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

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2014

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

Independent Auditor's Report

Board of Directors
Farm Insurance Corporation of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity of the Farm Insurance Corporation of Puerto Rico (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Farm Insurance Corporation of Puerto Rico as of June 30, 2014, 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.

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Other Matters

Required Supplementary Information

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

MENDOZA & RAMOS;
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.
December 2, 2014
Stamp # 02696919, was affixed to the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

This section of Farm Insurance of Puerto Rico (the Corporation) annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended on June 30, 2014. The Corporation's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

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

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

1. The Corporation assets exceed its liabilities by $4,058,373 (net position), for the fiscal year reported. This is smaller to the previous year when assets exceeded liabilities by $7,186,151.

2. Premiums written this year decreased in relation to previous year. For fiscal year 2013-2014 they amounted to $5,144,251 compared to $5,478,960 in fiscal year 2012-2013.

Overview of the Corporation

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

Overview of the Financial Statements

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

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

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

The Statement of Cash Flow provides relevant information about the cash receipts and cash payments of the Corporation for the fiscal year. This statement helps financial report users assess (a) an entity's ability to generate future net cash flows, (b) its ability to meet its obligations as they come due, (c) its needs for external financing, (d) the reasons for differences between operating income and associated cash receipts and payments, and (e) the effects on the entity's financial position of both its cash and its noncash investing, capital, and financing transactions during the period.

Notes to the financial statements

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

Financial Analysis of the Administration

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

Summary of Net Position

	June 30, 2014	June 30, 2013	Net Change
Currrent Assets	$ 8,205,434	$ 7,179,484	$ 1,025,950
Non Current Assets	7,170,335	9,903,646	(2,733,311)
Capital Assets	145,586	211,717	(66,131)
Total Assets	15,521,355	17,294,847	(1,773,492)
Current Liabilities	$ 7,795,364	$ 1,035,439	$ 6,759,925
Non Current Liabilities	-	4,992,041	(4,992,041)
Total Liabilities	$ 7,795,364	$ 6,027,480	$ 1,767,884
Defered Inflows of Resources	$ 3,667,618	$ 4,081,216	$ (413,598)
Net Position:			
Net Investment in Capital Assets	$ 145,586	$ 211,717	$ (66,131)
Unrestricted	3,912,787	6,974,434	(3,061,647)
Total Net Position	$ 4,058,373	$ 7,186,151	$ (3,127,778)

Fiscal year 2014 reflects a decrease in total assets amounting to $1,773,492, an increase in total liabilities of $1,767,884, a decrease in deferred inflows of resources or $413,598 and a decrease in total net position of $3,127,778 when compared with fiscal year 2013. Current assets increase due mainly to an increase in cash and cash equivalents in $1,120,122. Non-current assets decrease mainly to the balance of accounts receivable from ADEA. Capital assets decrease for the depreciation expense of capital assets and the disposition of equipment during fiscal year. Liabilities decrease due to that no significant claims exist at the end of the year.

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

Summary of Revenues, Expenses and Changes in Net Assets
For the year ended on June 30,

	2014	2013	Change
Operating Revenues	$ 1,947,171	$ 2,389,636	$ (442,465)
Operating Expenses	(5,124,574)	(2,365,434)	(2,759,140)
Operating Income (loss)	(3,177,403)	24,202	(3,201,605)
Non Operating Revenues	49,625	56,498	(6,873)
Change in Net Position	(3,127,778)	80,700	(3,208,478)
Net Position - Beginning of year	7,186,151	7,105,451	80,700
Net Position - End of year	$ 4,058,373	$ 7,186,151	$ (3,127,778)

Fiscal year 2014 reflects a decrease in total operating revenues and an increase in operating expenses. Decrease in revenues is due to the increase in ceded premiums. Increase in operating expenses arose from the increase in the reserve of the allowance for uncollectible account. Claims expenses decrease since no significant losses due to natural disasters occurred during fiscal year 2014. The Corporation had a change in net position of $(3,127,778).

Capital Assets

The Corporation's investment in capital assets, net of accumulated depreciation as of June 30, 2014 and 2013, was $145,586 and $211,717 respectively. The total decrease in this net investment was 31%.

Capital Assets
For the year ended on June 30,

	2014	2013	Change
Equipment	$ 769,914	$ 780,168	$ (10,254)
Vehicles	131,334	131,334	-
	901,248	911,502	(10,254)
Less: Accumulated Depreciation	(755,662)	(699,785)	(55,877)
Change in Net Capital Assets	$ 145,586	$ 211,717	$ (66,131)

Line of Credit

During the fiscal year ended June 30, 2005 the Corporation borrowed $6,500,000 from "Fondo Integral para el Desarollo Agricola de Puerto Rico Inc." (FIDA) under a non-revolving credit line for working capital purposes. The line of credit bears an annual interest at 2.25% over LIBOR rate. As of June 30, 2014 the outstanding balance amounted $4,992,041 same as of June 30, 2013.

