

FARM INSURANCE CORPORATION OF PUERTO RICO  
(a component unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL STATEMENTS  
JUNE 30, 2013

**FARM INSURANCE CORPORATION OF PUERTO RICO**  
**(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)**

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**MENDOZA & RAMOS**  
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

**Independent Auditor's Report**

Board of Directors  
Farm Insurance Corporation of Puerto Rico

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activity of the Farm Insurance Corporation of Puerto Rico (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation'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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Farm Insurance Corporation of Puerto Rico as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Change of Auditors*

The financial statements of the Corporation as of June 30, 2012, were audited by other auditors whose report dated March 3, 2013, expressed an unqualified opinion on those statements. Our opinion is not modified with respect to this matter.

### *Adoption of New Accounting Principles*

As described in Note 1 to the financial statements, the Corporation adopted the provisions of GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, and Net Position" and GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities". Our opinion is not modified with respect to this matter.

### *Subsequent Event*

As described in Note 11 to the financial statements, in August, 2013, the Insurance Commissioner Office of the Government of Puerto Rico conducted an evaluation with the purpose of determining the amount of the maximum loss obligations that the Corporation may contract for the fiscal year 2013-2014. As a result of the evaluation, the Insurance Commissioner Office recommended the Corporation to establish and separate a reserve not less than \$10,864,278 to cover the maximum estimated loss exposure for the next fiscal year. Our opinion is not modified with respect to this matter.

*Mendoza & Ramos* CPA's  
MENDOZA & RAMOS;

CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

November 8, 2013

Stamp # 2573196, was affixed to  
the original of this report.



**FARM INSURANCE CORPORATION OF PUERTO RICO**  
**(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

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This section of Farm Insurance of Puerto Rico (the Corporation) annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended on June 30, 2013. The Corporation's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

Management's Discussions and Analysis introduce the Corporation's financial statements. Financial reporting at this level uses a perspective similar to that found in the private sector which it's the basis in full accrual accounting.

Among the most significant financial aspects observed this year are the following:

1. The Corporation assets exceed its liabilities by \$7,186,151 (net position), for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$7,105,451.
2. Premiums written this year decreased in relation to previous year. For fiscal year 2012-2013 they amounted to \$5,478,960 compared to \$5,846,397 in fiscal year 2011-2012.
3. At the date of the Financial Statements the Farm Insurance Corporation has a waiver to insure Hydroponics and Ornamental Plantation Structures for a revision on rates.

Overview of the Corporation

The Corporation's primary mission is to provide insurance to farmers against losses or damages to plantations, crops, animals, birds, and others caused by natural disasters. The Corporation is responsible for its debts and is entitled to surpluses.

Overview of the Financial Statements

The Corporation's basic financial statements consist of three components; 1) the MD&A, 2) basic financial statements, and 3) notes to the financial statements. Because the Corporation is a special-purpose government engaged in business-type activities only, the financial statements are presented in accordance with paragraph 138 of GASB Statement 34. Management has prepared the Statement of Net Position, the Statement of Revenues, Expenses and Change in Net Position, and the Statement of Cash Flows.

The Statement of Net Position is the present information about the Corporation's overall status. The increase or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the operating statement of the Corporation, which reports the operating and non-operating revenues, expenses and the change in the net position.

The Statement of Cash Flow provides relevant information about the cash receipts and cash payments of the Corporation for the fiscal year. This statement helps financial report users assess (a) an entity's ability to generate future net cash flows, (b) its ability to meet its obligations as they come due, (c) its needs for external financing, (d)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

the reasons for differences between operating income and associated cash receipts and payments, and (e) the effects on the entity's financial position of both its cash and its noncash investing, capital, and financing transactions during the period.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the basic financial statements. The notes to the financial statements begin on page ten on this report.

Financial Analysis of the Administration

The following table provides a summary of the Corporation's net position:

Summary of Net Position			
	June 30, 2013	June 30, 2012	Net Change
Current Assets	\$ 7,179,484	\$ 8,132,844	\$ (953,360)
Non Current Assets	9,903,646	9,257,811	645,835
Capital Assets	211,717	247,531	(35,814)
Total Assets	<u>17,294,847</u>	<u>17,638,186</u>	<u>(343,339)</u>
Current Liabilities	\$ 1,035,439	\$ 1,285,207	\$ (249,768)
Non Current Liabilities	4,992,041	4,992,041	-
Total Liabilities	<u>\$ 6,027,480</u>	<u>\$ 6,277,248</u>	<u>\$ (249,768)</u>
Deferred Inflows of Resources	<u>\$ 4,081,216</u>	<u>\$ 4,255,487</u>	<u>\$ (174,271)</u>
 Net Position:			
Net Investment in Capital Assets	\$ 211,717	\$ 247,531	\$ (35,814)
Unrestricted	6,974,434	6,857,920	116,514
Total Net Position	<u>\$ 7,186,151</u>	<u>\$ 7,105,451</u>	<u>\$ 80,700</u>

