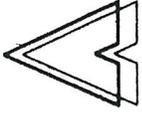


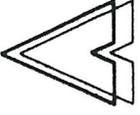
COMMONWEALTH OF PUERTO RICO  
 AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2011



	TOTAL CURRENT YEAR
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 8,947,253
Receivables	
Trade	3,230,074
Governmental entities	16,752,357
Due from other funds	237,663,093
Loans and notes receivables	55,000
Other	447,722
Allowance for doubtful accounts	(7,456,486)
Inventory, net of inventory reserve of \$398,006	10,095,355
Inventory of supplies	434,154
Prepaid expenses	20,976
<b>Total current assets</b>	<b>270,189,498</b>
<b>NON-CURRENT ASSETS:</b>	
Property, plant and equipment, net	15,635,535
<b>Total non-current assets</b>	<b>15,635,535</b>
	<b>\$ 285,825,033</b>
<i>Confidential</i>	
<b>CURRENT LIABILITIES:</b>	
Line of credit	\$ 6,955,429
Accounts payable	
Trade	11,455,106
Farmers	269,920
Due to other funds	365,285,854
Unearned revenues	
Accrued compensated absences	17,272,714
Accrued expenses - others	682,698
<b>Total current liabilities</b>	<b>401,921,721</b>
<b>NET ASSETS:</b>	
Unrestricted	(116,096,688)
<b>Total net assets</b>	<b>(116,096,688)</b>
<b>Total liabilities and net assets</b>	<b>\$ 285,825,033</b>

See notes to financial statements

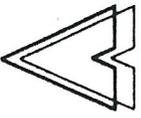
COMMONWEALTH OF PUERTO RICO  
 AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND  
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	<b>2011</b>
<b>Revenues</b>	
Sales of goods and services	\$ 75,180,341
<b>Expenses</b>	
Cost of goods sold and services	75,034,045
Operating expenses	4,077,919
Administrative expenses	30,364,950
Depreciation	1,305,409
Total operating expenses	110,782,323
<b>Operating income (loss)</b>	<b>(35,601,983)</b>
<b>Non-operating revenues (expenses)</b>	
Interest (net of interest income of \$40,356)	(57,068)
Total non operating expenses-net	(57,068)
<b>Loss before contributions and transfers</b>	<b>(35,659,051)</b>
Legislative appropriations	9,706,677
Transfers in from other funds	2,278,076
Operating transfers to other funds	(6,217,239)
	5,767,513
<b>Change in net assets</b>	<b>(29,891,537)</b>
<b>Total net assets, beginning</b>	<b>(86,205,151)</b>
<b>Total net assets, ending</b>	<b>\$ (116,096,688)</b>

*Confidential*

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

**Organization and Reporting Entity**

The Administracion para el Desarrollo de Empresas Agricolas (“ADEA”) is an instrumentality of the Commonwealth of Puerto Rico, created by Law No. 5, July 1, 1994 (the Law) in accordance with a Reorganization Plan for the Department of Agriculture (the Department). ADEA was created to provide a wide variety of services and incentives to the agricultural sector. The Law transferred to the ADEA certain duties and responsibilities of the Department, including personnel, property and funds.

The ADEA Administrator is the Secretary of Agriculture who is appointed by the Governor of Puerto Rico with the consent of the Puerto Rico Senate. As a component unit of the Department, ADEA is also included within the Department’s reporting entity.

The general purpose financial statements presents, the financial position of the different fund types of the Agricultural Services and Development Administration.

Effective July 29, 2010, under Reorganization Plan No. 4 of 2010, the “**Corporacion de Desarrollo Rural**”, ceased to exist and most of its funds, materials, and employees were transferred to the **ADEA**, specifically, the administration of the infrastructure projects assigned by the Puerto Rico Legislature. **ADEA** continues to operate under the Puerto Rico Department of Agriculture’s umbrella and will continue to provide in an integrated manner all services and programs requested by farmers in Puerto Rico.

Confidential

**Government-wide and Fund Financial Statements**

The government –wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by legislative appropriations, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support to third parties.

