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

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2017

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

TABLE OF CONTENTS

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, 2017, 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.

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, 2017, and the changes in financial position its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Entity's Ability to continue as a Going Concern

The accompanying financial statements have been prepared assuming that Farm Insurance Corporation of Puerto Rico will continue as a going concern. As discussed in Note 11 of the financial statements, Farm Insurance Corporation of Puerto Rico has suffered recurring operating losses during past years, has a negative financial position and has experienced a deterioration in its financial condition that caused a deficit in the financial position. This fact raise an uncertainty about the Farm Insurance Corporation of Puerto Rico ability to continue as a going concern and the ability to raise additional capital. Management plans are described in Note 11. These financial statements does not include any adjustment that might result from the outcome of these uncertainties. Our opinion has not been modified with respect to these matters.

Other Matters

Restatement of Net Position

As discussed in Note 14 the financial statements, net position as of July 1, 2016 has been restated to correct misstatements. Our opinion on the financial statements has not been modified with respect to these 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. 68 "*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*", GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68". Our opinion is not modified with respect to this matter.

Subsequent Event

As described in Note 15 to the financial statements the following are subsequent events: (a) 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, have had until September 15, 2017 to submit the claim for damages to the Corporation. This situation required that the Governor of Puerto Rico issue an executive order to activate the Emergency Fund. (b) Furthermore, on September 20, 2017 Hurricane María impacted the island causing damages that also required 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.
June 25, 2019

Stamp # O 2762497, was affixed to the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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, 2017. 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 $10,839,830 (net position), for the fiscal year reported. This increased in relation with the previous year when liabilities exceeded assets by $1,053,535.

2. Premiums written this year decreased in relation to previous year. For fiscal year 2016-2017 they amounted to $3,920,962 compared to $4,164,575 in fiscal year 2015-2016.

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, 2017	June 30, 2016	Net Change
Currrent Assets	$ 4,615,055	$ 2,895,346	$ 1,719,709
Non Current Assets	5,199,375	4,039,028	1,160,347
Capital Assets	51,212	66,775	(15,563)
Total Assets	9,865,642	7,001,149	2,864,493
Current Liabilities	$ 6,688,751	$ 6,712,712	$ (23,961)
Non Current Liabilities	14,016,722	-	14,016,722
Total Liabilities	$ 20,705,472	$ 6,712,712	$ 13,992,760
Defered Inflows of Resources	$ 2,023,424	$ 1,341,973	$ 681,451
Net Position:			
Net Investment in Capital Assets	$ 51,212	$ 66,775	$ (15,563)
Unrestricted	(10,891,042)	(1,120,310)	(9,770,732)
Total Net Position	$ (10,839,830)	$ (1,053,535)	$ (9,786,295)

Fiscal year 2017 reflects an increase in total assets amounting to $2,864,493, an increase in total liabilities of $13,992,760, an increase in deferred inflows of resources or $681,451 and a decrease in total net position of $9,786,295 when compared with fiscal year 2016. 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,

	2017	2016	Change
Operating Revenues	$ 1,170,267	$ 486,112	$ 684,155
Operating Expenses	(2,963,460)	(2,126,589)	836,871
Operating Income (loss)	(1,793,193)	(1,640,477)	(878,536
Non Operating Revenues (Expenses)	(3,040)	(2,756,860)	(2,753,820)
Change in Net Position	(1,796,233)	(4,397,337)	(2,601,104)
Net Position - Beginning of year	(1,053,535)	3,343,802	(4,397,337)
Net Position - End of year	$ (10,839,830)	$ (1,053,535)	(9,786,295)

Fiscal year 2017 reflects a decrease in total operating revenues and in operating expenses. The Corporation had a change in net position of $(9,786,295).

Capital Assets

The Corporation's investment in capital assets, net of accumulated depreciation as of June 30, 2017 and 2016, was $55,212 and $66,775 respectively. The total decrease in this net investment was 23%.

