARTMENT OF AGRICULTURE**
AWARD NUMBER	**2013IY830341; 2013IY830441; 2014IY830341; 2014IY830441**
COMPLIANCE REQUIREMENT	**ELIGIBILITY**
TYPE OF FINDING	**MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**

CRITERIA

U.S. Department of Agriculture requirements at 7 CFR 248.10 (2) and 7 CFR 249.10 (2) establishes that the State agency shall establish criteria for the authorization of individual farmers, farmers' markets and roadside stands. **AEDA** included in the State Plan the required criteria to determine a farmer eligible to participate on the farmer markets of both programs.

CONDITION

During our tests of internal control and compliance with the eligibility requirements of the Farmers Markets for WIC Farmers' Market Nutrition Program (FMNP) and the Seniors Farmers' Market Nutrition Program (SFMNP), we noted the following missing or incomplete documents on the farmers' files on a sample of 25 files tested:

1. Standard Eligibility Form was not included on farmers' file – 2 instances (8%)
2. No signature on Standard Eligibility Form – 1 instance (4%)
3. Farmer did not maintain required 5 acres or more in constant production – 1 instance (4%)
4. No evidence of authorization of Regional Director of the Puerto Rico Department of Agriculture as register farmer – 3 instances (12%)
5. Lack of Food Handling Certification on file – 8 instances (32%)
6. Lack of Good Conduct Certificate on file – 5 instances (20%)
7. Lack of Health Certificate on file – 1 instance (4%)

QUESTIONED COSTS

Undeterminable

INFORMATION TO PROVIDE PROPER PERSPECTIVE

This condition present a systemic problem within **AEDA**. Last year audit included a similar condition.

CAUSE

AEDA has developed a Standard Eligibility Form as an internal control measure to aid in the eligibility determination of the farmers. Our test show that, for the instances noted, the personnel in charge of the eligibility determinations did not follow the requirements and checklist of documents included on the Standard Eligibility Form.

EFFECT OR POSSIBLE EFFECT

This represent a failure to achieve the program objectives. **AEDA** noncompliance can result in administrative sanctions by the grantor agency and costs disallowances.

RECOMMENDATION

AEDA should provide additional training to staff involve in the eligibility determination in order to comply with the Standard Eligibility Form document checklist and provide assurance that all required documentation and certification are available for the eligibility determinations. Also, supervision of the eligibility determinations must be provided by the Regional Director of the Puerto Rico Department of Agriculture who signs the authorizations of the eligibility determinations.

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2014-004 – continuation**

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

We will assign and train the necessary staff in Eligibility Requirements for these programs. As suggested by the auditors we will create a Standard Eligibility Form Check List that will be completed before each program calendar year initiates.

IMPLEMENTATION DATE March 2015

RESPONSIBLE PERSON Alberto Torres

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2014-005 (See FINDING REFERENCE NUMBER 2014-002)**
FEDERAL PROGRAM	**WIC FARMERS' MARKET NUTRITION PROGRAM (10.572) U.S. DEPARTMENT OF AGRICULTURE**
AWARD NUMBER	**2013IY860441; 2013IY860741; 2014IY860441; 2014IY860741**
FEDERAL PROGRAM	**SENIOR FARMERS' MARKET NUTRITION PROGRAM (CFDA NO. 10.576) U.S. DEPARTMENT OF AGRICULTURE**
AWARD NUMBER	**2013IY830341; 2013IY830441; 2014IY830341; 2014IY830441**
COMPLIANCE REQUIREMENT	**REPORTING**
TYPE OF FINDING	**MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE – REPORTING PACKAGE OF SINGLE AUDIT**
CRITERIA	OMB Circular A-133, Subpart C, Section .320 (a), (c), state all the audit shall be completed and the Data Collection Form and Reporting Package shall be submitted to the Federal Audit Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
CONDITION	**AEDA** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2013 during the required period.
QUESTIONED COSTS	None
INFORMATION TO PROVIDE PROPER PERSPECTIVE	**AEDA** accounting records did not reconciled with the audited financial statements of prior year. Furthermore, during fiscal year 2012-2013, **AEDA** did not have adequate accounting records in order to produce the financial statements with supporting documentation timely.
CAUSE	**AEDA** were unable to provide timely the financial statements and related supporting documentation in order to apply required audit procedures.
EFFECT OR POSSIBLE EFFECT	**AEDA** did not comply with the submission date required for the Data Collection Form and Reporting Package.
RECOMMENDATION	We recommend management to implement adequate internal control procedures in order to assure that accounting records and supporting documentation is available on a timely manner.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Our Office of Fiscal Affairs staff took the necessary actions to prepared the Administration's financial statements on a timely basis and we performed a request of proposal for audit services to obtain the required services with sufficient time to comply with the OMB Circular A-133 requirement.
IMPLEMENTATION DATE	December 2014
RESPONSIBLE PERSON	Héctor Berrios and Mirza Matos