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

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

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

Subsequent Events

In September 4, 2014 the Corporation sign a collective bargain with "Union de General de Trabajadores (UGT) local 1199" that will regulate the labor affairs among the parties from July 31, 2013 thought December 31, 2016.

Contacting the Corporation's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	7,240,010
Accounts receivable, net		947,178
Accounts receivable, Federal Crop Insurance Corporation		-
Prepaid expenses and other current assets		18,246
Total current assets		8,205,434
NON-CURRENT ASSETS		
Accounts receivable, net		7,170,335
Capital assets, net		145,586
Total non-current assets		7,315,921
Total assets	$	15,521,355
LIABILITIES		
CURRENT LIABILITIES		
Unpaid claims	$	43,134
Accounts payable		119,901
Accounts payable, Federal Crop Insurance Corporation		1,940,418
Accrued expenses		699,870
Line of credit		4,992,041
Total current liabilities		7,795,364
DEFERRED INFLOWS OF RESOURCES		
Unearned premiums		3,667,618
Total deferred inflows of resources		
NET POSITION		
Net investment in capital assets		145,586
Unrestricted		3,912,787
Total net position	$	4,058,373

See accompanying notes to financial statements.

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

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

Operating Revenues	
Premiums written	$ 5,144,251
Ceded premiums	3,364,396
Net premiums	1,779,855
Commissions revenue	93,331
Other revenue	73,985
Total operating revenues	1,947,171
Operating Expenses	
Claims	37,638
Salaries and employee benefits	2,136,610
Insurance	113,016
Rent	195,543
Professional Services	495,359
Depreciation	72,942
Other	3,180,909
Total operating expenses	6,232,017
Reimbursement of administrative and opearting expenses	(1,107,443)
Net operating expenses	5,124,574
Operating Income	(3,177,403)
Non-operating revenue - interest	49,625
CHANGE IN NET POSITION	(3,127,778)
BEGINNING TOTAL NET POSITION AT JUNE 30, 2013	7,186,151
ENDING TOTAL NET POSITION AT JUNE 30, 2014	$ 4,058,373

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Receipts from customers	$ 1,603,239
Commissions and other revenue	151,124
Salaries and employees benefits	(2,142,146)
Claims paid and payments to suppliers	1,465,867
Net cash used by operating activities	1,078,084
Cash flows from capital and related financing activities:	
Purchases of capital assets and net cash used by capital and related financing activities	(7,583)
Cash flows from investing activities:	
Interest received and net cash provided by investing activities	49,621
Increase in cash and cash equivalents	1,120,122
Cash and cash equivalents at beginning of year	6,119,888
Cash and cash equivalents at the end of year	$ 7,240,010

See accompanying notes to financial statements.

NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND REPORTING ENTITY

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

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

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

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

B. BASIS OF PRESENTATION

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

These classifications are defined as follows:

- Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – Consist of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or law or regulations of other governments or constraints imposed by law trough constitutional provision or enabling legislation.

- Unrestricted – This component of net assets consist of net assets that do not meet the definition of "restricted" or " invested in capital assets, net of related debt."

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

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

Also, during fiscal year 2013-14, the Corporation adopted the provisions of the following GASB Statements:

- GASB Statement No. 66 "Technical Corrections – 2012 – an amendment of GASB Statement No. 1 and No. 62". The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports.

- GASB Statement No. 67 "Financial Reporting for Pension Plans" – an amendment of GASB Statement No. 25. This Statement improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of accounting

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

2. Earned premiums

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

3. Unbilled Receivables

Unbilled receivables represent a management's estimate of the unearned premiums related with the unwritten policies for the period cover from April 1, 2014 to March 31, 2015.

4. Unpaid claims

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

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

5. Capital Assets

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

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

6. Cash and cash equivalents

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

7. Compensated absences

The vacation policy of the corporation generally provides for the accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed of sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement and having more than ten years of continued services, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days.