Fiscal year 2013 reflects a decrease in total assets amounting to \$343,339, a decrease in total liabilities of \$249,768, a decrease in deferred inflows of resources or \$174,271 and an increase in total net position of \$80,700 when compared with fiscal year 2012. Current assets decrease due mainly to a decrease in cash and cash equivalents in \$1,104,274. Non-current assets increased mainly to the balance of accounts receivable from ADEA. Capital assets decrease for the disposition of equipment during fiscal year. Liabilities decrease due to that no significant claims exist at the end of the year.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

The following table provides a summary of the Corporation's revenues, expenses and changes in net position:

Summary of Revenues, Expenses and Changes in Net Assets			
For the year ended on June 30,			
	2013	2012	Change
Operating Revenues	\$ 2,389,636	\$ 4,589,359	\$ (2,199,723)
Operating Expenses	(2,365,434)	(8,414,955)	6,049,521
Operating Income (loss)	24,202	(3,825,596)	3,849,798
Non Operating Revenues	56,498	152,597	(96,099)
Change in Net Position	80,700	(3,672,999)	3,753,699
Net Position - Beginning of year	7,105,451	10,778,450	(3,672,999)
Net Position - End of year	\$ 7,186,151	\$ 7,105,451	\$ 80,700

Fiscal year 2013 reflects a decrease in total operating revenues and a decrease in operating expenses. Decrease in revenues is due to the increase in ceded premiums. Claims expenses decrease since no significant losses due to natural disasters occurred during fiscal year 2013. The Corporation had a change in net position of \$80,700.

Capital Assets

The Corporation's investment in capital assets, net of accumulated depreciation as of June 30, 2013 and 2012, was \$211,717 and \$247,531 respectively. The total decrease in this net investment was 14%.

Capital Assets			
For the year ended on June 30,			
	2013	2012	Change
Equipment	\$ 780,169	\$ 772,862	\$ 7,307
Vehicles	131,334	108,539	22,795
	911,503	881,401	30,102
Less: Accumulated Depreciation	(699,786)	(633,870)	(65,916)
Change in Net Capital Assets	\$ 211,717	\$ 247,531	\$ (35,814)

Line of Credit

During the fiscal year ended June 30, 2005 the Corporation borrowed \$6,500,000 from "Fondo Integral para el Desarrollo Agrícola de Puerto Rico Inc." (FIDA) under a non-revolving credit line for working capital purposes. The line of credit bears an annual interest at 2.25% over LIBOR rate. As of June 30, 2013 the outstanding balance amounted \$4,992,041 same as of June 30, 2012.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

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The Corporation is obligated to pay FIDA the outstanding balance of the line of credit after "Administración para el Desarrollo de Empresas Agropecuarias" (ADEA), former ASDA, has paid its debts to the Corporation.

On February 9, 2006 FIDA, through resolution No. 2005-07, modified the terms of the line of credit due to the cash flow problem experienced by the Corporation. FIDA has agreed to accept a cash payment of the principal balance at no interest or penalties, after ADEA has paid its debts to the Corporation.

During fiscal year 2012-13 the Corporation did not make principal payments to FIDA.

Subsequent Events

In August 2013, the Insurance Commissioner Office of the Government of Puerto Rico conducted an evaluation with the purpose of determining the amount of the maximum loss obligations that the Corporation may contract for the fiscal year 2013-2014. As a result of the evaluation, the Insurance Commissioner Office recommended the Corporation to establish and separate a reserve not less than \$10,864,278 to cover the maximum estimated loss exposure for the next fiscal year.

Contacting the Corporation's Financial Management

This financial report is designed to provide a general overview of the Corporation's finances, and to demonstrate the Corporation's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Corporation's Finance Department at (787) 722-2748.

**FARM INSURANCE CORPORATION OF PUERTO RICO**  
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**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

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<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 6,119,888
Accounts receivable, net	973,234
Accounts receivable, Federal Crop Insurance Corporation	76,013
Prepaid expenses and other current assets	10,349
Total current assets	<u>7,179,484</u>
<b>NON-CURRENT ASSETS</b>	
Accounts receivable, net	9,903,646
Capital assets, net	211,717
Total non-current assets	<u>10,115,363</u>
Total assets	<u>\$ 17,294,847</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Unpaid claims	\$ 49,334
Accounts payable	280,697
Accrued expenses	705,408
Total current liabilities	<u>1,035,439</u>
<b>NON-CURRENT LIABILITY</b>	
Line of credit	<u>4,992,041</u>
Total liabilities	<u>6,027,480</u>
<b>DEFERED INFLOWS OF RESOURCES</b>	
Unearned premiums	<u>4,081,216</u>
Total deferred inflows of resources	<u>4,081,216</u>
<b>NET POSITION</b>	
Net investment in capital assets	211,717
Unrestricted	6,974,434
Total net position	<u>\$ 7,186,151</u>

See accompanying notes to financial statements.

