



**TORRES-FRED & Co., P.S.C.**  
Contadores Públicos Autorizados

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

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

# FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

## INDEPENDENT AUDITORS' REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Agricultural Enterprises Development Administration ("ADEA", in Spanish), a component unit of the Department of Agriculture 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 ADEA'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 State of America; this include 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 misstatements.

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Agricultural Enterprises Development Administration 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 14 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 Agricultural Enterprises Development Administration as of June 30, 2012, were audited by other auditors whose report dated August 16, 2013, expressed a qualified opinion on those statements. Our opinion is not modified with respect to this matter.

### *Adoption of a New Accounting Principle*

As describe in Note 1 to the financial statements, the Agricultural Enterprise Development Administration 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" and GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resource, and Net Position". Our opinion is not modified with respect to this matter.

*TORRES-FRED & Co. P.S.C*

**TORRES-FRED & CO, PSC**  
**CERTIFIED PUBLIC ACCOUNTANT**  
MARCH 14, 2014

Stamp #E102261, was affixed to  
the original of this report



**AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION  
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**MANAGEMENT DISCUSSION AND ANALYSIS<sup>1</sup>  
FOR THE YEAR ENDED JUNE 30, 2013**

The management of ADEA provides this Management's Discussion and Analysis ("MD&A") for the readers of the ADEA's basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the ADEA for the fiscal year ended June 30, 2013, and is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the ADEA's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information together with ADEA's basic financial statements, including the notes to the financial statements, which are located after this analysis. During fiscal year 2013, ADEA implemented GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" and GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resource, and Net Position". This Statement introduced new terms that are defined in Note 1 to the basic financial statements.

**FINANCIAL HIGHLIGHTS**

The ability of ADEA to continue as a going concern is dependent on the ongoing efforts of the Costs Control and Positions Freeze Plan, effective January 2009. For the fiscal year 2013, the ADEA's liabilities exceeded its assets by \$97 million. This Costs Control and Positions Freeze Plan is still in effect and is geared to the reduction of the annual operating deficit; it entails:

- Controlling the purchases of pesticides and using on the on-hand inventories,
- Intensifying collection efforts with both, farmers and other government clients of goods and services,
- Minimizing the on-hand coffee inventory and paying off the related line of credit; effectively reducing this inventory carrying costs in warehousing and interest costs.
- Increasing revenues from the sale of semi-roasted coffee, and
- Sale of real property, land and facilities, not in use.

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<sup>1</sup> The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the ADEA's management. The independent auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Therefore, the independent auditors did not audit such information and did not express an opinion on it.

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**General Fund Highlights**

- Total General Fund actual revenues on a budget basis for the fiscal year 2013 (excluding other financial sources) amounted to \$705,000 representing a decrease of \$568,000, or 45%, from prior fiscal year.
- Total actual expenditures on a budget basis of \$12.7 million represented an increase of \$1 million or 9% from 2012 actual expenditures on a budget basis.
- Transfers-in from other agencies include \$10.6 million transferred by the Government Development Bank of the Commonwealth of Puerto Rico (GDB) mainly to pay debt service.
- The General Fund deficit for fiscal year 2013 was increased by \$13.1 million, a 26% increase in the General Fund deficit when compares to fiscal year 2012 (as restated).

**Government-Wide Highlights**

- ADEA reported a deficit in net position at year-end of \$97 million, comprised of \$303 million in total assets offset by \$400 million in total liabilities.
- Total liabilities at year end were \$400 million, comprised of \$192 million in governmental activities and \$208 million in business-type activities.
- ADEA's governmental activities had total revenues and net transfer of \$86.4 million and \$10.1 million, respectively; which exceeded the total expenditures of \$83.8 million.
- The total expense of all ADEA's programs, which includes \$98.4 million in business-type activities, was \$182.3 million.

**Long-Term Debt**

Total long-term obligations of ADEA as of June 30, 2013 were \$164.5 million, of which \$44.2 million are due within one year. Such obligations increased by \$8 million, or 5%, when compared to the prior fiscal year.

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**MAJOR FINANCIAL ELEMENTS**

**Revenues**

The General Fund is ADEA's primary operating fund. General Fund revenues are broadly based on appropriations from the Commonwealth of Puerto Rico's general fund in the amount of \$4 million.

**Expenditures**

Expenditures consist principally of grants, incentive, subsidies, personal services, other services, professional service, rent, debt service and transfers.

**Debt**

ADEA's debt comprises revolving lines of credits and long-term debts. Debt is generally supported by the revenues of such units from rates charged for services or products and ADEA's pledged revenues. However, certain debt of component units is supported, in whole or in part, directly or indirectly, by ADEA's sales from its business-type activities. ADEA's debt is issued pursuant to specific legislation approved in each particular case and issued in accordance with its enabling statutes. Government Development Bank for Puerto Rico ("GDB"), as fiscal agent of the Commonwealth, must approve the specific terms of each debt issuance.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to ADEA's basic financial statements. ADEA's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

The basic financial statements include two kinds of financial statements that present different views of ADEA, the government-wide financial statement and the fund financial statements. These financial statements also include the notes to the basic financial statements that explain some of the information in the financial statements and provided more detail.

**Government-wide Financial Statements**

The government-wide financial statements provide a broad view of ADEA's operations in a manner similar to a private sector business. The statements provide both short and long-term information about ADEA's financial position, which assists in assessing its economic condition.

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- **Statement of Net Position** – This Statement presents information about ADEA’s overall status. Over time, increases or decreases in ADEA’s net position (deficit) may serve as a useful indicator of whether the financial position of ADEA is improving or deteriorating.
- **Statement of Activities** – This presents information showing how ADEA’s net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected service charges and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of ADEA.

Both of the above financial statements have separate sections for ADEA’s governmental and business-type activities. Both of the government-wide financial statements distinguish functions of ADEA that are principally supported by legislative appropriations (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and revenues from sales (business-type activities). The governmental activities of ADEA include the general administrative operations. The business-type activities of ADEA include the purchase and sales of different kind of agricultural products like coffee, chicken meat, vegetables and others. Other business-type activities include different kinds of agricultural services given for low fees.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. ADEA uses fund accounting to ensure and demonstrate compliance with finance-related governmental requirements. The fund financial statements focus on individual parts of ADEA government, reporting ADEA’s operations in more detail than the government-wide financial statements. All of the funds of ADEA can be divided into two categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The two categories of the funds are the following:

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Governmental Funds**

The services provided by ADEA are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balance of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating ADEA's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

These statements provide a detailed short term view of ADEA's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of ADEA. 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 ADEA'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 the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

ADEA has two major governmental funds. Such major funds are presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance. ADEA's major governmental funds are the General Fund and the Incentives Fund. There are remaining non-major governmental funds that are grouped and presented in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

ADEA adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The statement of revenues and expenditures – budget and actual – budget basis – general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. See Note 1 for a reconciliation of the statement of revenue and expenditures – budget and actual – budget basis – general fund with the statement of revenues, expenditures and changes in fund balance (deficit) for the general fund. This statement is presented on the page immediately following the reconciliation of the statement of revenues, expenditures, and changes in fund balances (deficit) to the statement of activities – governmental funds.