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

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

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Significant Accounting Policies

The accounting policies of ADEA conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant accounting policies:

*a. Basis of Accounting and Presentation-Fund Accounting*

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

*b. Measurements focus, basis of accounting, and financial statement presentation*

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

GOVERNMENTAL FUND TYPES

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, ADEA considers revenues to be available if they are collected within 60 days at the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, under accrual accounting. However, expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

The following are the ADEA's governmental fund types:

General Fund

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

Special Revenue Fund

The special revenue fund is established to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Fund

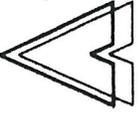
Proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal operations.

Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

This fund is used to account for activities that are similar to those found in the private sector where net income and capital maintenance are measured. The fund included in this category is the Enterprise Fund.

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Enterprise Fund – This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing services goods to the general public on a continuing basis be financed or recovered primarily through user charges.

*Included in the Enterprise Fund are the following programs:*

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

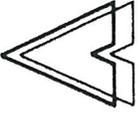
Statutory (Budgetary) Accounting

Formal budgetary accounting is employed as a management control for all funds of ADEA. Annual operating budgets are adopted each fiscal year through an annual budget ordinance and amended as required for the General, Special Revenue and Proprietary Funds. The same accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principles basis. Budgets for certain Special Revenue Funds are made on a project basis, spanning more than one fiscal year. Budgetary control is exercised at the departmental level or by projects. All unencumbered budget appropriations, except project budgets, lapse at the end of each fiscal year.

The budget for ADEA is approved by the Legislature of the Commonwealth of Puerto Rico for the General, Special Revenue and Proprietary Funds. The annual budget is adopted in accordance with a statutory basis of accounting which is not in accordance with generally accepted accounting principles (GAAP). The actual results of operations are presented in the Statement of Revenues and Expenditures – Budget and Actual-All Governmental Funds on the budgetary basis to provide a comparison of actual results with the budget.

The principal differences between GAAP, the budgetary basis, and the necessary adjustments to convert the results of operations of the general and special revenue funds from the GAAP basis of accounting to the budgetary basis of accounting are as follows:

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	June 30, 2010	
	General Fund	Special Revenue Fund
Excess of revenues and other sources over expenditures (expenditures and other uses over revenues) - GAAP basis	(\$14,214,918)	\$2,347,496
Current year-operating transfer-in	5,192,679	10,306,554
Current year-operating transfer-out	(1,006,687)	(3,627,774)
Excess of expenditures over revenues - budgetary basis	\$ 4,185,992	\$ 6,678,779

**CASH**

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

**ACCOUNTS RECEIVABLE**

*Confidential*

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

**DUE TO AND DUE FROM OTHER FUNDS**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds/(i.e. the current portion of inter-fund loans).

**INVENTORIES AND PREPAID ITEMS**

All inventories are valued at cost using the first-on/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**CAPITAL ASSETS**

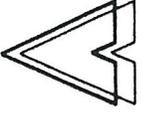
Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets lives is not capitalized

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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Donated capital assets are recorded at estimated fair market value at the date of donation. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives.

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

#### LONG-TERM OBLIGATIONS

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

#### FUND EQUITY

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

#### COMPENSATED ABSENCES

The employees of ADEA are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time accumulated 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 of sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of 90 days.

As per Law Number 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employee has the right to accumulate the excess of 60 and 90 days in vacation and sick leaves, respectively, until December 31st of each year. The excess should be paid to the employee before March 31<sup>st</sup> of the following year.

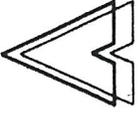
Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the statement of net assets.

#### USE OF ESTIMATES

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from those estimates.

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ACCOUNTING FOR PENSION COSTS

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

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

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

ACCOUNTING STANDARDS

Pursuant to Governmental Accounting Standards board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", ADEA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board including those issued after November 30, 1989.