**FARM INSURANCE CORPORATION OF PUERTO RICO**  
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<b>Operating Revenues</b>	
Premiums written	\$ 5,478,960
Ceded premiums	(3,230,701)
	<hr/>
Net premiums	2,248,259
Commissions revenue	112,540
Other revenue	28,837
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<b>Total operating revenues</b>	<b>2,389,636</b>
	<hr/>
<b>Operating expenses</b>	
Claims	189,927
Salaries and employee benefits	2,228,123
Insurance	121,041
Rent	199,131
Professional services	468,768
Depreciation	84,013
Other	170,970
	<hr/>
<b>Total operating expenses</b>	<b>3,461,973</b>
	<hr/>
Reimbursement of administrative and operating expenses	(1,096,539)
	<hr/>
<b>Net operating expenses</b>	<b>2,365,434</b>
	<hr/>
<b>Operating Income</b>	<b>24,202</b>
Non-operating revenue - interest	56,498
	<hr/>
<b>CHANGE IN NET POSITION</b>	<b>80,700</b>
<b>BEGINNING TOTAL NET POSITION, JUNE 30, 2012</b>	<b>7,105,451</b>
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<b>ENDING TOTAL NET POSITION, JUNE 30, 2013</b>	<b>\$ 7,186,151</b>
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See accompanying notes to financial statements.

**COMMONWEALTH OF PUERTO RICO  
FARM INSURANCE CORPORATION OF PUERTO RICO**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities:	
Receipts from customers (net of reinsurance)	\$ 2,333,117
Commissions and other revenue	143,147
Salaries and employee benefits paid	(2,279,021)
Claims paid and payments to suppliers	<u>(1,264,251)</u>
Net cash used by operating activities	<u>(1,067,008)</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(48,199)</u>
Net cash used by capital and related financing activities	<u>(48,199)</u>
Net cash provided by investing activity:	<u>10,933</u>
Net decrease in cash and cash equivalents	(1,104,274)
Cash and cash equivalents at beginning of year	<u>7,224,162</u>
Cash and cash equivalents at the end of year	<u>6,119,888</u>
Reconciliation of operating gain to net cash provided by operating activities:	
Operating income	24,202
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation expense	84,013
Change in assets and liabilities:	
Accounts receivable	(835,640)
Prepaid expenses	84,456
Accounts payable and unpaid claims	(198,870)
Accrued expenses	(50,898)
Unearned premiums	<u>(174,271)</u>
Net cash used in operating activities	<u>\$ (1,067,008)</u>

See accompanying notes to financial statements.

**FARM INSURANCE CORPORATION OF PUERTO RICO**  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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**NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. ORGANIZATION AND REPORTING ENTITY**

The Farm Insurance Corporation of Puerto Rico (the Corporation) is an instrumentality of the Commonwealth of Puerto Rico ascribed to the Department of Agriculture (the Department). As a component unit of the Department, the Corporation is also included as part of the Department as reporting entity.

The Corporation was created by Act Number 166 (the Act) of August 11, 1988 to provide insurance to farmers against losses or damages to plantations, crops, animals, birds, and others caused by natural disasters. The Corporation is responsible for its debts and is entitled to surpluses. The Commissioner of Insurance of Puerto Rico has the authority to evaluate accrued reserves in order to determine their adequacy and to make recommendations.

The Board of Directors is composed of five members including, the Secretary of the Department of Agriculture (as President), the Dean of the Agricultural Sciences Faculty of the Mayagüez Campus of the University of Puerto Rico, a representative of the Government Development Bank for Puerto Rico and two bonafide farmers appointed by Governor with the consent of the Senate of Puerto Rico.

The Board of Directors appoints the Executive Directors of the Corporation, who is responsible for the direct administration of the Corporation in accordance with the policies and procedures established by the Board of Directors.

**B. BASIS OF PRESENTATION**

The Corporation's financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 ("GASB") "Basic Financial Statements" – and Management's Discussion and Analysis – for State and Local Governments." GASB 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenue, expense and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt, restricted, and unrestricted.