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Proprietary Fund**

ADEA maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. ADEA uses enterprise fund to account for fourteen different programs which cover of purchase and sales of agricultural products and direct agricultural services like rent of machinery and equipment among others. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The major programs of such fund are the operation of the Coffee Program and the Marketing Programs. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

**Notes to Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the proprietary funds financial statements.

**GENERAL FUND FINANCIAL ANALYSIS**

For fiscal year 2013, the fund balance deficit increased by \$13.1 million, consisting of the difference between total revenues and transfers of \$13.7 million and total expenditures for such fiscal year of \$26.8 million. For fiscal year 2012, the deficit was \$3.3 million, consisting of the difference between total revenues and transfers of \$18.4 million and total expenditures for such fiscal year of \$21.7 million. The deficits for fiscal year 2013 increased by 26%, when compared to the deficit for prior year (as restated). ADEA's ability to reduce the deficit will depend in part on its ability to increase its revenues and reduce its expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

**Results for Fiscal Year 2013**

Total General Fund recurring revenues, budgetary basis, (excluding other financing sources) for fiscal year 2013 were \$705,000, representing a decrease of approximately \$595,000 from actual recurring revenues of \$1.3 million for fiscal year 2012.

Total expenditures on a budget basis for fiscal year 2013 were \$12.7 million and represented an increase of \$11.7 million or 11 times its original budgeted expenditures. Total General Fund expenditures exceeded revenues and other financing sources total by \$13.1 million. The difference between total General Fund revenues and total expenditures is referred to herein as "excess of expenditures over revenues".

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

During the fiscal year 2012 ADEA received transfers in from other agencies includes \$10.6 million transferred by Government Development Bank of the Commonwealth of Puerto Rico (GDB) mainly to pay debt service.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position (Deficit)**

Net position (deficit) may serve over time as a useful indicator of a government's financial position. ADEA's total assets and total liabilities at June 30, 2013 amounted to \$303 million and \$400 million, respectively, for a net deficit of \$97 million, compared to a \$113.7 million net deficit at the beginning of the current year (as restated). ADEA's net deficit primarily results from the deficit of its business-type activities.

A portion of ADEA's net position (deficit) reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets that are still outstanding. ADEA uses these capital assets to provide services to its customers; consequentially, these assets are not available for future spending. Although ADEA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets increased by \$64 million during fiscal year 2013 when compared to the prior fiscal year. This increase is mainly to the increase of \$56 million in due from other funds.

Total liabilities increased by \$62 million during the current fiscal year when compared to the prior fiscal year.

**Summary of Net Position (Deficit) (in thousands)  
June 30, 2013**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Current assets</b>	\$ 190,400	\$ 84,487	\$ 274,887
<b>Capital assets</b>	9,169	18,975	28,144
<b>Total assets</b>	<u>\$ 199,569</u>	<u>\$ 103,462</u>	<u>\$ 303,031</u>
<b>Current liabilities</b>	\$ 92,299	\$ 164,675	\$ 256,974
<b>Long-term obligation</b>	99,494	43,590	143,084
<b>Total liabilities</b>	<u>\$ 191,793</u>	<u>\$ 208,265</u>	<u>\$ 400,058</u>
<b>Invested in capital assets</b>	\$ 9,169	\$ 18,975	\$ 28,144
<b>Unrestricted</b>	(1,393)	(123,902)	(125,295)
<b>Total net position (deficit)</b>	<u>\$ 7,776</u>	<u>\$ (104,927)</u>	<u>\$ (97,151)</u>

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Summary of Net Position (Deficit) (in thousands)  
June 30, 2012**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>Current assets</b>	\$ 171,588	\$ 32,464	\$ 204,052
<b>Capital assets</b>	12,240	14,500	35,591
<b>Total assets</b>	<u>\$ 183,828</u>	<u>\$ 46,964</u>	<u>\$ 239,643</u>
<b>Current liabilities</b>	\$ 71,526	\$ 141,956	\$ 213,482
<b>Long-term obligation</b>	117,217	19,815	124,152
<b>Total liabilities</b>	<u>\$ 188,743</u>	<u>\$ 161,771</u>	<u>\$ 337,634</u>
<b>Invested in capital assets</b>	\$ 12,240	\$ 14,500	\$ 35,591
<b>Unrestricted</b>	(17,156)	(129,306)	(133,582)
<b>Total net position (deficit)</b>	<u>\$ (4,916)</u>	<u>\$ (114,806)</u>	<u>\$ (97,991)</u>

**Changes in Net Assets (Deficit)**

ADEA's net deficit decreased by \$16.7 million or 15% from last year's net deficit. Approximately 47.2% of ADEA's total revenue came from legislative grants, while 52.7% resulted from the sale of agricultural products. Charges for services provided represented 56% of the total revenue. ADEA's expenses cover a range of services. In 2013, the largest expenses were the costs of sales and for incentives and subsidies, which represented a 41.31% and 32.43%, respectively when compared with the total expenditures. Governmental activities' revenue exceeded program expenses by \$2.5 million. On the other hand, program revenue from the business-type activities in 2013 exceeded expenditures by approximately \$3 million. In an overall basis, governmental activities decreased ADEA's net deficit by \$12.7 million, while business-type activities decreased ADEA's net deficit by \$4 million.

ADEA serves as an intermediary for the Department of Education's School Lunch Program and purchases the food and sells it (at a profit margin of up to 15%) to the Department of Education. To finance this service, ADEA has a revolving line of credit with a commercial bank.

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Change in of Net Position (Deficit) (in thousands)  
Jun 30, 2013**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Legislative funds	\$ 86,394	\$ 2,331	\$ 88,725
Sales and services	-	99,170	99,170
Transfer-in, net	9,864	735	10,599
Other	1,602	357	1,959
Total revenues	<u>\$ 97,860</u>	<u>\$ 102,593</u>	<u>\$ 200,453</u>
Incentives	\$ 59,122	\$ -	\$ 59,122
Cost of good sold	-	75,324	\$ 75,324
Transfer-out, net	1,309	87	\$ 1,396
Operating	22,923	20,700	\$ 43,623
Depreciation	1,813	2,069	\$ 3,882
Interest	-	348	\$ 348
Total expenses	<u>\$ 85,167</u>	<u>\$ 98,528</u>	<u>\$ 183,695</u>
Change in net position (deficit)	<u>\$ 12,692</u>	<u>\$ 4,065</u>	<u>\$ 16,758</u>

**Change in of Net Position (Deficit) (in thousands)  
Jun 30, 2012**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Legislative funds	\$ 83,289	\$ 5,770	\$ 89,059
Sales and services	-	97,925	97,925
Transfer-in, net	15,244	807	16,051
Other	1,019	108	1,127
Total revenues	<u>\$ 99,552</u>	<u>\$ 104,610</u>	<u>\$ 204,162</u>
Incentives	\$ 63,553	\$ -	\$ 63,553
Cost of good sold	-	74,711	\$ 74,711
Transfer-out, net	5,769	1,742	\$ 7,511
Operating	17,083	25,430	\$ 42,513
Depreciation	446	1,328	\$ 1,774
Interest	-	109	\$ 109
Total expenses	<u>\$ 86,851</u>	<u>\$ 103,320</u>	<u>\$ 190,171</u>
Change in net position (deficit)	<u>\$ 12,701</u>	<u>\$ 1,290</u>	<u>\$ 13,991</u>

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Business-Type Activities**

The business-type activities decreased ADEA's net deficit by \$4 million.

**Governmental Activities**

As noted above, governmental activities decreased ADEA's net deficit by \$12.7 million. A comparison of the cost of services by function for ADEA's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities.