RISK MANAGEMENT

ADEA is exposed to different risks of loss from <sup>financial</sup> theft, damage to, and destruction of assets, error and omissions, employee injuries and illnesses, natural disasters and other losses. Commercial insurance coverage is obtained for claims arising from such matters. The commercial insurance coverage and the premium are negotiated by the department of Treasury of the Commonwealth of Puerto Rico. The cost is paid by the Department of Treasury of Puerto Rico and reimbursed by ADEA.

TOTAL COLUMNS

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

NOTE 2 DEPOSITS

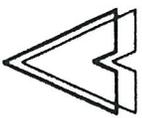
ADEA is authorized to deposit only on institutions approved by the Department of Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of ADEA.

The ADEA's deposits in commercial banks are collateralized by the Federal Deposit Insurance Corporation or by securities pledged with the Department of the Treasury of the Commonwealth of Puerto Rico. The amounts deposited in the Government Development Bank are uncollateralized. Cash in the special revenue fund, is restricted for the payment of incentives to farmers.

At June 30, 2011, the ADEA's deposits had a carrying amount of \$ 32,314,098, and a bank balance of \$ 42,861,213. Of the commercial bank balance of \$ 19,173,856, only \$ 500,000, is insured by federal deposit insurance.

For deposits, custodial credit risks is the risk that in the event of the failure of a depository financial institution, ADEA will not be able to recover deposits or recover collateral securities that are in the possession of an outside party. The ADEA remaining \$ 18,673,856, bank balance is uninsured or uncollateralized. ADEA has no policy on custodial credit risk.

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**NOTE 3 INTERGOVERNMENTAL ACCOUNTS RECEIVABLE**

Intergovernmental accounts receivable result primarily from the sale of goods or services to agencies and departments of the Government of Puerto Rico.

**NOTE 4 CONCENTRATION OF CREDIT RISK**

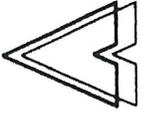
The financial instruments that potentially subject ADEA to a concentration of credit risk are its cash and accounts receivable. The accounts receivable balances as of June 30, 2011 were mainly from farmers and governmental entities. ADEA generally does not require collateral and credit losses are provided for currently through the allowance for doubtful accounts.

**NOTE 5 INVENTORY**

The inventory balance by location as of June 30, 2011 was as follows:

<u>Location</u>	<u>Valuation</u>
<b><u>Coffee</u></b>	
Yahuecas - Adjuntas	\$ 8,871,347
<b><u>Other</u></b>	
Merchandise for sale at stores in Caguas, Cayey and seed and limestone programs <sup>Confidential</sup>	<u>1,622,014</u>
Allowance to reduce the inventory to its estimated net realizable value	<u>(398,006)</u>
	<u>\$ 10,095,355</u>

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**NOTE 6 PROPERTY, PLANT AND EQUIPMENT**

The activity for the investment in the general fund for the fiscal year ended June 30, 2011, was as follows:

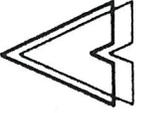
	Balance June 30, 2010	Additions and Adjustments	Retirements and Adjustments	Balance June 30, 2011
Land	\$ 546,678	-	-	\$ 546,678
Building	2,086,576	28,549	-	2,115,125
Building improvements	14,698,582	162,681	7,341	14,853,922
Equipment	11,850,297	-	190,073	11,660,224
Furniture and fixtures	2,860,693	13,905	-	2,874,598
Automobiles	1,139,914	-	142,554	997,360
Other	80,799	628	-	81,427
<b>Total</b>	<u>33,263,539</u>	<u>205,763</u>	<u>\$ 339,968</u>	<u>33,129,334</u>
Less: Accumulated depreciation	11,427,095			11,681,513
Property and equipment, net	<u>\$ 21,836,444</u>			<u>\$ 21,447,821</u>

The activity for the investment in the proprietary fund for the fiscal year ended June 30, 2011, was as follows:

*Confidential*

	Balance June 30, 2010	Additions and Adjustments	Retirements and Adjustments	Balance June 30, 2011
Land	\$ 3,109,304	-	-	\$ 3,109,304
Building	13,559,973	-	7,342	13,552,631
Building improvements	1,516,195	314,445	-	1,830,640
Machinery and equipment	8,034,957	757,618	297,495	8,495,080
Furniture and fixtures	1,119,545	138,047	-	1,257,592
Motor vehicles	6,008,026	-	123,199	5,884,827
<b>Total</b>	<u>33,348,000</u>	<u>\$ 1,210,110</u>	<u>\$ 428,036</u>	<u>34,130,074</u>
Less: Accumulated depreciation	17,408,850			18,494,539
Property and equipment, net	<u>\$ 15,939,150</u>			<u>\$ 15,635,535</u>

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**NOTE 7 OPERATING LEASE AGREEMENTS**

ADEA is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and therefore, the results of the lease agreements are not reflected in the account groups.

Total net rent expenditure for the year ended June 30, 2011 was \$ 778,075, in the general fund.

The following schedule shows the composition of total future rental expenditures for all operating leases, except those with terms of a month or less that were not renewed:

<b>Year ending June 30,</b>	<b>Amount</b>
2012	\$ 112,128
2013	\$ 112,128
2014	\$ 112,128
2015	\$ 112,128
2016 and thereafter	\$ 155,507
	\$ 604,021

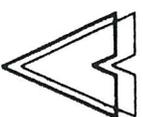
**NOTE 8 LINES OF CREDIT**

ADEA has a \$ 67,000,000, and a \$ 65,000,000, non-revolving lines of credit with the Governmental Development Bank; \$ 15,000,000, and a \$ 20,000,000, revolving lines of credit with First Bank of Puerto Rico; and \$ 5000,000, operating and a \$14,478,600, non-revolving line of credit with the “Fondo Integral para el Desarrollo Agricola (FIDA)”. Confidential

The Governmental Development Bank line of credit of \$67,000,000, loan contract was amended on February 1, 2010 as to interest rate and an additional source of repayment. The facility is due on June 30, 2020, at 7% rate or at the interest rate the Governmental Development Bank may determine and is payable in annual installments, including interest. The annual payments will be determined by the Governmental Development Bank and the the Governor’s Office of Budget and Management with the designation of legislative appropriations from the General Fund or with funds from the issuance or the commitment to issue bonds by the “Corporacion del Fondo de Interes Apremiante de Puerto Rico (COFINA)”. During the year ended June 30, 2011, COFINA paid \$ 615,192, for principal on this line. As of June 30, 2011, ADEA had \$ 48,548,204, outstanding on this line of credit.

The Governmental Development Bank line of credit of \$65,000,000, is due on June 30, 2030, and is now payable in monthly installments of \$500,000, including interest at 2.43%. The annual payments will be determined by the Governmental Development Bank and the the Governor’s Office of Budget and Management with the designation of legislative appropriations from the General Fund. The interest will be computed, with a variable interest, on a daily basis and will be reviewed on a quarterly basis on the first day of January, April, July and October of each year. The interest rate is stated at Prime plus 1.5 % and will not be greater than 12% but not less of 5%. During the year ended June 30, 2011, COFINA paid \$ 3,420,951, for principal on this line, without a formal commitment. As of June 30, 2011, ADEA had \$ 50,933,972, outstanding on this line of credit.

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The First Bank of Puerto Rico lines of credit of \$15,000,000 and \$20,000,000, are used for the coffee purchase program and the school lunch program, respectively. The coffee purchase line has a first lien over all coffee inventories stored at ADEA's warehouses and a first priority assignment of all coffee accounts receivable. The maturity date of the line of credit is October 31, 2009; an extension has been granted by First Bank until March 31, 2010, and then re-extended to September 2, 2010, new lines of credit agreements were signed at that date under ADEA. The lines now have a revolving loan maturity date of December 31, 2011. Negotiations are being finalized as of the date of the financial statements.

The interest rate is defined at prime plus applicable margin. At June 30, 2011, ADEA had \$ 5,479,757, outstanding on the school lunch program line of credit.