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

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

8. Accounting for pension costs

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

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

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

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

9. Statement of Cash Flows

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

10. Operating Revenues and Expenses

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

11. Risk management

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

12. Future adoption of accounting pronouncements

The GASB has issued the following standards that have effective dates after June 30, 2014:

	Statement	To be adopted in Fiscal year ended
68	Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.	June 30, 2015
69	Government Combinations and Disposals of Government Operations	June 30, 2015
70	Accounting and Financial Reporting for Nonexchange Financial Guarantees	June 30, 2014
71	Pension Transition for Contributions made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68	Simultaneous t o GASB 68

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

NOTE 2 – CUSTODIAL CREDIT RISK - DEPOSITS

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

Under the Government of Puerto Rico statues, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of Treasury of Puerto Rico in the Corporation's name. At year-end the Corporation's bank balance in commercial banks amounts to $7,304,071.

The Corporation established, in accordance with the requirements of the Federal Crop Insurance Corporation (FCIC), separate bank accounts dedicated solely to the federally reinsured crop insurance program. For the fiscal year ended June 30, 2014 the Corporation deposits all producer-paid premium, reinsurance recoveries, and FCIC paid premium subsidy in the accounts and pays all crop insurance losses and reinsurance premium from the accounts. Additionally, the Corporation must not commingle other funds not related to the federal crop insurance program.

NOTE 3- ACCOUNTS RECEIVABLE-NET

The net accounts receivable of the Corporation as of June 30, 2014 are composed of the following:

Accounts receivable:	
"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	$ 6,353,038
Unbilled receivables:	
"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	1,712,526
Federal Crop Insurance Corporation (FCIC)	3,095,330
Other	63,599
	10,955,671
Less: allowance for uncollectible amounts	(3,106,979)
Less: current accounts receivables, net	(947,178)
Non-current accounts receivables, net	$ 7,170,335

Accounts receivable from the "Administración para el Desarrollo de Empresas Agropecuarias" (ADEA), another instrumentally ascribed to the Department, mainly include insurance premiums of policies issued to farmers for which ADEA has agreed to pay the corporation. The above aggregate receivable balances have been classified as noncurrent because they are not expected to be collected within one year from the statement of net position date, June 30, 2014. The unbilled receivable represent a management estimate of the unearned premiums related to unwritten policies for the period that covers April 1, 2014 to March 31, 2015.

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NOTE 4- CAPITAL ASSETS - NET

Property and equipment consist of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets being depreciated:				
Equipment	$ 780,168	$ 7,583	$ (17,837)	$ 769,914
Motor vehicles	131,334	-	-	131,334
	911,502	7,583	(17,837)	901,248
Less: accumulated depreciation:				
Equipment	(609,764)	(62,224)	17,065	(654,923)
Motor vehicles	(90,021)	(10,718)		(100,739)
	(699,785)	(72,942)	17,065	(755,662)
Capital assets, net	$ 211,717	$ (67,393)	$ 772	$ 145,586

NOTE 5- PENSION PLAN

The employees of the Farm Insurance Corporation of Puerto Rico participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is a defined benefit, cost sharing, multi-employer plan sponsored by the Government under the terms of the Act. No. 447 of 1951, as amended. Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

Member who have attained at least 55 years of age and have completed at least 30 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable services are entitled to an annual benefit, payable monthly for life.

The amount of annuity shall be 1.5% of the average compensation multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $300 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average compensation or, if they have attained 55 years of age, will receive up to a maximum of 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average compensation. However, for non-occupational disability, a member must have at least 10 years of creditable service.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average compensation for all

NOTE 5- PENSION PLAN (CONTINUED)

years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of the average compensation, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly salary. The Corporation is required to contribute 9.275% of its employees' gross salaries.

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

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which will are invested by the System, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Government or the Corporation. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the employees' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives.

Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

Disability pensions are not being granted under System 2000. The employer's contributions (9.275% of the employee's salary which is applicable to the Corporation) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or later January 1, 2000.

Funding Policy

Contribution requirements are established by law and are as follows:

Corporation	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to $6,600
	8.275 of gross salary over $6,600
Hired on or after April 1, 1990	8.275% of gross salary

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NOTE 5- PENSION PLAN (CONTINUED)

Recent Amendments to Act No. 447

The Senate and the House of Representatives of the Commonwealth of Puerto Rico have the authority for establishing or amending the contribution requirements of System 2000 by approving the necessary amendments or laws, subject to the final approval of the Governor of the Commonwealth of Puerto Rico.