**ADEA's Governmental Activities –  
Revenue Net of Program Expenses**

**Net revenues:**

Incentive and subsidies	\$ 27,271,802
Payroll and related expenses	(8,752,484)
Administrative and operating activities	<u>(15,983,841)</u>
Total governmental activities revenues, net of expenses	<u>\$ 2,535,476</u>

**General revenues:**

Interest income	35,177
Rent income	294,162
Other income	1,272,350
Transfer from other agencies	9,864,544
Transfer to other agencies	<u>(1,309,269)</u>
Total governmental activities general revenues	<u>10,156,964</u>

<b>Governmental activities change in Net Position</b>	<u>\$ 12,692,440</u>
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**GOVERNMENTAL FUNDS**

The focus of ADEA's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing ADEA's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2013, ADEA's governmental funds reported combined ending fund balance of \$119.5 million. The expenditures exceeded the revenues by \$4.8 million. However, this was offset by other financing sources amounting \$8.7 million in the governmental funds. This year, the excess of expenditures over revenue increased by \$3.6 million compared with the prior year. Other financing sources decreased by \$3.2 million compared with the prior year.

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

The general fund is ADEA's chief operating fund. At the end of the current fiscal year, unassigned fund deficit of the general fund amounted to \$64 million. ADEA's general fund deficit increased by \$13.1 million as a result of the current fiscal year's change in financial position. This represents a 26% increase when compared to total general fund deficit reported in fiscal year 2012 (as restated).

**CAPITAL ASSETS**

ADEA's investment in capital assets for its governmental and business type activities as of June 30, 2013 amounts to \$64.1 million, less accumulated depreciation and amortization of \$35.9 million, leaving a book value of \$28.1 million. This investment in capital assets includes, among others, land, buildings and building improvements, equipment, and furniture and fixtures. Depreciation and amortization charges for the fiscal year totaled \$3.8 million.

**Capital Assets (in thousands)**

	June 30, 2013			June 30, 2012		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Land	\$ 547	\$ 3,193	\$ 3,740	\$ 547	\$ 3,193	\$ 3,740
Buildings	3,307	20,313	23,620	1,871	13,552	15,423
Buildings improvements	2,308	-	2,308	14,854	1,626	16,480
Construction in progress	-	-	-	241	121	362
Equipment	13,673	10,130	23,803	11,501	8,633	20,134
Furniture and fixture	3,024	1,202	4,226	3,004	1,168	4,172
Automobiles	878	5,343	6,221	997	5,861	6,858
Others	82	122	204	81	122	203
<b>Total capital assets</b>	<b>\$ 23,819</b>	<b>\$ 40,303</b>	<b>\$ 64,122</b>	<b>\$ 33,096</b>	<b>\$ 34,276</b>	<b>\$ 67,372</b>
<b>Accumulated depreciation</b>	<b>(14,650)</b>	<b>(21,328)</b>	<b>(35,978)</b>	<b>(12,006)</b>	<b>(19,776)</b>	<b>(31,782)</b>
<b>Total net capital assets</b>	<b>\$ 9,169</b>	<b>\$ 18,975</b>	<b>\$ 28,144</b>	<b>\$ 21,090</b>	<b>\$ 14,500</b>	<b>\$ 35,590</b>

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

**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Depreciation Expense**

This expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. The depreciation expense recorded for in the statement of activities for the fiscal year ended June 30, 2013 amounted to \$3,882,829.

Additional information on ADEA's capital assets can be found in Note 7 to the basic financial statements that accompany this report.

**Request for Information**

This financial report is designed to provide a general overview of the ADEA's finances for all those with an interest in ADEA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the:

ADEA's Office of Finance Affairs  
P.O. Box 9200  
San Juan, Puerto Rico 00908-0200  
(787) 304-5350, Ext. 2159

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

**STATEMENT OF NET POSITION (DEFICIT)  
JUNE 30, 2013**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$ 32,221,897	\$ 9,460,704	\$ 41,682,601
Investment	300,000		300,000
Receivables:			
Trade	3,450,338	3,023,443	6,473,781
Governmental entities	1,093,964	37,963,147	39,057,111
Farmers	4,339,742		4,339,742
Due from other funds	145,381,442	35,152,609	180,534,051
Loans and notes receivable	4,350,476	55,000	4,405,476
Other	44,953	619,925	664,879
Allowance for doubtful accounts	(2,281,817)	(7,457,755)	(9,739,572)
Inventory		5,307,444	5,307,444
Inventory supplies	152,047	342,909	494,956
Prepaid expenses	956,658	19,726	976,383
<b>Total current assets</b>	<b>190,399,735</b>	<b>84,487,154</b>	<b>274,886,889</b>
<b>Non-Current Assets:</b>			
Property, plant and equipment, net	9,169,773	18,975,142	28,144,915
<b>TOTAL ASSETS</b>	<b>\$ 199,569,508</b>	<b>\$ 103,462,296</b>	<b>\$ 303,031,805</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable			
Trade	13,360,731	17,007,205	30,367,936
Farmers		1,488,294	1,488,294
Due to governmental entities	6,965,233		6,965,233
Due to other funds	35,152,609	145,771,479	180,924,088
Accrued expenses	15,394,248	398,517	15,792,765
Short-term obligations:			
Notes Payable	19,818,128	19,699,659	39,517,787
Compensated absences	910,367	1,429,301	2,339,668
Post-employment termination benefits	697,943	1,725,384	2,423,327
<b>Total current liabilities</b>	<b>92,299,259</b>	<b>187,519,840</b>	<b>279,819,099</b>
<b>Non-Current Liabilities:</b>			
Long-term obligations:			
Notes Payable	92,333,103	1,175,673	93,508,776
Compensated absences	998,339	1,585,090	2,583,429
Post-employment termination benefits	6,162,485	17,975,218	24,137,703
<b>Total non-current liabilities</b>	<b>99,493,927</b>	<b>20,735,981</b>	<b>120,229,908</b>
Total Liabilities	191,793,186	208,255,821	400,049,008
<b>NET POSITION (deficit):</b>			
Invested in capital assets	9,169,773	18,975,142	28,144,915
Restricted for:			
Capital projects	6,392,285		6,392,285
Subsidies and incentives	177,259,314		177,259,314
Unrestricted (deficit)	(185,045,050)	(123,768,667)	(308,813,717)
<b>Total Net Position (Deficit)</b>	<b>7,776,322</b>	<b>(104,793,525)</b>	<b>(97,017,203)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 199,569,508</b>	<b>\$ 103,462,296</b>	<b>\$ 303,031,805</b>

The accompanying notes are an integral part of the basic financial statements.

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

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Business-type Activities	Total
		Charges for Services	Operating Grants			
<i>Governmental Activities:</i>						
Incentives and subsidies	\$ 59,122,029	\$ -	\$ 86,393,831	\$ 27,271,802	\$ -	\$ 27,271,802
Payroll and related expenses	8,752,484			(8,752,484)		(8,752,484)
Administrative and operating activities	15,983,841			(15,983,841)		(15,983,841)
<b>Total governmental activities</b>	<b>83,858,354</b>	<b>-</b>	<b>86,393,831</b>	<b>2,535,476</b>		<b>2,535,476</b>
<i>Business-type activities:</i>						
Agricultural Services	98,441,367	99,169,789	2,331,024		3,059,446	3,059,446
<b>Total</b>	<b>\$ 182,299,722</b>	<b>\$ 99,169,789</b>	<b>\$ 88,724,855</b>	<b>\$ 2,535,476</b>	<b>\$ 3,059,446</b>	<b>\$ 5,594,923</b>
<i>General Revenues:</i>						
Interest Income				35,177	-	35,177
Rent Income				294,162	500	294,662
Other Income				1,272,350	356,982	1,629,331
Transfers from other agencies				9,864,544	735,681	10,600,225
Transfers to other agencies				(1,309,269)	(86,820)	(1,396,089)
				10,156,964	1,006,343	11,163,307
<b>CHANGE IN NET POSITION (DEFICIT)</b>				<b>12,692,440</b>	<b>4,065,789</b>	<b>16,758,230</b>
<b>NET POSITION (DEFICIT)- Beginning of year (as restated) (Note 14)</b>				<b>(4,916,118)</b>	<b>(108,859,315)</b>	<b>(113,775,433)</b>
<b>NET POSITION (DEFICIT)- End of year</b>				<b>\$ 7,776,322</b>	<b>\$ (104,793,525)</b>	<b>\$ (97,017,203)</b>

The accompanying notes are an integral part of the basic financial statements

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

**BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<b>General Fund</b>	<b>Incentives Fund</b>	<b>Other Funds</b>	<b>Total</b>
<b>ASSETS</b>				
Cash	\$ 12,375,115	\$ 14,194,571	\$ 5,652,211	\$ 32,221,897
Investment	300,000			300,000
Receivables				
Trade	3,448,595		1,743	3,450,338
Governmental entities	1,058,604	35,360		1,093,964
Farmers		4,299,792	39,950	4,339,742
Due from other funds		196,991,840	14,164,056	211,155,896
Legislative appropriations			390,037	390,037
Loans and notes receivable	1,730,772	2,609,678	10,025	4,350,476
Other	44,953			44,953
Allowance for doubtful accounts	(327,658)	(1,954,159)		(2,281,817)
Inventory of supplies	152,047			152,047
Prepaid expenses	783,919	49,995	122,744	956,658
<b>TOTAL ASSETS</b>	<b>\$ 19,566,347</b>	<b>\$ 216,227,076</b>	<b>\$ 20,380,766</b>	<b>\$ 256,174,190</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable:				
Trade	3,228,875	9,474,864	656,992	13,360,731
Due to governmental entities	1,041,561	5,923,672		6,965,233
Due to other funds	79,253,479	8,353,638	13,319,947	100,927,064
Accrued expenses	167,117	15,215,589	11,542	15,394,248
<b>Total Liabilities</b>	<b>83,691,032</b>	<b>38,967,762</b>	<b>13,988,482</b>	<b>136,647,276</b>
Fund balances (deficit):				
Spendable:				
Restricted		177,259,314	6,392,285	183,651,599
Unassigned	(64,124,685)			(64,124,685)
<b>Total Fund Balances (deficit)</b>	<b>(64,124,685)</b>	<b>177,259,314</b>	<b>6,392,285</b>	<b>119,526,914</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 19,566,347</b>	<b>\$ 216,227,076</b>	<b>\$ 20,380,766</b>	<b>\$ 256,174,190</b>

The accompanying notes are an integral part of the basic financial statements.

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

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE  
TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013**

Total Governmental Fund Balance	\$	119,526,914
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets and unamortized expenses used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet:

Cost of capital assets	23,819,341	
Accumulated depreciation	(14,649,568)	9,169,773

Long term liabilities are not due and in the current period and, therefore, are not reported in the funds, as follows:

Notes Payable		(112,151,231)
Post-employment termination benefits		(6,860,428)
Accrued compensated absences		(1,908,706)

Net Position of Governmental Activities	\$	7,776,322
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The accompanying notes are an integral part of the basic financial statements.

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Incentives Fund</u>	<u>Other Funds</u>	<u>Total</u>
<b>REVENUES</b>				
Revenues from state sources	\$ 4,089,107	\$ 76,722,025	\$ 5,582,699	\$ 86,393,831
Interests	79	30,568	4,531	35,177
Rent income	294,162			294,162
Other	303,118	907,732	61,500	1,272,350
<b>TOTAL REVENUES</b>	<u>4,686,466</u>	<u>77,660,324</u>	<u>5,648,729</u>	<u>87,995,520</u>
<b>EXPENDITURES</b>				
Incentives, subsidies and other services		52,843,385	7,160,546	60,003,931
Payroll, payroll taxes and fringe benefits	8,827,750			8,827,750
Repairs and maintenance	111,519			111,519
Rent of building and equipment	695,034	27,600		722,634
Utilities	483,706			483,706
Professional Services	2,227,684			2,227,684
Insurance	325,174			325,174
Other	2,275,058		25,420	2,300,478
Debt Service:				
Principal	4,788,665	5,736,409		10,525,074
Interest	7,126,862	237,544		7,364,406
<b>TOTAL EXPENDITURES</b>	<u>26,861,453</u>	<u>58,844,938</u>	<u>7,185,966</u>	<u>92,892,357</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(22,174,987)	18,815,386	(1,537,236)	(4,896,838)
<b>Other Financial Sources (Uses)</b>				
Transfers from other agencies	9,060,647	803,897		9,864,544
Transfers to other agencies		(539,884)	(574,175)	(1,114,059)
<b>Total Other Financial Sources (Uses)</b>	<u>9,060,647</u>	<u>264,013</u>	<u>(574,175)</u>	<u>8,750,485</u>
<b>Net Change in Fund Balance (Deficit)</b>	(13,114,340)	19,079,398	(2,306,621)	3,658,437
<b>Fund balance (deficit)- beginning of year as restated</b>	<u>(51,010,345)</u>	<u>158,179,916</u>	<u>8,698,906</u>	<u>115,868,477</u>
<b>Fund balance (deficit)- ending of year</b>	<u>\$ (64,124,685)</u>	<u>\$ 177,259,314</u>	<u>\$ 6,392,285</u>	<u>\$ 119,526,914</u>

The accompanying notes are an integral part of the basic financial statements.

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Net change in fund balance (deficit) - total governmental funds</b>	\$	3,658,437
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds reports capital assets 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:

Current year depreciation		(1,813,565)
Transfers and loss on disposition of capital assets		(634,663)
		(2,448,228)

The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Neither transaction, however, has any effect on net position:

Principal payments on line of credit		10,525,063
Change in compensated absences		75,266
Change in post-employment termination benefits		881,902
		11,482,231

<b>Change in net position of governmental activities</b>	\$	12,692,440
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The accompanying notes are an integral part of the basic financial statements.

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

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Revenues from state sources	\$ 705,000	\$ 705,000	\$ 705,000	\$ -
Other			303,118	303,118
Interest			79	79
Rent Income	<u>317,000</u>	<u>317,000</u>	<u>294,162</u>	<u>(22,838)</u>
<b>Total Revenues</b>	<u>1,022,000</u>	<u>1,022,000</u>	<u>1,302,359.0</u>	<u>280,359</u>
<b>Expenditures</b>				
Payroll and related expenses	133,000	133,000	8,827,750.0	8,694,750
Facilities and public service	199,000	199,000	1,178,740	979,740
Purchased service	394,000	394,000	436,693	42,693
Donation and other distribution	90,000	90,000	-	(90,000)
Transportation	79,000	79,000	-	(79,000)
Other	47,000	47,000	2,275,058	2,228,058
Capital outlays	9,000	9,000	-	(9,000)
Material and supplies	<u>71,000</u>	<u>71,000</u>	<u>-</u>	<u>(71,000)</u>
<b>Total Expenditures</b>	<u>1,022,000.0</u>	<u>1,022,000</u>	<u>12,718,241.0</u>	<u>11,696,241</u>
<b>Excess of expenditures over revenues</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,415,882)</u>	<u>\$ (11,415,882)</u>

The accompanying notes are an integral part of the basic financial statements.

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

**STATEMENT OF NET POSITION (DEFICIT) – PROPRIETARY FUND  
JUNE 30, 2013**

**ASSETS**

**Current Assets:**

Cash	\$ 9,460,704
Receivables:	
Trade	3,023,443
Governmental entities	37,963,147
Due from other funds	35,152,609
Loans and notes receivable	55,000
Other	619,925
Allowance for doubtful accounts	(7,457,755)
Inventry	5,307,444
Inventry of supplies	342,909
Prepaid expenses	19,726
<b>Total current assets</b>	<u>84,487,154</u>

**Non-Current Assets:**

Property, plant and equipment, net	<u>18,975,142</u>
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**TOTAL ASSETS**

\$ 103,462,296

**LIABILITIES:**

**Current liabilities:**

Accounts payable	
Trade	17,007,205
Farmers	1,488,294
Due to other funds	145,771,479
Accrued expenses	398,517
<b>Total current Liabilities</b>	<u>164,665,495</u>

**Non-Current liabilities:**

Lines of credit	19,399,659
Long-term liabilities-note payable:	
Due within one year	300,000
Due in more than one year	1,175,673
Long-term liabilities-accrued compensated absences:	
Due within one year	1,429,301
Due in more than one year	1,585,090
Long-term liabilities-post-employment termination benefits:	
Due within one year	1,725,384
Due in more than one year	17,975,218
<b>Total non-current Liabilities</b>	<u>43,590,326</u>

**Total liabilities**

208,255,821

**NET POSITION (Deficit):**

Invested in capital assets	18,975,142
Unassigned	(123,768,667)

**Total Net Position (Deficit)**

(104,793,525)

**TOTAL LIABILITIES AND NET POSITION**

\$ 103,462,296

The accompanying notes are an integral part of the basic financial statements.

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET  
DEFICIT – PROPRIETARY FUND**

**FOR THE YEAR ENDED JUNE 30, 2013**

<b>Operating Revenues</b>	
Sale of Goods	\$ 99,169,789
Rent	500
Other	356,982
<b>Total Revenues</b>	99,527,271
 <b>Operating Expenses</b>	
Cost of Sales	75,324,455
Administrative and operating expenses	20,699,577
Depreciation	2,069,264
<b>Total Expenses</b>	98,093,296
<b>Operating Income</b>	1,433,975
 <b>Non-operating Revenues (Expenses)</b>	
Intergovernmental grants and contributions	2,331,024
Interest, net of interest income	(348,071)
<b>Total Non-operating Revenues</b>	1,982,953
<b>Income Before Transfers</b>	3,416,928
 <b>Transfers</b>	
Transfers from other agencies	735,681
Transfers to other agencies	(86,820)
<b>Net Transfers</b>	648,861
<b>Change in Net Position</b>	4,065,789
<b>Net Position (Deficit)- beginning of year</b>	(108,859,315)
<b>Net Position (Deficit)- ending of year</b>	\$ (104,793,525)

The accompanying notes are an integral part of the basic financial statements.

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

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

<b>Cash Flows from operating activities</b>	
Receipts from customers and users	\$ 80,001,867
Payments to suppliers and employees	(88,631,058)
	(8,629,191)
<b>Cash flows from noncapital financing activities</b>	
Increase from other funds	(35,111,003)
Increase to other funds	21,048,555
Repayment of lines of credit	(18,771,371)
Borrowing of lines of credit	36,341,597
Intergovernmental grants and contributions	2,331,024
Transfers from other agencies	735,681
Transfers to other agencies	(86,820)
	6,487,663
<b>Cash flows from investing activities</b>	
Acquisitions of property and equipment, net	(783,257)
	(783,257)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,924,785)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>12,385,489</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 9,460,704</b>

The accompanying notes are an integral part of the basic financial statements.

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

**STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating Income	\$ 1,433,975
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Net interest expense	(348,071)
Depreciation and amortization	2,069,264
Loss on disposition of capital assets	52,443
Increase in accounts and loans receivables	(19,525,404)
Increase in inventory	(294,454)
Decrease in inventory of supplies	42,459
Increase in Other	(59,377)
Increase in accounts payable	7,184,281
Decrease in accrued expenses payable	(77,682)
Decrease in accrued compensated absences	(582,716)
Increase in post-employment termination benefits	1,476,090
	<hr/>
<b>Net cash provided by operating activities</b>	<b>\$ (8,629,191)</b>

The accompanying notes are an integral part of the basic financial statements.

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

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

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

The Agricultural Enterprises Development Administration (“ADEA”) 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 ADEA, which was created to provide a wide variety of services and incentives to the agricultural sector. Under the Reorganization Plan ADEA has fiscal and operational autonomy, and receive administrative support from the Department.

The Secretary of Agriculture: a) implements ADEA’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 ADEA in accordance with the provisions of the Reorganization Plan; and c) may delegate to the Administrator and, at the same time, other employees of the ADEA, such powers and duties as it deems necessary, except the power to regulate.

**Financial reporting entity**

The accompanying basic financial statement includes the organization units governed by ADEA’s management. In evaluating ADEA 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 ADEA’s Financial Statement 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) ADEA’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 ADEA.

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 ADEA indicates that no organization meet the criteria to be included as component units. Accordingly, these basic financial statements present only ADEA as the reporting entity.

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

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The accompanying basic financial statement includes the organization units governed by ADEA’s management. In evaluating ADEA 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 ADEA’s Financial Statement 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) ADEA’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 ADEA.

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 ADEA indicates that no organization meet the criteria to be included as component units. Accordingly, these basic financial statements present only ADEA as the reporting entity.

ADEA’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 ADEA may be such that exclusion of their basic financial statements from those of ADEA would cause ADEA’s basic financial statements to be misleading or incomplete.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

ADEA's management has concluded that, based on the criteria set forth by GASB Statement No. 14 - *The Financial Reporting Entity* (GASB No. 14) and GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units* (GASB No. 39), there are no legally separate entities or organizations that should be reported as component units of ADEA as of June 30, 2013 nor for the year then ended.

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of ADEA at June 30, 2013, 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, 2013 in conformity with GAAP.

The minimum required financial statement presentation applicable to ADEA 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).

**Required Supplementary Information**

(RSI) consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. (RSI) is unaudited supplementary information required by GAAP presented along with, but separate from, ADEA's basic financial statements.

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of ADEA's financial activities for the fiscal year ended June 30, 2013, based on the management's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the ADEA's operations.

The budgetary comparison schedule – general fund, is also included as other required supplementary information which have been subjected to the auditing procedures applied in the audit of the accompanying basic financial statements as of and for the fiscal year ended June 30, 2013.

**Government Wide Financial Statements**

The government wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of ADEA's non-fiduciary activities. For the most part, the effect to inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

legislative appropriations, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support to third parties.

These financial statements do not report fund information but rather report information of all of the ADEA's governmental activities. These statements are aimed at presenting a broad overview of ADEA's finances through reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the GWFS is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about ADEA as a single economic unit. Operational accountability is ADEA's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on ADEA's principal operating objective, which is to provide services to the agricultural community.

The accompanying statement of net position provides short-term and long-term information about ADEA's financial position and condition by presenting all of ADEA's assets and liabilities, with the difference between these two items reported as net position. This statement assists management in assessing the level of services that can be provided by ADEA in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which ADEA has invested in capital assets, including infrastructure, and discloses legal and contractual restrictions on resources.

Net position are reported in three categories:

Invested in Capital Assets, Net of Related Debt – These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted: 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 government or constraints imposed by law through constitutional provision or enabling legislation.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers who purchase, use or directly benefits from goods, services or privileges provided by a given function or segment, and 2) legislative grants that are restricted to meeting the intended operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the financial fund statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

ADEA's financial report consists of a Management Discussion and Analysis (MD&A), basic financial statements, and notes to the financial statements. Following is a summary presentation of each, including the measurement focus and basis of accounting measurement focus is a term used to describe which transactions are recorded within financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

Government Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurements focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Legislative Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results operations of ADEA's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) ADEA's major funds, as defined below, (2) the fiscal accountability and (3) the individual parts of ADEA's government. Fiscal accountability represents ADEA's responsibility to justify that its actions in the current year have complied with public decisions concerning the raising and spending of public moneys in the short term (one fiscal year).

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JUNE 30, 2013**

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

Each governmental fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity or deficit, revenue and expenditures. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by ADEA.

The accounts of ADEA are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted through a separate set of self-balancing accounts that comprise its assets, liabilities and fund (deficit) equity. The different kinds of funds are summarized by type in the accompanying general purpose financial statements. Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

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 this purpose, ADEA considers revenues to be available if they are collected within 60 days at the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, under accrual accounting. However, expenditures related to compensated absences, claims and judgments are recorded only when paid. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2013 has been reported only in the governmental wide financial statements.

Proprietary Funds

The financial statements of the proprietary funds are reported using the economic measurement focus and the accrual basis of accounting, similar to the government wide financial statements describe above.

Proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The fund id used to account for activities that are similar to those found in the private sector where net income and capital maintenance are measured. The fund included in this category is the Enterprise Fund, which includes the following programs:

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**JUNE 30, 2013**

- a) Purchase and sale of agricultural materials.
- b) Purchase and sale of coffee.
- c) Seeds program
- d) Marketing of agricultural products
- e) Lime stone production
- f) Cultivation protection program
- g) Production of coffee trees
- h) Piglet production
- i) Tick control

**Fund Accounting**

ADEA reports its financial position and results of operations 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. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditure/expenses of either the fund category or the governmental and enterprise funds combined. The Commonwealth reports the following major funds:

Governmental Funds

General Fund – This fund is established to account for resources devoted to financing the general services that ADEA provides. General revenues and other sources of revenue used to finance the fundamental operations of ADEA are included in this fund. The fund is charged with all costs of operating government for which a separate fund has not been established.

Incentives Fund – This fund is established to account 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

Proprietary 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.

**Statutory (Budgetary) Accounting**

The following schedule presents a comparison 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 entity and basis differences in the excess of expenditures over revenue for the year ended June 30, 2013 is presented below for the general fund:

<b>Excess of expenditures sources over revenues (budgetary basis)</b>	\$ (11,415,882)
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes	3,384,107
Non budgeted funds recorded as expenditures for financial reporting	(2,227,684)
Non budgeted transfers in	9,060,647
Basis of accounting differences:	
Expenditures recorded of financial reporting purposes but not in budgetary basis	<u>(11,915,528)</u>
<b>Net change in fund balance (deficit) – GAAP basis</b>	<b><u>\$ (13,114,340)</u></b>

**Cash**

ADEA pools cash resources of its different funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. The ADEA's cash and cash equivalents are considered to be cash on hand and demand deposits.

**Accounts Receivable**

Accounts receivable are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance for doubtful accounts includes all balances due over one year.

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JUNE 30, 2013**

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

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from the service charges to users. Intergovernmental accounts receivable result primarily from the sale of goods or services to agencies and departments of the Government of Puerto Rico and amounts owed to ADEA for reimbursement of expenditures incurred pursuant to federally funded programs. The accounts receivable are deemed fully collectible.

Loans of the general fund are net of estimated uncollectible amounts. These receivables arise from amounts owe by public corporations and municipalities for public insurance and rent paid by the general fund on their behalf.

**Due To and Due from Other Funds**

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).

**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 fun financial statements.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two year. Such assets are recorded at historical cost.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets lives is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Property, plants and equipment are depreciated using the straight-line method over the following estimated useful lives:

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JUNE 30, 2013**

Assets	Years
Buildings	40
Building improvements	20
Equipment, furniture & fixtures and auto	5-10

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

**Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

**Fund Equity**

The unreserved fund balances of governmental funds represent the amounts available for budgeting fixture operations. In the funds financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of balance fund represent tentative management plans that are subject to change. Unreserved retained earnings for the proprietary fund represents the net assets available for future operations or distribution.

**Compensated Absences**

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). 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 assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2013 and (2) is not contingent on a specific event (such as illness) that is outside the control of ADEA 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 ADEA 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 31<sup>st</sup> of each year. The excess should be paid to the employee before March 31<sup>st</sup> of the following year.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the statement of net assets.

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 ADEA 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.

**Use of Estimates**

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Accounting for Pension Costs**

The management of ADEA accounts for its pension plan costs in accordance with the provisions of Governmental Accounting Standards Board Statement No. 27 *Accounting for Pensions by State and Local Governmental Employees*.

GASB Statement 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.

**Accounting Standards**

During fiscal year 2012-13, the ADEA adopted the provision of the following GASB Statements:

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” which incorporated 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.
- These statements 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 Interpretation 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 Resource, and Net Position”, which incorporated deferred outflow of resources and deferred inflows of resource into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**Risk Management**

ADEA is exposed to different risks of loss from torts, theft of, or damage to, and destruction of assets, error 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 and the premium are negotiated by the Department of Treasury of the Commonwealth of Puerto Rico. The cost is paid by the Department of Treasury of Puerto Rico and reimbursed by ADEA.

**Total Columns**

Totals column on the financial statements is presented only to facilitate financial analysis. Data in these columns do not present financial positions or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since inter-fund eliminations have not been made.

**Future Adoption of Accounting Pronouncements**

The GASB has issued the following accounting standards that have effective dates after June 30, 2012:

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. This statement is effective for periods beginning after June 15, 2012.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement is effective for periods beginning after June 15, 2012.
- GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012.
- GASB Statement No. 66, *Technical Corrections 2012 – an Amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This statement is effective for financial statements for fiscal years beginning after June 15, 2013.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans—an amendment of GASB Statement No. 27*. This statement is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposal of Government Operations*. This statement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for financial statements for reporting beginning after June 15, 2013.

The impact of these statements on ADEA's basic financial statements has not yet been determined.

**NOTE 2 – DEPOSITS**

ADEA is authorized to deposit only on institutions approved by the Department of Treasury of the Commonwealth of Puerto Rico in accounts in the name of ADEA. ADEA's deposits in commercial banks are collateralized up to \$250,000 per institution by the Federal Deposit Insurance Corporation. At

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JUNE 30, 2013**

**NOTE 3 – INTERGOVERNMENTAL ACCOUNTS RECEIVABLES**

June 30, 2013 ADEA maintained cash deposited over the amount covered by the insurance from the FDIC for \$32,119,158. Additionally, ADEA maintained deposits in Government Development Bank in the amount of \$9,882,365 which are not insured.

Intergovernmental account receivables from governmental entities totaled \$1,093,963. In addition, from business-type entities it totaled \$37,963,147 million, of which \$35,899,375 are from the Puerto Rico Department of Education.

**NOTE 4 – INVESTMENT**

Under Section (11) of Article 18 of the Reorganization Plan No. 4 of 2010, ADEA have the power and authority to subscribe, acquire, own and dispose of shares of corporations and cooperative partnership that engage in the production of equipment or production or mixture of materials necessary for agriculture; or that engage in production, industrial processing, purchasing, packaging, or selling agricultural or derivatives of these products. The Administration is also empowered to exercise and perform all powers and duties inherent to their title to such shares.

