MENDOZA RAMOS

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, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Basis for Qualified Opinion and Note Disclosure Regarding Pensions

As discussed in Note 5 to the basic financial statements, the Corporation has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Statement 68). Accordingly, the Corporation nas not been able to determine and account for its proportionate share of net pension liability, deferred inflow ad outflow of resources related to pensions costs, and has not recognized the effect of current period changes in net pension liability, deferred outflow and inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow and inflow of resources, as applicable, be recognized in accordance with the parameters established by statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expense. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and pension expenses has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter describe above in the Basis for Qualified Opinion and Note Disclosure Regarding Pensions paragraph, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 11 to the basic financial statements, the Corporation had an impairment loss in the amount of $2,807,930; furthermore, during the current year corporation have had an operating loss of $1,640,477 that combined with the effect of the impairment loss caused the deficit in the Net Position of $1,053,535 for the year ended June 30, 2016. Also, as discussed in Note 12, the Corporation as an insurance corporation covers risks in crops of farmers in Puerto Rico and it is subject to the regulation of the Insurance Commissioner; accordingly, the Insurance Commissioner requires to the Corporation to have a reserve among their assets to cover claims in case of disaster caused by fortuitous events covered by the insurance policy issued.

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 4 through 7 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.

Adoption of New Accounting Principles

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

Subsequent Event

As described in Note 13 to the financial statements the following are subsequent events: (a) on April 29, 2017 the Governor of Puerto Rico signed the law Act No. 26, law for the Compliance with Fiscal Plan of the Puerto Rico Government, which represents a comprehensive reduction on governmental employees' benefits; (b) on May 2017 the Corporation cancelled the lease agreement of the office facilities that will be ended on December 2018 and (c) on September 6, 2017 the Hurricane Irma passed near Puerto Rico and caused damages to crops to Puerto Rican farmers. Farmers that suffered damages in their insured crop, has until September 15, 2017 to submit the claim for damages to the Corporation. This situation may require that the Governor of Puerto Rico issue an executive order to activate the Emergency Fund. Furthermore, on September 20, 2017 Hurricane María impacted the island causing damages that also may require that Governor of Puerto Rico issue an executive order to activate Emergency Fund; respect to this situation the President of the United States declared Puerto Rico a disaster zone in order the island can be eligible to emergency aid.

CPA Ismael Ramos Colón

Mendoza & Ramos;
Certified Public Accountants, C.S.P.
September, 14 2017

Stamp #O2748407, was affixed to the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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, 2016. The Corporation's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

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

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

1. The Corporation Liabilities exceed its assets by $1,053,535 (net position), for the fiscal year reported. This decreased in relation with the previous year when assets exceeded liabilities by $3,343,802.

2. Premiums written this year increased in relation to previous year. For fiscal year 2015-2016 they amounted to $4,164,575 compared to $4,080,527 in fiscal year 2014-2015.

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 component: (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, 2016	June 30, 2015	Net Change
Currrent Assets	$ 2,895,346	$ 5,856,543	$ (2,961,197)
Non Current Assets	4,039,028	6,856,996	(2,817,968)
Capital Assets	66,775	100,251	(33,476)
Total Assets	7,001,149	12,813,790	(5,812,641)
Current Liabilities	$ 6,712,712	$ 5,774,259	$ (938,453)
Non Current Liabilities	-		
Total Liabilities	$ 6,712,712	$ 5,774,259	$ (938,453)
Defered Inflows of Resources	$ 1,341,973	$ 3,695,729	$ (2,353,756)
Net Position:			
Net Investment in Capital Assets	$ 66,775	$ 100,251	$ (33,476)
Unrestricted	(1,120,310)	3,243,551	(4,363,861)
Total Net Position	$ (1,053,535)	$ 3,343,802	$ (4,397,337)

Fiscal year 2016 reflects a decrease in total assets amounting to $5,812,641, a decrease in total liabilities of $938,453, a decrease in deferred inflows of resources or $2,353,756 and a decrease in total net position of $4,397,337 when compared with fiscal year 2015. Current assets decrease due mainly to a decrease in cash and cash equivalents in $2,843,359. Non-current assets decrease mainly to the balance of accounts receivable from FCIC & ADEA. Capital assets decrease for the depreciation expense of capital assets and the disposition of equipment during fiscal 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,

	2016	2015	Change
Operating Revenues	$ 486,112	$ 1,476,011	$ (989,899)
Operating Expenses	(2,126,589)	(2,237,952)	(111,362)
Operating Income (loss)	(1,640,477)	(761,941)	(878,536
Non Operating Revenues (Expenses)	(2,756,860)	47,370	(2,804,230)
Change in Net Position	(4,397,337)	(714,571)	(3,208,474)
Net Position - Beginning of year	3,343,802	4,058,373	(714,571)
Net Position - End of year	$ (1,053,535)	$ 3,343,802	(4,397,337)

Fiscal year 2016 reflects a decrease in total operating revenues and in operating expenses. The Corporation had a change in net position of $(4,397,337).

Capital Assets

The Corporation's investment in capital assets, net of accumulated depreciation as of June 30, 2016 and 2015, was $66,775 and $100,251 respectively. The total decrease in this net investment was 34%.

Capital Assets
For the year ended on June 30,

	2016	2015	Change
Equipment	$ 719,867	$ 719,867	$ -
Vehicles	131,334	131,334	-
	851,201	851,201	-
Less: Accumulated Depreciation	(784,426)	(750,950)	(33,476)
Change in Net Capital Assets	$ 66,775	$ 100,251	$ (33,476)

Line of Credit

During the fiscal year ended June 30, 2005 the Corporation borrowed $6,500,000 from "Fondo Integral para el Desarrollo Agrícola de Puerto Rico Inc." (FIDA) under a non-revolving credit line for working capital purposes. The line of credit bears an annual interest at 2.25% over LIBOR rate. As of June 30, 2016 the outstanding balance amounted $4,692,041.

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.

Subsequent Events

On April 29, 2017 the Governor of Puerto Rico signed the law Act No. 26, law for the Compliance with Fiscal Plan of the Puerto Rico Government, which represents a comprehensive reduction on governmental employees' benefits.

On May 2017 the Corporation cancelled the lease agreement of the office facilities that will be ended on December 2018.

On September 6, 2017 the Hurricane Irma passed near Puerto Rico and caused damages to crops to Puerto Rican farmers. Farmers that suffered damages in their insured crop, has until September 15, 2017 to submit the claim for damages to the Corporation. This situation may require that the Governor of Puerto Rico issue an executive order to activate the Emergency Fund. Furthermore, on September 20, 2017 Hurricane Maria impacted the island causing damages that also may require that Governor of Puerto Rico issue an executive order to activate Emergency Fund; respect to this situation the President of the United States declared Puerto Rico a disaster zone in order the island can be eligible to emergency aid.

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.

STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 2,393,998
Accounts receivable, net	487,555
Prepaid expenses and other current assets	13,793
Total current assets	2,895,346
NON-CURRENT ASSETS	
Accounts receivable, net	4,039,028
Capital assets, net	66,775
Total non-current assets	4,105,803
Total assets	$ 7,001,150
LIABILITIES	
CURRENT LIABILITIES	
Unpaid claims	$ 42,993
Accounts payable	1,196,699
Accounts payable, Federal	
– Crop Insurance Corporation	
Accrued expenses	780,979
Line of credit	4,692,041
Total current liabilities	6,712,712
DEFERRED INFLOWS OF RESOURCES	
Unearned premiums	1,341,973
Total liabilies	8,054,684
NET POSITION	
Net investment in capital assets	66,775
Unrestricted	(1,120,310)
Total net position	$ (1,053,535)

See accompaying notes to financial statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Operating Revenues	
Premiums written	$ 4,164,575
Ceded premiums	3,814,133
Net premiums	350,442
Commissions revenue	126,251
Other revenue	9,419
Total operating revenues	486,112
Operating Expenses	
Salaries and employee benefits	2,316,467
Insurance	43,092
Rent	145,332
Professional Services	382,901
Depreciation	33,476
Other	132,831
Total operating expenses	3,054,099
Reimbursement of administrative and opearting expenses	(927,510)
Net operating expenses	2,126,589
Operating loss	(1,640,477)
Non-operating revenue (expenses)	
Custodial credit loss on deposits with GDB	(2,807,930)
Interest	51,070
	(2,756,860)
CHANGE IN NET POSITION	(4,397,337)
BEGINNING TOTAL NET POSITION AT JUNE 30, 2015	3,343,802
ENDING TOTAL NET POSITION AT JUNE 30, 2016	$ (1,053,535)