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2014-006**

FEDERAL PROGRAM **WIC FARMERS' MARKET NUTRITION PROGRAM (10.572)**
U.S. DEPARTMENT OF AGRICULTURE

AWARD NUMBER **2013IY860441; 2013IY860741; 2014IY860441; 2014IY860741**

FEDERAL PROGRAM **SENIOR FARMERS' MARKET NUTRITION PROGRAM (CFDA NO. 10.576)**
U.S. DEPARTMENT OF AGRICULTURE

AWARD NUMBER **2013IY830341; 2013IY830441; 2014IY830341; 2014IY830441**

COMPLIANCE REQUIREMENT **REPORTING**

TYPE OF FINDING **MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**

CRITERIA

U.S. Department of Agriculture Common Rules at 3016.20 Standards for financial management systems – states that (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

CONDITION

During our tests of internal control and compliance over financial reporting requirements, we noted that **AEDA** does not reconciles the expenditures amount on the Farmers Markets for WIC Farmers' Market Nutrition Program (FMNP) and the Seniors Farmers' Market Nutrition Program (SFMNP) on the ORACLE accounting system. We obtain copies of the FMNP Financial Report (Form FNS-683) and the SFMNP Annual Financial and Program Data Report. Currently, a spreadsheet is kept by the Program's Director to accumulate and maintain program expenditures for reporting purposes, however the amounts on the spreadsheet are not reconciled to the ORACLE accounting system which is the official accounting record of **AEDA**.

QUESTIONED COSTS

None

CAUSE

AEDA does not have in place a procedure to reconcile the amounts reported on the Federal financial reports to the official accounting system (ORACLE). The reports are prepared by the Program Director with information maintain on a spreadsheet, however he does not have access to the accounting system. In addition, no personnel from **AEDA**'s Fiscal Affairs Office is involve in the report preparation or review.

EFFECT OR POSSIBLE EFFECT

AEDA noncompliance can result in administrative sanctions by the grantor agency and costs disallowances.

RECOMMENDATION

We recommend the Federal financial reports be prepared from the information available on the ORACLE accounting system and include personnel from the **AEDA**'s Fiscal Affairs Office on the report preparation process. On the other hand, if the current process is maintain (the use of the spreadsheet) staff from the Fiscal Affairs Office must performed an analysis and reconciliation of the amounts included on the financial reports to the Federal grantor agency and the ORACLE accounting system prior to the report submission. Also, annual reconciliation and closeout procedures for each program must be establish.

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2014-006** – continuation

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

We will be improving our closeout procedures to address the auditor's recommendations. By the end of each program year market a reconciliation of all fiscal transactions will be performed and certify by our fiscal office. This will include the reconciliation of the financial reports with the ORACLE system. All adjustments needed to reconcile the information included on the reports with our official accounting system will be performed prior to the submission of the reports.