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

Annual Contribution

The actual employer and employee combined contributions to ERS and System 2000 for the current and past two years, which are equal to the statutory required contributions, are as follows:

Type of Contribution	Contributions to Retirement Plan					
	June 30, 2014		June 30, 2013		June 30, 2012	
	Employee	Corporation	Employee	Corporation	Employee	Corporation
Required	$ 140,848	$ 223,046	$71,026	$99,940	$98,000	$166,000
Actual	$ 140,848	$ 223,046	$71,026	$99,940	$98,000	$166,000

Additional information on the system is provided in its financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees Retirement System of the Commonwealth of Puerto Rico and its instrumentalities, PO BOX 42003, San Juan, Puerto Rico 00940-2003

NOTE 6- REINSURANCE

Federal Crop Insurance Corporation Reinsurance

In the ordinary course of business, the Corporation cedes business to the Federal Crop Insurance Corporation (FCIC) under a contract. The existence of such reinsurance does not discharge the Corporation from its primary liability to its policyholders and, to the extent that the reinsurer be unable to meet its obligations, the Corporation would become liable.

At present, the Corporation maintains a reinsurance contract with the FCIC, which covers crops and plantations; but not poultry house, pineapple and equipment. The FCIC will indemnify the Corporation with respect to loss occurrences under policies of crop the insurance issued by the Company, reinsured, and will pay the Company in accordance with the terms specified in the reinsurance agreement.

The contract specifies that ceded premiums will be approximately 20% of the annual net book premiums, as defined by the reinsurance agreement. In addition, the FCIC paid 24.5% as expenses reimbursement based on the net book premiums of buy-up policies, as defined in the reinsurance agreement.

NOTE 6- REINSURANCE (CONTINUED)

The Corporation agreed with the FCIC to include a new type of policy called "Catastrophic Risk Protection Plan" (CAT). CAT is eligible crop insurance contract that provides the lowest level of coverage required to be eligible for other agricultural program benefits as specified in the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.). The FCIC will subsidy 100% of the CAT policy.

The Corporation agreed to collect an administrative fee of $300 from policyholders for the processing expenses on a per crop and agricultural region basis, and $30 per crop processing fee for additional coverage.

Other Reinsurance

The Corporation also has a reinsurance agreement with Cooperativa de Seguros Múltiples de Puerto Rico, which covers, from June through May. This agreement covers risks associated with poultry, ornamental and hydroponic structures. This contract does not discharge the Corporation from its primary liability to its policyholders and, to the extent that the reinsured be unable to meet its obligations, the Corporation would become liable.

NOTE 7- UNPAID ESTIMATED CLAIMS

Management estimated its liability for unpaid claims to farmers as of June 30, 2014, for the amount of $43,134, substantially related to losses caused by prior year claims.

Activity in the liability for unpaid claims and claims expense is summarized as follows:

Beginning Balance	Claims Incurred	Claims Paid	Ending Balance
$ 49,337	31,436	37,639	$43,134

NOTE 8-LINE OF CREDIT

The Corporation borrowed in a prior year $6,500,000 to the "Fondo Integral para el Desarollo Agrícola de Puerto Rico Inc." (FIDA) under a non-revolving credit line for working capital purposes. The line of credit bears a 2.25% over LIBOR rate. As of June 30, 2014, the outstanding balance amounted to $4,992,041.

The Corporation is obligated to pay FIDA the outstanding balance of the line of credit when ADEA paid it debts to the Corporation.

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

NOTE 9- SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING ACTIVITY

During the year 2014 the Corporation retired from its books equipment with cost of $17,837.

NOTE 10- CONTINGENCIES

As of June 30, 2014, the Corporation is a defendant in class action alleging a breach of contract obligations by the corporation. The claimant alleges that corporation breached contract when it negated to pay for losses incurred during an event included in the insurance contract and claimed the related insurance premiums. Management's has not reported a liability for these claims because of the stage of the proceedings. The Corporation's management intends to vigorously defend its position.

NOTE 11- COMMITMENT

In December 23, 2013, the Corporation entered into a lease agreement for a period of five years for the office facilities with a basic monthly rental payments of $6,119 plus $2,000 approximately of additional rent for maintenance costs, until December 2018. The Corporation leases other facilities in accordance with lease agreements carried on a month to month basis. The rent expense for the year ended June 30, 2014 was $195,543.

NOTE 12- INSURANCE RESERVE

In June 9, 2014, the Insurance Commissioner Office of the Government of Puerto Rico conducted an evaluation with the purpose of determining the amount of the maximum loss obligations that the Corporation may contract for the fiscal year 2014-2015. As a result of the evaluation, the Insurance Commissioner Office recommended the Corporation to establish and separate a reserve not less than $11,127,458 to cover the maximum estimated loss exposure for the next fiscal year.

NOTE 13- SUBSEQUENT EVENTS

In September 4, 2014 the Corporation sign a collective bargain with "Union de General de Trabajadores (UGT) local 1199" that will regulate the labor affairs among the parties from July 31, 2013 thought December 31, 2016.

END OF NOTES