The FIDA facility was renegotiated on June 30, 2011. The facility is now to be paid off by June 30, 2016, and will be amortized into six (6) equal annual installments of \$ 2,407,367, at a fixed interest of 6.0%. The first installment is due December 1, 2010. The line of credit agreement provides for certain events of default including lack of payment of principal and interest, forfeiture of any properties included as part of the guarantees, insolvency or bankruptcy, false representation and non-compliance with the terms and conditions of the note. At June 30, 2011, ADEA had \$ 5,000,000, and \$ 9,941,068, outstanding on these lines of credit

**NOTE 9 RETIREMENT SYSTEM**

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

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

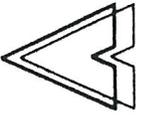
Members who have attained at least fifty five (55) years of age and have completed at least twenty (25) years of creditable service or members who have attained fifty eight (58) years of age and have completed at least ten years of creditable service, are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will the annuity be less than \$200 per month.

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

Commonwealth legislation requires employees hired on or before March 31, 1990 to contribute 5.75% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. Employees hired on or after April 1, 1990, are required to contribute 8.275% of their monthly salary. ADEA is required by the same statute to contribute 9.275% of the participant's gross salary.

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

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

ADEA is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

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

Employer contributions, which represented 100% of the required contributions, amounted to approximately \$ 2,137,280, \$ 2,388,389, \$ 2,539,901, in 2011, 2010, and 2009, respectively. In addition, ADEA owes the Retirement System \$ 1,010,722, in cost-of-living adjustment for its employees during the year 2010; this amount is included in the payment with the Retirement System.

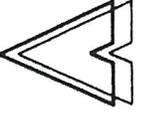
In addition, Act 70 of July 2, 2010, created a government-wide program whereby eligible employees could voluntarily retire or end their employment in exchange for early retirement pension benefits or other economic incentives. To provide for the benefits of its participating employees ADEA had to record a liability and expense in the amount of \$ 19,369,612.

Additional information on the Retirement System is provided in its financial statements for the years ended June 30, 2011, a copy of which may be obtained from:

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

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**NOTE 10 FUND BALANCE**

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not available for future expenditures.

**NOTE 11 CONTINGENCIES**

ADEA is presently a defendant as well as plaintiff in a number of lawsuits. The outcome of these cannot be readily determined and estimated at this time according to outside counsel evaluations. However, to date all significant adverse judicial decisions have had the monies to satisfy them provided by the Governor's Office of Budget and Management without negatively impacting ADEA's financial position.

ADEA purchases imported coffee from Mexico and the Dominican Republic through open bids.

ADEA records said liability upon the arrival of a shipment in Puerto Rico. As of June 30, 2011, ADEA had outstanding commitments of \$ 3,845,000 in undelivered coffee.

ADEA, as an integral part of its legislated duties, disburses monies to bonafide and participating farmers for subsidies as social security, unemployment, workmen's compensation, crop insurance, and other financial assistance programs. As of June 30, 2011, the government agency that insures workers claims ADEA owes \$6,881,000, for credits granted to bonafide farmers (only) applied to the annual workmen's compensation insurance premiums. ADEA'S Financial Statements include \$ 3,800,000, as a liability, for ADEA claims it has paid this credit directly <sup>Confidential</sup> participating farmers. The Agencies will commence a process to reconcile the amounts due.

**NOTE 12 GOING CONCERN**

The accompanying financial statements reflect net income of \$ 30,894,000 (rounded) for the year ended June 30, 2011 and, as of that date, the liabilities exceed the assets by \$ 105,434,000.

The ability of ADEA to continue as a going concern depends on the success of several plans to increase revenues, reduce the budget for payroll and other operating expenses.

**NOTE 13 OTHER MATTERS**

On April 13, 2011, the Governor of Puerto Rico signed Executive Order OE-2011-014, thereby assigning \$ 4 million to ADEA for the Coffee Crop Improvement Program. As of June 30, 2011, ADEA had yet to receive monies from this re-assignment. ADEA will record the expenditures when disbursed and record the assignment when the funds are reimbursed by the Government Development Bank

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