See accompaying notes to financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:	
Receipts from customers	$ 7,114,175
Commissions and other revenue	135,670
Salaries and employees benefits	(2,316,468)
Claims paid and payments to suppliers	(4,819,876)
Net cash provided by operating activities	113,501
Cash flows from noncapital financing activities:	
Payments of line of credit	(200,000)
Custodial credit loss on deposits with GDB	(2,807,930)
Net cash used by noncapital financing activities	(3,007,930)
Cash flows from investing activities:	
Interest received and net cash provided by investing activities	51,070
Decrease in cash and cash equivalents	(2,843,359)
Cash and cash equivalents at beginning of year	5,237,357
Cash and cash equivalents at the end of year	$ 2,393,998

Cash flows from operating activities:	
Net loss	$ (1,640,477)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	33,475
Change in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	2,949,600
Prepaid expenses	(13,793)
Increase (decrease) in:	
Accounts payable	995,828
unpaid claims	(141)
Accrued expenses	142,766
Unearned premiums	(2,353,757)
Net cash provided by operating activities	$ 113,501

See accompanying notes to financial statements.

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."

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

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

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

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

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

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

- GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities", which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of accounting

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

2. Earned premiums

Insurance premiums are recognized as income during the period covered by the policies issued to the farmers. The insurance policies period cover from April 1' 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, 2016 to March 31, 2017.

4. Unpaid claims

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

5. Capital Assets

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

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

6. Cash and cash equivalents

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

7. Compensated absences

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

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.

For the current fiscal year, the employees have the right to accumulate the excess of 60 and 90 days in vacation and sick leave, respectively, until December 31 of each year. The excess should be paid to the employees before March 31 of the following year.

8. Accounting for pension costs

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

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

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

9. Statement of Cash Flows

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

10. Operating Revenues and Expenses

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

11. Risk management

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

12. Future adoption of accounting pronouncements

The GASB has issued the following standards that have effective dates after June 30, 2016:

- GASB Statement No. 72 Fair Value Measurement and Application (Issued 2/15). The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

- GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Ammendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15). The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

- GASB Statement No. 74 Financial Reporting for Postemployment Benefit Plans other than Pension Plans (Issued 06/15). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

- GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Issued 06/15). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

- GASB Statement No. 77 Tax Abatement Disclosures (Issued 08/15). The objective of this Statement is to requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

- GASB Statement No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15). The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

- GASB Statement No. 79 Certain External Investment Pools and Pool Participants (Issued 12/15). This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing.

Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

- GASB Statement No. 80 Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (Issued 01/16). The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

- GASB Statement No. 81, Irrevocable Split-Interest Agreements (Issued 03/16). The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged.

- GASB Statement No. 82, Pension Issues- an Amendment of GASB Statements No 67, No. 68, and No. 73 (Issued 03/16). The objective of this Statement is to addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The requirements of this Statement are effective for periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

- GASB Statement No. 83 "Certain Asset Retirement Obligations". This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

  This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (fiscal year ended June 30, 2019).

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 $2,254,669.

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, 2016 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, 2016 are composed of the following:

Accounts receivable:	
"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	$ 3,067,662
Unbilled receivables:	
"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	937,736
Federal Crop Insurance Corporation (FCIC)	508,210
Other	91,766
	4,605,374
Less: allowance for uncollectible amounts	(78,791)
Less: current accounts receivables, net	(487,555)
Non-current accounts receivables, net	4,039,028

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, 2016. The unbilled receivable represent a management estimate of the unearned premiums related to unwritten policies for the period that covers April 1, 2016 to March 31, 2017.

NOTE 4- CAPITAL ASSETS - NET

Property and equipment consist of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets being depreciated:				
Equipment	$ 719,867	$ -	$ -	$ 719,867
Motor vehicles	131,334			131,334
	851,201	-	-	851,201
Less: accumulated depreciation:				
Equipment	(639,493)	(22,757)		(662,250)
Motor vehicles	(111,457)	(10,718)		(122,175)
	(750,950)	(33,475)		(784,425)
Capital assets, net	$ 100,251	$ (33,475)	$	$ 66,776

NOTE 5- PENSION PLAN

All full time employees of the Farm Insurance Corporation of Puerto Rico participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended (Act 447) and a component unit of the Commonwealth.