Capital Assets
For the year ended on June 30,

	2016	2015	Change
Equipment	$ 731,801	$ 719,867	$ 11,934
Vehicles	131,334	131,334	-
	863,135	851,201	-
Less: Accumulated Depreciation	(811,923)	(784,426)	(27,497)
Change in Net Capital Assets	$ 51,212	$ 66,775	$ (15,563)

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 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, have had until September 15, 2017 to submit the claim for damages to the Corporation. This situation required 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 required 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, 2017

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 4,046,508
Accounts receivable, net	564,870
Prepaid expenses and other current assets	3,677
Total current assets	4,615,055
NON-CURRENT ASSETS	
Accounts receivable, net	2,485,412
Capital assets, net	51,212
Deferred outflow of resources related to pension	2,713,963
Total non-current assets	5,250,587
Total assets	$ 9,865,642
LIABILITIES	
CURRENT LIABILITIES	
Unpaid claims	$ 42,986
Accounts payable	303,889
Accounts payable, Federal Crop Insurance Corporation	981,380
Accrued expenses	668,454
Line of credit	4,692,041
Total current liabilities	6,688,750
Pension liability	11,993,298
Deferred intflow of resources related to pension	229,543
Unearned premiums	1,793,881
Total liabilies	20,705,472
NET POSITION	
Net investment in capital assets	51,212
Unrestricted	(10,891,042)
Total net position	$ (10,839,830)

See accompaying notes to financial statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Operating Revenues	
Premiums written	$ 3,920,962
Ceded premiums	2,888,456
Net premiums	1,032,506
Commissions revenue	129,955
Other revenue	7,806
Total operating revenues	1,170,267
Operating Expenses	
Salaries and employee benefits	3,146,776
Insurance	55,837
Rent	142,796
Professional Services	435,145
Depreciation	27,497
Other	104,215
Total operating expenses	3,912,266
Reimbursement of administrative and opearting expenses	(948,806)
Net operating expenses	2,963,460
Operating loss	(1,793,193)
Non-operating revenue (expenses)	
Claims	(5,834)
Interest	2,794
	(3,040)
CHANGE IN NET POSITION	(1,796,233)
BEGINNING TOTAL NET POSITION AT JUNE 30, 2016	(1,053,535)
PRIOR PERIOD ADJUSTMENT	(7,990,062)
NET POSITION AS RESTATED	(9,043,597)
ENDING TOTAL NET POSITION AT JUNE 30, 2017	$ (10,839,830)

See accompaying notes to financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Receipts from customers	$ 5,836,376
Commissions and other revenue	137,761
Salaries and employees benefits	(2,067,072)
Claims paid and payments to suppliers	(2,245,415)
Net cash provided by operating activities	1,661,650
Cash flows from investing activities:	
Purchase of equipment	(11,934)
Interest received	2,794
Net cash used by investing activities	(9,140)
Increase in cash and cash equivalents	1,652,510
Cash and cash equivalents at beginning of year	2,393,998
Cash and cash equivalents at the end of year	$ 4,046,508
Cash flows from operating activities:	
Net loss	$ (1,793,193)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	27,498
Change in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	1,915,413
Deferred outflow of resources	(86,332)
Prepaid expenses	10,116
Increase (decrease) in:	
Accounts payable	85,776
unpaid claims	(3,047)
Accrued expenses	(112,525)
Deferred outflow of resources	41,019
Pension liability	1,125,017
Unearned premiums	451,908
Net cash provided by operating activities	$ 1,661,650

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 2016-17, the Corporation adopted the provisions of the following GASB Statements:

- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

- GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 (Issued 11/13). The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

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 1t 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, 2017 to March 31, 2018.