During the year ADEA acquired shares of a cooperative partnership that offers orientation and services to its partners in matter relating to their business of agriculture and other matters of interest to the organization. ADEA recorded its investment at cost. There was no discount or premium from the investment's face value. The cost is reevaluated if fair value is impaired. Realized gains or losses shall be recognized if such investment is sold at an amount different from its carrying amount.

**NOTE 5 – CONCENTRATION OF CREDIT RISK**

The financial instruments that potentially subject ADEA to a concentration of credit risk are its cash and accounts receivable. For deposits, custodial credit risks is the risk that in the event of the failure of a depository financial institution, ADEA will not be able to recover deposits or recover collateral securities that are in the possession of an outside party. The accounts receivable balances as of June 30, 2013 were mainly from farmers and governmental entities. ADEA generally does not require collateral and credit losses are provided for currently through the allowance for doubtful accounts.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 6 – INVENTORY**

Inventories are stated at the lower cost (determined on a first in, first-out basis) or market. The inventory balance by location as of June 30, 2013 was as following:

<u>Location</u>	<u>Valuation</u>
<b><u>Coffee</u></b>	
Yahuecas – Adjuntas	\$ 3,591,253
<b><u>Other</u></b>	
Merchandise for sale at different Regional locations and seed and limestone programs	2,059,100
	<u>\$ 5,650,353</u>

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

Capital assets activity for the investment the fiscal year ended June 30, 2013, was as follows:

**Governmental activities:**

**GOVERNMENTAL ACTIVITIES:**

Description	Beginning Balance june,30,2012	Additions	Retirements	Adjustment	Ending Balance June,30,2013
Land	\$ 546,678				\$ 546,678
Building	1,871,279	1,435,973			3,307,252
Building improvements	14,853,922		4,227,130	(8,318,358)	2,308,434
Construccion in Progress	240,737		21,485	(219,252)	-
Equipment	11,501,355	2,401,528	231,955	2,455	13,673,383
Furniture and Fixture	3,003,643	36,600	1,707	(14,757)	3,023,779
Automobiles	997,360	3	103,128	(16,006)	878,229
Other	81,586				81,586
<b>Total Cost</b>	<b>\$ 33,096,560</b>	<b>\$ 3,874,104</b>	<b>\$ 4,585,405</b>	<b>\$ (8,565,918)</b>	<b>\$ 23,819,341</b>
<b>Less: Accumulated Depreciation</b>					
Building	\$ 1,285,323	\$ 34,479	\$ -	\$ -	\$ 1,319,802
Building Improvement				1,269,639	1,269,639
Equipment	7,230,613	1,379,929	208,759	2,210	8,403,993
Furniture and Fixtures	2,530,782	78,604	1,536	(8,892)	2,598,958
Automobiles	888,358	9,265	92,816	(14,405)	790,402
Other	70,908	195,865			266,773
<b>Total Accumulated Depreciation</b>	<b>\$ 12,005,984</b>	<b>\$ 1,698,143</b>	<b>\$ 303,111</b>	<b>\$ 1,248,552</b>	<b>\$ 14,649,568</b>
<b>Net Capital Assets</b>	<b>\$ 21,090,576</b>				<b>\$ 9,169,773</b>

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**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (CONTINUE)**

**Business-type activities:**

Description	Beginning Balance june,30,2012	Additions	Retirements	Adjustment	Ending Balance June,30,2013
Land	\$ 3,192,804				\$ 3,192,804
Building	13,552,631			6,760,227	20,312,858
Building improvements	1,626,193			(1,626,193)	-
Construction in Progress	120,846	12,773		(133,619)	-
Equipment	8,633,303	742,848	57,014	810,670	10,129,807
Furniture and Fixture	1,167,742	27,469	7,595	14,757	1,202,373
Automobiles	5,860,933		533,904	16,006	5,343,035
Other	122,025	165			122,190
<b>Total Cost</b>	<b>\$ 34,276,477</b>	<b>\$ 783,255</b>	<b>\$ 598,513</b>	<b>\$ 5,841,848</b>	<b>\$ 40,303,067</b>
<b>Less: Accumulated Depreciation</b>					
Building	\$ 7,754,156	\$ 297,283	\$ -	\$ -	\$ 8,051,439
Building Improvement					-
Equipment	5,127,966	601,518	51,313	(2,210)	5,675,961
Furniture and Fixtures	924,836	43,449	6,836	8,892	970,341
Automobiles	4,989,336	281,663	480,514	14,405	4,804,890
Other	979,943	845,350			1,825,293
<b>Total Accumulated Depreciation</b>	<b>\$ 19,776,237</b>	<b>\$ 2,069,263</b>	<b>\$ 538,663</b>	<b>\$ 21,087</b>	<b>\$ 21,327,924</b>
<b>Net Capital Assets</b>	<b>\$ 14,500,240</b>				<b>\$ 18,975,142</b>

**NOTE 8 – SHORT AND LONG-TERM OBLIGATIONS**

Short and long-term obligations are composed of notes payable, compensates absences and post-employment termination benefits.

**Notes Payable**

Notes payable as of June 30, 2013 and changes for the year then ended are as follows:

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

**NOTE 8 – SHORT AND LONG-TERM OBLIGATIONS (Continue)**

	<u>Beginning Balance</u>	<u>Debt Issued</u>	<u>Debt Paid</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Short-term obligation</b>					
Governmental activities:					
Revolving line of credit	\$ 19,669,129		\$ (5,851,001)	\$ 13,818,128	\$ 13,818,128
Business-type activities:					
Revolving line of credit	<u>1,829,620</u>	<u>36,341,598</u>	<u>(18,771,558)</u>	<u>19,399,660</u>	<u>19,399,660</u>
	<u>\$ 21,498,749</u>	<u>\$ 36,341,598</u>	<u>\$ (24,622,559)</u>	<u>\$ 33,217,788</u>	<u>\$ 33,217,788</u>
<b>Long-term obligation</b>					
Governmental activities:					
Long-term debt	103,007,165		(4,674,060)	98,333,105	\$ 6,000,000
Business-type activities:					
Long-term debt	<u>1,475,673</u>	<u>-</u>	<u>-</u>	<u>1,475,673</u>	<u>300,000</u>
	<u>104,482,838</u>	<u>-</u>	<u>(4,674,060)</u>	<u>99,808,778</u>	<u>\$ 6,300,000</u>

The notes payable outstanding as of June 30, 2013 are as follows:

<u>Description</u>	<u>Balance</u>
Revolving line of credit of \$20,000,000 for schools lunch purchase program. The school lunch purchase line has a first line over all coffee inventories stored at ADEA'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%.	\$19,399,660
Long-term obligation of \$11.8 million with a maturity date of June 30, 2016, payable in six (6) equal annual installments of \$2,407,367, at a fixed interest of 6%.	7,203,030
Revolving line of credit of \$7,800,000 with a maturity date of June 24, 2014, at a fixed interest of 6%.	1,052,964
Long-term obligation of \$67 million with a maturity date of June 30, 2040, at 7% 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	47,180,917

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

**NOTE 8 – SHORT AND LONG-TERM OBLIGATIONS (CONTINUED)**

appropriations 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)*”. During the year ended June 30, 2013, COFINA paid \$586,178 for principal.