On April 4, 2013 the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS, which became effective on July 1, 2013 and amended the provisions of the different benefit structures under the system as further discussed below.

Members that entered ERS before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 (Act 447 Participants) were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 (Act 1 Participants) were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 (Act 1 od 1990)

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new structure similar to a cash balance plan (this new structure is referred to as system 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfounded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts System 2000 Participants. Contributions received from System 2000 Participants is pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

Retirement and related benefits provided by the ERS, and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 (Act 116), the statutory employer contribution for the ERS increased from a minimum of 9.2775% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021.

The ERS provides basic benefits under the defined benefit program principally consisting of a retirement annually and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost of living adjustments and summer and Christmas bonuses Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2015 (most recently available) reflects a fiduciary net deficit of $578 million, total pension liability of 32.7 billion and a net pension liability of 33.2 billion.

Statement No. 68 of Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions – an amended of GASB Statement No. 27 (GASB 68) became effective for the year ended June 30, 2015. This statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trust or equivalent arrangements that meet certain criteria.

As of the date of the release of this report, the ERS has not issued its 2015 basic financial statements, nor has it provided Farm Insurance Corporation of Puerto Rico with the required information to implements of GASB 68. Therefore, the accompanying financial statements do not have any adjustments that will be necessary for Farm Insurance Corporation of Puerto Rico to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of July 1, 2016as well as the effect in the recorded pension expense in the statement of revenue, expenses and changes in net position for the year ended June 30, 2016. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

Annual Contribution

The actual employer and employee combined contributions to ERS and Systèm 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, 2016		June 30, 2015		June 30, 2014	
	Employee	Corporation	Corporation	Corporation	Employee	Corporation
Required	$144,849	$205,523	$152,981	$268,875	$140,848	$223,046
Actual	$144,849	$205,523	$152,981	$268,875	$140,848	$223046

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.

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 as 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, 2016, for the amount of $42,993, 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
$ 43,134	$-0-	$141	$42,993

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, 2016, the outstanding balance amounted to $4,692,041.

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- CONTINGENCIES

As of June 30, 2016, the Corporation is defendant in class action alleging a breach of contract obligations by the corporation. The claimant alleges that corporation breached the contract when it negated to pay losses incurred during the 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 10- 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 payment 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, 2016 was $139,255.

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.

NOTE 11 IMPAIRMENT LOSS

The statements of Revenues Expenses and Changes in Net position include a loss as non-operating revenue amounted $2,807,930 for the impairment of the certificate of deposits that a Corporation maintain in the Governmental Development Bank (the Bank). The impairment is recorded due to insolvency of the Bank.

NOTE 12- INSURANSE RESERVE

Farm Insurance Corporation of Puerto Rico, as an insurance corporation is authorized to issue policies to insure crop of the Puerto Rico farmers is also regulated by the Office of the Commissioner Puerto Rico. All insurance company duly authorized doing business in Puerto Rico need comply with assets reserve to pay claims as they occur. The financial position of the Corporation does not sufficient liquidity in assets to pay claims if this occur. On this scenario the Governor must authorize through of executive order the transfer of funds to the Corporation from the Emergency Fund in case the Corporation need resources to pay claims to farmers.

NOTE 13- SUBSEQUENT EVENTS

On April 29, 2017, the Governor of Puerto Rico signed the law Act No. 26, law for the Compliance with Fiscal Plan of the Puerto Rico Government, which represents a comprehensive reduction on governmental employees' benefits.

On December 26, 2016, the Corporation notify to landlord of the intention of finished the lease agreement of the office facilities that will be ended on December 2018 due to the fiscal condition of the Corporation, according to the Act No. 166 of June 17, 2014, Special Law of Fiscal Sustainability and Operations of the Puerto Rico Government. The Corporation hope to end the contract to September 2017.

On September 6, 2017 the Hurricane Irma passed near Puerto Rico and caused damages to crops to Puerto Rican farmers. Farmers that suffered damages in their insured crop, has until September 15, 2017 to submit the claim for damages to the Corporation. This situation may require that the Governor of Puerto Rico issue an executive order to activate the Emergency Fund. Furthermore, on September 20, 2017 Hurricane María impacted the island causing damages that also may require that Governor of Puerto Rico issue an executive order to activate Emergency Fund; respect to this situation the President of the United States declared Puerto Rico a disaster zone in order the island can be eligible to emergency aid.

END OF NOTES