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

Vacation and sick leave may be accumulated at a maximum of 60 days and 90 days, respectively. Employees earned 30 days of vacation and 18 days of sick leave, annually, until April 28, 2017. Effective April 29, 2017, when Act No.26 became effective, all employees in each calendar year, will earn up a maximum of 15 and 12 days of vacation and sick leave, respectively.

8. Accounting for pension costs

The Corporation accounts for pension costs under the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68, which was adopted by PRIDCO effective July 1, 2016. GASB Statement No. 68 replaced the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers and requires that employers report a net pension liability and related pension accounts, such as pension expense and deferred outflows/inflows of resources as determined by the Retirement System, as applicable, under the requirements contained in GASB Statement No. 67, Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25.

9. Deferred Outflows/Inflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of the GASB Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.

10. Net Position

Net position is classified in the following two components in the accompanying statements of net position:

Investment in Capital Assets, Net of Related Debt

This component of net position 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 this component.

Unrestricted

Unrestricted net position consists of net position that do not meet the definition of investment in capital assets, net of related debt.

11. 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.

12. 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.

13. 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.

14. Accrual for legal claims

The estimate amount of the liability for legal claims is recorded on the accompanying statements of net position based on the Corporation evaluation of the probability of an unfavorable outcome in the litigation of such legal claims. The Corporation consults with its legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for legal claims may change in the near term.

15. 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).

- GASB Statement No. 84, Fiduciary Activities. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a Business-Type activity that normally expects to hold custodial assets for three months or less. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

  Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

- GASB Statement No. 85, Omnibus 2017. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). Specifically this statement addresses the following topics:

Future Adoption of Accounting Pronouncement (continued):

- Blending a component unit in circumstances in which the Primary Government is a Business Type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investment and participating interest earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on behalf payments for pensions or OPEB in employer financial statements.

- Presenting payroll related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

- GASB Statement No. 86, Certain Debt Extinguishment Issues. This Statement improves the consistency in accounting and financial reporting for in substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources- resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defease in substance. The requirements of this statement are effective for fiscal years beginning after June 15, 2017.

- GASB Statement No.87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

- GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statement as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

- GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, Codification of Accounting And

Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expenses in the measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

Management is evaluating the impact that these statements will have on the Corporation basic financial statements.

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 $4,098,260.

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, 2017 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, 2017 are composed of the following:

Accounts receivable:	
"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	$ 1,054,536
Unbilled receivables:	
"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	616,995
Federal Crop Insurance Corporation (FCIC)	1,302,017
Other	155,524
	3,129,073
Less: allowance for uncollectible amounts	(78,791)
	3,050,282
Less: current accounts receivables, net	(564,870)

Non-current accounts receivables, net	$ 2,485,412

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, 2017. The unbilled receivable represent a management estimate of the unearned premiums related to unwritten policies for the period that covers April 1, 2017 to March 31, 2018.

NOTE 4- CAPITAL ASSETS - NET

Property and equipment as of June 30, 2017 consist of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets being depreciated:				
Equipment	$ 719,867	$ 11,934	$ -	$ 731,801
Motor vehicles	131,334			131,334
	851,201	-	-	863,135
Less: accumulated depreciation:				
Equipment	(622,250)	(19,858)		(682,109)
Motor vehicles	(122,175)	(7,639)		(129,814)
	(784,426)	(27,497)		(811,923)
Capital assets, net	$ 66,776	$ (15,563)	$	$ 51,212

NOTE 5- PENSION PLAN

On November 2, 2018 the ERS issued an audited report for the year ended June 30, 2016, in accordance with GASB Statement No. 68, providing information about pension amounts by employer and the corresponding employer allocation percentage. The Corporation disclosed the below mentioned information based on this audited data reported by ERS and the ERS June 30, 2016 Actuarial Valuation Report.