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%. During the year ended June 30, 2013, COFINA paid \$3,020,470 for principal. 45,424,830

Revolving line of credit of \$17,242,726 with a maturity date of June 30, 2040, at a fixed interest of 7%. 12,746,205

Revolving line of credit of \$7,757,274 with a maturity date of June 30, 2040, at a fixed interest of 7% 18,958

\$130,026,563

ADEA has another line of credit of \$20,000,000 for coffee program. The maturity date of the line of credit is April 15, 2013. The interest rate is defined at prime rate plus 1.25%. At June 30, 2013, ADEA had no outstanding balance payable on this line of credit.

**Compensated absences and post-employment termination benefits**

The following summarizes the activity of the compensated absences and post-employment termination benefits obligations for the fiscal year ended June 30, 2013:

	Beginning Balance 1,jul,2012	Increase	Decrease	Ending Balance June,30,2013	Current Portion
<b>Governmental Activities:</b>					
Compensate Absences	\$ 1,983,972	\$ 186,149	\$ 261,415	\$ 1,908,706	\$ 910,367
Post-Employment Termination benefits	\$ 7,742,330	\$ 1,233,435	\$ 2,115,337	\$ 6,860,428	\$ 697,943
<b>Total</b>	<b>\$ 9,726,302</b>	<b>\$ 1,419,584</b>	<b>\$ 2,376,752</b>	<b>\$ 8,769,134</b>	<b>\$ 1,608,310</b>
<b>Business Type Activities:</b>					
Compensate Absences	\$ 3,597,107	\$ 182,423	\$ 765,139	\$ 3,014,391	\$ 1,429,301
Post- Employment termination benefits	\$ 18,224,512	\$ 1,476,090		\$ 19,700,602	\$ 1,725,684
<b>Total</b>	<b>\$ 21,821,619</b>	<b>\$ 1,658,513</b>	<b>\$ 765,139</b>	<b>\$ 22,714,993</b>	<b>\$ 3,154,985</b>

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 8 – SHORT AND LONG-TERM OBLIGATIONS (CONTINUED)**

Compensated absences

The compensated absences balance included accrued vacation, sick leave and other benefits and represents the Administration's commitment to fund such cost from futures assignments.

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 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 \$26,561,030 in the statement of net position as of June 30, 2013 and a charge in the amount of \$4,998,797 in the statement of activities for the year the ended. At June 30, 2013, unpaid long-term benefits granted on this program were discounted at 1.66%.

**NOTE 9 – RETIREMENT SYSTEM**

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 9 – RETIREMENT SYSTEM (CONTINUED)**

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disability benefits.

Members who have attained at least fifty five (55) years of age and have completed at least twenty (20) years of creditable service or members who have attained fifty eight (58) years of age and have completed at least ten years of creditable service, are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will annuity be less than \$200 per month.

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

Commonwealth legislation requires employees hired on or before March 31, 1990 to contribute 5.75% for the first \$550 of their monthly gross salary and 8.275% for excess over \$550 of monthly gross salary.

Employees hired on or after April 1, 1990, are required to contribute 8.275% of their monthly salary. ADEA is required by the same statute to contribute 9.275% for the participant's gross salary.

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

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credit to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant account semi-annually.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 9 – RETIREMENT SYSTEM (CONTINUED)**

ADEA is required by Act No. 205 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined pension plan.

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

Employer contributions for the year ended June 30, 2013, which represent 100% of the required contributions, amounted to approximately \$2,370,886.

Additionally, Act 70 of July 2, 2010, created a government-wide program whereby eligible employees could voluntarily retire or end their employment in exchange for early retirement pension benefits or other economic incentives. As noted in Note 8 above, to provide for the benefits of its participating employees ADEA, as of June 30, 2013 recorded a liability in the amount of \$26,561,030.

On April 4, 2013 was enacted an amendment to Act No. 447 of May 15, 1951, which create the System. This amendment became effective on July 1, 2013 and provides significant change to the Retirement System, including benefits restructuring for future participants; increase in the retirement age; increase in employee contribution to 10%; and conversion of System 2000 into a life annuity.

Additional information on the Retirement System is provided in its financial statements for the years ended June 30, 2013, a copy of which may be obtained from:

Retirement System Administration  
P.O. Box 42003  
San Juan, Puerto Rico 00904-2003

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 10 – FUND BALANCE (DEFICIT)**

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of Fund Balance is based on the extent to which ADEA is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints requiring such amounts to remain intact.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by creditors (such as through debt covenants), laws or regulations of other governments, or constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the ADEA's formal action at the highest level of decision making authority and does not lapse at year-end. The highest level of decision authority for ADEA is the Administrator.

Assigned – includes fund balance amounts that are constrained by the ADEA's management and are intended to be used for specific purposes that are neither considered restricted or committed.

Unassigned – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

ADEA uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, ADEA would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. ADEA does not have a formal minimum fund balance policy.

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**NOTE 11 – OPERATING LEASE AGREEMENTS**

ADEA is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and therefore, the results of the lease agreements are not reflected in the account groups. Total net rent expenditure for the year ended June 30, 2013 was \$702,150.00. Of the total amount, \$644,258 was attributed to governmental fund and \$57,892 was proprietary fund expenditures. The following schedule shows the composition of total future rental expenditures for all operating leases:

<b>Year ending June 30,</b>	<b>Amount</b>
2014	\$694,305
2015	689,505
2016	681,705
2017	681,705
2018	<u>681,705</u>
	<u>\$3,428,927</u>

**NOTE 12 – CONTINGENCIES**

ADEA is presently a defendant as well as plaintiff in a number of lawsuits. The outcome of these cannot be readily determined and estimated at this time according to outside counsel evaluations. However, any adverse claim to the defendants is to be paid by the General Fund of the Commonwealth of Puerto Rico and not from resources of ADEA.

ADEA administers two federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by corresponding federal grantor agency. If expenditures are disallowed due to noncompliance with grant program regulations, ADEA may be required to reimburse the federal grantor agency. ADEA is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

**NOTE 13 – SUBSEQUENT EVENTS**

ADEA has adopted the ASC 855 relating to *Subsequent Events*. The ASC 855 establishes general standards for the accounting and disclosure of events occurring after the date of the balance sheet, but before the date of issuance of the financial statements. Specifically, it sets the period after the date of the status during which ADEA's management should assess events or transactions that could occur and would need to be recorded or disclosed in the financial statements, the circumstances under which ADEA should recognized and disclose these events, and the type of disclosure should be provided for these events occurring after the date of the balance sheet.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 13 – SUBSEQUENT EVENTS (CONTINUED)**

In accordance with ASC 855, ADEA evaluated subsequent events up to January 15, 2014, when these financial statements were ready to be issued. ADEA understands that no material event occurred subsequent to June 30, 2013.

**NOTE 14 – RESTATEMENTS**

Subsequent to the issuance of ADEA's basic financial statements for the year ended June 30, 2012, management determined that their 2012 financial statements were misstated. The following table summarizes the changes to the Net Assets (Deficit) at the beginning of the year as previously reported in the Statement of Net Assets (Deficit) by the governmental funds:

Description	Governmental Activities	Business-Type Activities
Net Assets (Deficit), as of 6/30/2012	\$ 16,815,284	(\$ 114,806,474)
Capital Assets erroneously reported in the balance sheet	(\$ 8,851,636)	\$ 5,947,159
Long-term debt not recognize previously in the balance sheet	(\$ 12,879,766)	

Net Assets (Deficit), as of 6/30/2012 (Restated)                      **(\$ 4,916,118)**                      **(\$ 108,559,314)**