These classifications are defined as follows:

- Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – Consist of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.
- Unrestricted – This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**FARM INSURANCE CORPORATION OF PUERTO RICO**  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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**NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Because the Corporation is a special-purpose government engaged in business-type activities only, the financial statements are presented in accordance with paragraph 138 of GASB Statement 34 "Basic Financial Statements for State and Local Governments".

Also, during fiscal year 2012-13, the Corporation adopted the provisions of the following GASB Statements:

- GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

This Statement also supersedes GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

- GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, and Net Position", which incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

This Statement improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

- GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities", 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 assets and liabilities.

**C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basis of accounting**

The accrual basis of accounting is used by the Corporation. Under the accrual basis, revenues are recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

**FARM INSURANCE CORPORATION OF PUERTO RICO**  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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**NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2. Earned premiums

Insurance premiums are recognized as income during the period covered by the policies issued to the farmers. The insurance policies period cover from April 1<sup>st</sup> to March 31<sup>st</sup>. The portion corresponding to the next fiscal year is deferred and recognized as earned during that year.

3. Unbilled Receivables

Unbilled receivables represent a management's estimate of the unearned premiums related with the unwritten policies for the period cover from April 1, 2013 to March 31, 2014.

4. Unpaid claims

The liability for unpaid claims consists of the estimated amount of the probable claims of the farmers. The Corporation's management believes that the liability for unpaid claims is adequate to cover the ultimate net costs of losses and claims as of year-end. However, the liability is necessarily based on estimates and no representation is made that the amounts ultimately paid may not be more or less than such estimates as of year-end.

5. Capital Assets

The Corporation's capital assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property and equipment are as follows:

Motor vehicles	5 years
Computer equipment	5 years
Offices furniture and equipment	5 to 10 years
Other equipment	5 to 10 years

6. Cash and cash equivalents

The Corporation classifies as cash equivalents, certificates of deposits purchased with maturities of ninety days or less.

7. Compensated absences

The vacation policy of the corporation generally provides for the accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed 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 and having more than ten years of continued services, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days.

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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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**NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Compensated absences, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay of salary rates in effect at the statement of net assets date. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences.

As per Act 156 of August 20, 1996, for the current fiscal year, the employees have the right to accumulate the excess of 60 and 90 days in vacation and sick leave, respectively, until December 31 of each year. The excess should be paid to the employees before March 31 of the following year.

8. Accounting for pension costs

The management of the Corporation accounts for pension costs in accordance with provisions of Governmental Accounting Standards Boards ("GASB") Statement No. 27, as amended, "Accounting for Pensions by State and Local Governmental Employers".

GASB No. 27 establishes standards of accounting and financial reporting for pension expenditures/expenses and related pension liabilities, pension assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers.

The statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

9. Statement of Cash Flows

The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, as amended, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting". For purposes of reporting cash flows, cash includes cash on hand, amounts due from banks, and items in process of collection.

10. Operating Revenues and Expenses

Operating revenues and expenses arise from the sale of insurance to farmers and the services provided to them, as well as all revenues and expenses not related to capital and related financing activities.

11. Risk management

The Corporation is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters and other losses. Commercial insurance coverage is obtained for claims arising from such matters. The commercial insurance coverage, is Negotiated by the Department of Treasury of the Commonwealth of Puerto Rico and the cost is paid by the Corporation.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**12. Future adoption of accounting pronouncements**

The GASB has issued the following standards that have effective dates after June 30, 2013:

	Statement	To be adopted in Fiscal year ended
66	Technical Corrections – 2012 – an amendment of GASB Statement No. 1 and No. 62	June 30, 2014
67	Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25	June 30, 2014
68	Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.	June 30, 2015
69	Government Combinations and Disposals of Government Operations	June 30, 2015
70	Accounting and Financial Reporting for Nonexchange Financial Guarantees	June 30, 2014

The Corporation's management has concluded that the adoption of these statements will not have a significant impact on the Corporation's financial statements.

**NOTE 2 – CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits might not be recovered. The Corporation maintains all cash deposits in commercial banks located in Puerto Rico.

Under the Government of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of Treasury of Puerto Rico in the Corporation's name. At year-end the Corporation's bank balance in commercial banks amounts to \$6,119,888.

The Corporation established, in accordance with the requirements of the Federal Crop Insurance Corporation (FCIC), separate bank accounts dedicated solely to the federally reinsured crop insurance program. For the fiscal year ended June 30, 2013 the Corporation deposits all producer-paid premium, reinsurance recoveries, and FCIC paid premium subsidy in the accounts and pays all crop insurance losses and reinsurance premium from the accounts. Additionally, the Corporation must not commingle other funds not related to the federal crop insurance program.