At June 30, 2017, the Corporation reported a liability of $11,993,298 for its proportionate share of the net pension liability. The collective net pension liability which amounts to approximately $38 billion was determined by an actuarial valuation as of July 1, 2015 that was rolled forward to June 30, 2016 and assuming no gains or losses. The Corporation's proportion of the net pension liability was based on a projection of the Corporation share of contributions to the pension plan relative to the projected contributions of all ERS participants, actuarially determined. At June 30, 2016, the Corporation proportion was .03181%.

For the year ended June 30, 2017, the Corporation recognized pension expense of $1,079,704. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	5 years	$ 9,805	$ 164,649
Changes in assumptions	5 years	1,829,348	-
Changes in proportion	5 years	874,810	-
Difference between projected and actual earnings on pension plan investments	5 years	-	64,894
Audited amounts as reported by ERS Corporation contributions subsequent to measurement date		$ 2,713,963	$ 229,543

The $86,332 reported as deferred outflows of resources related to the Corporation contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in future fiscal years based on the average expected remaining service lives of all plan participants, in the case of projected and actual investment earnings in a 5-year period and for differences between expected and actual experience in a 6-year period.

Actuarial methods and assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Actuarial methods:

Valuation date	July 1, 2015, projected forward to June 30, 2016.
Measurement date	June 30, 2016
Actuarial cost method	Entry age normal
Asset-valuation method	Market value of assets

Actuarial assumptions:

Compensation increases	3.0% per year, no compensation increases are assumed until July 1, 2021 as a result of Act No. 66 and the current general economy
Inflation rate	2.50%
Investment rate of return	6.55%, net of investment expenses
Discount rate	2.85%

Municipal bond rate	2.85%, based on Bond Buyer General Obligation 20-Bond Municipal Bond Index
Mortality	Pre-retirement mortality:

For general employees not covered under Act No. 127, RP-2014 Employee Mortality rates for males and females adjusted to reflect Mortality Improvement Scale, MP-2016 from the 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year and projected forward using MP-2016 on generational basis.

As generational tables, they reflect mortality improvements both before and after the measurement date.

For employees covered by Act No. 127 while in active service a 100% of death was assumed to be occupational.

Post-retirement healthy mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
Post-retirement disabled mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Long-term Rate of Return on Investments

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the ERS Board during December 2013 and the actuary's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefit investments of 6.55% as of June 20, 2016 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% per annum to 6.55% per year.

The pension plan's policy regarding allocation of invested assets is established and may be amended by the ERS Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the ERS financial condition for the benefits provided through the pension programs. The following was the ERS Board adopted asset allocation policy as of June 30, 2016:

Asset Class	Target Allocation	Long-term expected rate of return
Domestic Equity	25%	6.4%
International Equity	10%	6.7%
Fixed Income	64%	6.3%
Cash	1%	3.0%

The long-term expected rate of return on pension benefits was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount rate

The asset basis for the date of depletion is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, the fiduciary net position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed. The plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 2.85% and 3.80% as of June 30, 2016 and July 1, 2015, respectively. The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

Sensitivity of the Corporation proportionate share of the net pension asset to changes in the discount rate

The Corporation proportionate share of the net pension liability calculated using the discount rate of 2.85% amounts to $297,446,426. The ERS do not provide information to disclose what the Corporation's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1% point lower (1.85%) or 1% point higher (3.85%) than the current rate.

Pension Plan fiduciary net position

Detailed information about the pension plan's fiduciary net position as of June 30, 2016 is available in the separately issued ERS's financial report.

This space is intentionally left in blank.

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, 2017, 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
$ 42,993	$-0-	$7	$42,986

This space is intentionally left in blank.

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, 2017, 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, 2017, 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; said agreement was extended until June 30, 2017. On April 29, 2017 Public Law 26 known as "Fiscal Plan Compliance Law" suspended all economic clauses on collective bargain and no extension has been approved.

NOTE 11- GOING CONCERN, UNCERTANTIES AND LIQUIDITY RISK

As shown in the accompanying financial statements, the Corporation has incurred in accumulated losses in the amount of $9.2 million and as of June 30, 2017 the Corporation's liabilities exceeded its assets by approximately $9.2 million. In addition, at June 30, 2017 the Corporation has a working capital deficiency of approximately $418,568 making difficult for the Corporation to pay its liabilities in the normal course of business. These facts indicates that the Corporation needs the continued support from the Commonwealth of Puerto Rico in the form of operating grants to continue to operate at its present level and to continue as a going concern.

This space is intentionally left in blank.

The Commonwealth of Puerto Rico is currently experiencing a severe fiscal and liquidity crisis. The Commonwealth and its instrumentalities face a number of fiscal and economic challenges that, either individually or in the aggregate, could adversely affect their ability to pay debt service and other obligations when due. The Commonwealth is currently considering a number of emergency measures that could affect the rights of creditors. Recipients of these financial statements should be advised that to the extent that the Commonwealth or any entities related to the Commonwealth such as the Corporation are unable to materially improve their financial position in the immediate future, such entities and/or the Commonwealth may need to seek relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights, to the extent available.

<u>Remediation Plan</u>

Commonwealth's component unit self-sufficiency is an aspect encompassed in the remediation plan presented by the Commonwealth to face its fiscal, economic and liquidity crisis.

The following measures are being taken by management to attend the economic situation:

1. Rent expense have been reduced to zero by moving central office to a facility provided by Department of Agriculture at no cost;

2. Steps are being taken with two insurance corporations in order to increase insurance income provided by agricultural structures insurance;

3. Insurance coverage cost in coffee, banana and plantain have been increased;

4. A reduction in agricultural area space requirements in order to be eligible for insurance coverage has been made in order to increase insurance income by making insurance coverage available to more farmers;

5. Roster of employees have been reduced and a reassignment of function to existing employees have taken place in order to reduce payroll costs.

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 have 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- PROMESA

On June 30, 2016, the US President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component unit access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In board terms PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the operation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

First, to ensure fiscal and economic discipline, PROMESA creates a federally appointed oversight board that has plenary Corporation over Puerto Rico's finances. The board's primary function is to provide fiscal oversight through the development and approval of fiscal plants and budgets, and to enforce compliance with those plans and budgets through broad based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The board also has oversight over legislative processes because PROMESA requires the board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The board also has Corporation in review contracts to ensure compliance with the plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

Second, the enactment of PROMESA also operates as bread-based stay on litigation, applicable to all entities, whit respect to claims related to Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions.

Finally, PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. This method has benefit such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the US Bankruptcy Code. This process includes the so-called "cram-down" power, which may provide Puerto Rico whit flexibility in debt adjustment, but it also gives the oversight board total control over the adjustment process and includes certain provisions designed to protect creditor interest. On August 31, 2016, the US President amounted the appointment of seven members to the Oversight Board.

PROMESA also has responsibilities to prevent and maintain federally funded mass transportation assets.

NOTE 14- RESTATEMENT OF NET POSITION

During 2017 the Corporation identified various errors related to prior year financial statements, including the application of the guidance in GASB No. 68 and No. 71, which resulted in restatements of the beginning net position of the Corporation's financial statements. The impact of these adjustments in the beginning net position is described as follows:

This space is intentionally left in blank.

Description		
Net position at July 1, 2016, as previously reported	$	(1,053,535)
Impact of implementation of GASB Statements No. 68 and No. 71:		
Recognition of beginning net pension liability		(10,868,281)
Recognition of deferred outflows of resources for pension contributions made after measurement date		2,627,631
Recognition of deferred inflows of resources for		(188,524)
Correction of error		439,112
Net position at July 1, 2016 as restated	$	(9,043,597)

NOTE 15- SUBSEQUENT EVENTS

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 crops had had until September 15, 2017 to submit the claim for damages to the Corporation. On September 20, 2017 Hurricane María impacted the island causing damages to insured crops, in 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