IMPLEMENTATION DATE January 2015

RESPONSIBLE PERSON Héctor Berrios, Mirza Matos and Alberto Torres

continue

SECTION III – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2014-007**
FEDERAL PROGRAM	**SENIOR FARMERS' MARKET NUTRITION PROGRAM (CFDA NO. 10.576)** **U.S. DEPARTMENT OF AGRICULTURE**
AWARD NUMBER	**2013IY830341; 2013IY830441; 2014IY830341; 2014IY830441**
COMPLIANCE REQUIREMENT	**SPECIAL TEST AND PROVISIONS**
TYPE OF FINDING	**MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**
CRITERIA	U.S. Department of Agriculture requirements at 7 CFR 249.3 (d) Coordination with other agencies. The Chief Executive Officer of the State shall ensure coordination between the designated administering State agency and any other State, local, or nonprofit agencies or entities involved in administering any aspect of the SFMNP by ensuring that the agencies enter into a written agreement or letter/memorandum of understanding. The written agreement or letter/memorandum of understanding must delineate the responsibilities of each agency, describe any compensation for services, and must be signed by the designated representative of each agency.
CONDITION	During our audit, we requested the collaborative agreements entered by **AEDA** for the administration of the Seniors Farmers' Market Nutrition Program (SFMNP). **AEDA** enters into an agreement with the Office of the Procurement for Retirees and Seniors of the Commonwealth of Puerto Rico (OPPEA for its Spanish acronyms) for the administration and distribution of the benefit vouchers to eligible participants. However, for the period beginning April 1, 2014 until September 30, 2014 which cover the 2014 market season there was not valid agreement formalize between **AEDA** and OPPEA. The collaborative agreement was formalized on September 30, 2014.
QUESTIONED COSTS	Undeterminable
INFORMATION TO PROVIDE PROPER PERSPECTIVE	This condition present a systemic problem within **AEDA**. Last year audit included a similar condition.
CAUSE	Lack of follow-up and changes on management of OPPEA delayed the signature of the agreement.
EFFECT OR POSSIBLE EFFECT	This represent a failure to achieve the program objectives. **AEDA** noncompliance can result in administrative sanctions by the grantor agency and costs disallowances.
RECOMMENDATION	We recommend **AEDA** to establish a fixed date annually to renovate or prepared the new Collaborative Agreement with OPPEA. This will assured that a valid agreement is signed in effect at all times.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	The date to renovate all Collaborative Agreement has already been stablished. It will be during the month of February, stating in 2015.
IMPLEMENTATION DATE	March 2015
RESPONSIBLE PERSON	Alberto Torres

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2012-2013

Finding Number	**2013-001**	**Eligibility** Deficiencies related missing documentation and noncompliance with acres in constant production.
CFDA Numbers	10.572	
Questioned Cost	None	
Auditee Comments		Pending of final determination of US Department of Agriculture.
Finding Number	**2013-002**	**Eligibility** Deficiencies related missing documentation and noncompliance with acres in constant production.
CFDA Numbers	10.576	
Questioned Cost	None	
Auditee Comments		Pending of final determination of US Department of Agriculture.
Finding Number	**2013-003**	**Eligibility** Collaborative Agreement with the Department of Health not signed.
CFDA Numbers	10.572	
Questioned Cost	None	
Auditee Comments		Pending of final determination of US Department of Agriculture.
Finding Number	**2013-004**	**Eligibility** Collaborative Agreement with the Office of the Procurement for Retirees and Seniors of the Government of Puerto Rico not signed.
CFDA Numbers	10.576	
Questioned Cost	None	
Auditee Comments		Pending of final determination of US Department of Agriculture.

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

FISCAL YEAR 2011-2012

Finding Number	**2012-01**	**Eligibility** Deficiencies related missing documentation and noncompliance with acres in constant production.
CFDA Numbers	10.572 10.576	
Questioned Cost	None	
Auditee Comments		Pending of final determination of US Department of Agriculture.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE