



**AGRICULTURAL SERVICES AND  
DEVELOPMENT ADMINISTRATION  
A COMPONENT UNIT OF THE DEPARTMENT OF AGRICULTURE  
OF THE  
COMMONWEALTH OF PUERTO RICO  
General Purpose Financial Statements  
with  
Independent Auditor's Report  
For the year ended June 30, 2009**

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**Certified Public Accountants**

**Virgilio Vega, III, CPA**

Licensed to Practice:

Florida

Puerto Rico

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

**Independent Auditor's Report**

I have audited the accompanying general purpose financial statements of ASDA of the Agricultural Services and Development Administration, a component unit of the Department of Agriculture of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009. These general purpose financial statements are the responsibility of the Agricultural Services and Development ASDA's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with the generally accepted auditing standards in the United States of America and the standards applicable to by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above, present fairly, in all material respects, the financial position of the Agricultural Services and Development Administration as of June 30, 2009 and the results of its operations of its proprietary fund type activities for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The opening fund balance of the Proprietary Fund as of June 30, 2009 has been restated as discussed in Note 13 of the general purposes financial statements.

The accompanying financial statements have been prepared assuming that the ASDA will continue as a going concern. As discussed in Note 14 to the financial statements, ASDA's significant operating losses raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the presentation of the supplementary information. However, I did not audit this information and do not express an opinion on it.

San Juan, Puerto Rico  
January 31, 2010

by: Virgilio Vega, III

Stamp No. 2265245 of the Puerto Rico College  
of Certified Public Accountants  
was affixed to the original of this report



## MANAGEMENT'S DISCUSSION AND ANALYSIS

ASDA's financial performance for the fiscal year ended in June 30, 2009, is discussed and analyzed by management within the context of the accompanying General Purpose Financial Statements and disclosures following this section.

### Financial Highlights

For the fiscal year 2009, the ASDA's liabilities exceeded its assets by \$ 123,000,000. For the year ended June 30, 2008, liabilities exceeded assets by \$110,000,000. This decrease in net assets, as well as other important facts concerning the financial performance of ASDA is outlined hereinafter.

The ability of ASDA to continue as a going concern is dependent on the Costs Control and Positions Freeze Plan, which was placed in action effective January 2009. This Plan is geared to the reduction of the annual operating deficit; it entails:

- Controlling the purchases of pesticides and using on the on-hand inventories
- Intensifying collection efforts with both, farmers and other government clients of goods and services
- Minimizing the on-hand coffee inventory and paying off the related line of credit; effectively reducing this inventory carrying costs in warehousing and interest costs. This has already been accomplished by June 30, 2009
- Increasing revenues from the sale of semi-roasted coffee
- Sale of real property, land and facilities, not in use

### Overview of the Financial Statements

This management discussion and analysis is intended to serve as an interpretation of the ASDA's basic financial statements. The ASDA's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, such as this analysis, in addition to the basic financial statements themselves.

### Government-wide financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the ASDA's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the ASDA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of ASDA improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only results in cash flows in future fiscal periods (e.g., earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of ASDA that are principally supported by legislative appropriations (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and revenues from sales (business-type activities). The governmental activities of ASDA include the general administrative operations. The business-type activities of ASDA include the purchase and sales of different kind of agricultural products like coffee, chicken meat, vegetables and others. Other business-type activities include different kinds of agricultural services given for low fees.



### **Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. ASDA uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of ASDA can be divided into two categories: governmental funds and proprietary funds.

*Governmental funds* - governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

ASDA maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the special revenues fund.

ASDA adopts an annual appropriated budget for its general fund and for the special revenues fund. A budgetary comparison statement has been included herein providing a picture of operating results.

*Proprietary funds* - ASDA maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. ASDA uses enterprise fund to account for fourteen different programs which cover of purchase and sales of agricultural products and direct agricultural services like rent of machinery and equipments among others. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The major programs of such fund are the operation of the Coffee Program and the Marketing Programs.

*Notes to the financial statements* - The notes to the financial statements provide additional management information essential to a full understanding of the operating results of the government-wide and fund financial statements.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of ASDA, liabilities exceeded assets by \$123 million at June 30, 2009.

The largest portion of ASDA total assets of \$580 millions reflects an investment of \$39.8 million (7% of total assets) in capital assets e.g., land, buildings, machinery). ASDA uses these capital assets to provide their different agricultural services; consequently, these assets are not available for future spending. The ASDA's investment in its capital assets is reported net of related depreciation.



**Agricultural Services and Development Administration's Net Assets**  
(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Assets:</b>						
Cash	12,509	11,845	15,281	6,903	27,790	18,748
Receivables	307,569	266,950	198,792	226,809	506,361	493,759
Inventories	96	86	5,041	16,694	5,137	16,780
Property	23,059	21,657	16,714	16,796	39,773	38,452
Others	1,303	1,248	16	15	1,319	1,264
Total assets	344,536	301,786	235,844	267,217	580,380	569,003
<b>Liabilities:</b>						
Accounts payable	218,297	175,425	300,732	322,418	519,029	497,843
Accrued expenses	24,439	19,366	8,041	6,272	32,480	25,638
Lines of credit	139,147	139,200	12,830	16,444	151,977	155,644
Others	-	-	236	236	236	236
Total liabilities	381,883	333,991	321,839	345,370	703,722	679,361
<b>Net Assets (deficit)</b>	<b>\$ (37,347)</b>	<b>\$ (32,205)</b>	<b>\$ (85,995)</b>	<b>\$ (78,153)</b>	<b>\$ (123,342)</b>	<b>\$ (110,358)</b>

ASDA serves as an intermediary for the Department of Education's School Lunch Program. ASDA purchases the food and sells it (at cost) to the Department of Education. To finance this service, ASDA has a non-revolving line of credit with the Governmental Development Bank of Puerto Rico.

Another of ASDA's main responsibilities is the Coffee Purchase and Sales Program. During 2009, ASDA increased the purchases of domestic coffee and relied less on imports from the Dominican Republic; this situation has impacted negatively the profit margin of this program which was used to finance other non profitable operations or services of ASDA. To cover the purchases of coffee from Dominican Republic, ASDA has a non-revolving line of credit with GDB.



**Agricultural Services and Development Administration's Changes in Net Assets**  
(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
Legislative funds	\$ 61,425	\$ 83,111	\$ 13,152	\$ 9,567	\$ 74,577	\$ 92,678
Sales and services		-	83,905	65,060	83,905	65,060
Transfers in	24,295	26,713	20,911	30,507	45,206	57,220
Others	24,890	10,521	165	91	25,055	10,612
Total revenues	110,610	120,345	118,133	105,225	228,743	225,570
<b>Expenses:</b>						
Incentives	77,266	57,592	-	-	77,266	57,592
Cost of good sold		-	71,721	62,095	71,721	62,095
Transfer out	5,942	20,288	18,608	17,248	24,550	37,536
Operating	19,954	20,747	30,796	39,116	50,750	59,863
Depreciation	-		1,244	864	1,244	864
Interest	4,634	10,033	444	578	5,078	10,611
Total expenses	107,796	108,660	122,813	119,901	230,609	228,561
Changes in net assets	\$ 2,814	\$ 11,685	\$ (4,680)	\$ (14,676)	\$ (1,866)	\$ (2,991)



### Capital Asset and Debt Administration

ASDA's investment in capital assets for its governmental and business type activities as of June 30, 2009, includes land, buildings, improvements, machinery and equipment, and furniture. Additional information on the ASDA's capital assets can be found in the notes to the financial statements.

#### Agricultural Services and Development Administration's Capital Assets (amounts expressed in thousands)

Description:	Governmental		Business-type		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 547	\$ 537	\$ 3,109	\$ 1,907	\$ 3,656	\$ 2,444
Buildings	2,013	1,910	13,553	13,990	15,566	15,900
Buildings improvements	4,880	4,836	1,283	1,429	6,163	6,265
Equipment	12,414	13,973	7,912		20,326	13,973
Furniture and fixtures	2,911	2,549	412	968	3,323	3,517
Automobiles	1,147	1,342	6,848	6,834	7,995	8,176
Machinery & equipment		-		7,907	-	7,907
Others	84	87			84	87
Total capital assets	23,996	25,234	33,117	33,035	57,113	58,269
Accumulated depreciation	11,165	12,063	16,403	16,239	27,568	28,302
Total net capital assets	12,831	13,171	16,714	16,796	29,545	29,967

#### Requests for Information

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

ASDA's Office of Finance Affairs

P.O. Box 9200

San Juan, Puerto Rico 00908-0200 or at (787) 724-8494 ext. 2601



COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION

STATEMENT OF NET ASSETS  
JUNE 30, 2009

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash	\$ 12,508,960	\$ 15,280,501	\$ 27,789,461
Receivables			
Trade	3,042,958	5,753,034	8,795,992
Governmental entities	-	20,981,994	20,981,994
Farmers(special revenue fund)	4,472,268	-	4,472,268
Due from other funds	302,999,371	179,439,790	482,439,161
Legislative appropriations	48,977	-	48,977
Loans and note receivable	6,443,527	55,000	6,498,527
Other	54,559	14,831	69,390
Allowance for doubtful accounts	(2,281,817)	(7,452,456)	(9,734,273)
Inventory-net of inventory reserve of \$398,006	-	4,166,272	4,166,272
Inventory of supplies	96,942	874,939	971,881
Prepaid expenses	1,302,494	15,976	1,318,470
<b>Total current assets</b>	<u>328,688,239</u>	<u>219,129,881</u>	<u>547,818,120</u>
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment-net	23,058,817	16,714,428	39,773,245
Deposit	-	-	-
<b>Total non-current assets</b>	<u>23,058,817</u>	<u>16,714,428</u>	<u>39,773,245</u>
<b>Total assets</b>	<u>\$ 351,747,056</u>	<u>\$ 235,844,309</u>	<u>\$ 587,591,365</u>
<b>CURRENT LIABILITIES:</b>			
Line of credit	\$ 11,568,669	\$ 12,829,906	\$ 24,398,575
Accounts payable			
Trade	15,559,848	9,946,597	25,506,445
Farmers	-	134,081	134,081
Other	451,772	-	451,772
Due to governmental entities	10,879,045	2,700,840	13,579,885
Due to other funds	191,407,080	287,950,673	479,357,753
Unearned revenue	-	235,679	235,679
Accrued compensated absences	15,189,139	7,491,145	22,680,284
Accrued expenses- others	9,249,564	550,036	9,799,600
<b>Total current liabilities</b>	<u>254,305,117</u>	<u>321,838,957</u>	<u>576,144,074</u>
<b>NON-CURRENT LIABILITIES:</b>			
Line of credit	127,578,254	-	127,578,254
<b>Total non-current liabilities</b>	<u>127,578,254</u>	<u>-</u>	<u>127,578,254</u>
<b>Total liabilities</b>	<u>381,883,371</u>	<u>321,838,957</u>	<u>703,722,328</u>
<b>NET ASSETS</b>			
Unrestricted, restated (see note 13)	(30,136,315)	(85,994,648)	(116,130,963)
<b>Total net assets</b>	<u>(30,136,315)</u>	<u>(85,994,648)</u>	<u>(116,130,963)</u>
<b>Total liabilities and net assets</b>	<u>\$ 351,747,056</u>	<u>\$ 235,844,309</u>	<u>\$ 587,591,365</u>

COMMONWEALTH OF PUERTO RICO  
 AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION

STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2009

	Expenses	Charges for services	Legislative Appropriations	Governmental Activities	Business type Activities	Total
<b>Functions/Programs</b>						
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
Incentives and subsidies	77,266,325	24,890,774	56,630,000	4,254,449		4,254,449
Payroll and related expenses	13,446,600		-	(13,446,600)		(13,446,600)
Administrative and operating expenses	11,886,902		4,795,000	(7,091,902)		(7,091,902)
<b>Total governmental activities</b>	<u>102,599,827</u>	<u>24,890,774</u>	<u>61,425,000</u>	<u>(16,284,053)</u>	<u>-</u>	<u>(16,284,053)</u>
<b>Business-type activities:</b>						
Cost of good sold and services	71,720,594	84,069,504	13,152,000		25,500,910	25,500,910
Administrative and operating expenses	32,483,022				(32,483,022)	(32,483,022)
<b>Total business-type activities</b>	<u>104,203,616</u>	<u>84,069,504</u>	<u>13,152,000</u>	<u>-</u>	<u>(6,982,112)</u>	<u>(6,982,112)</u>
<b>Total primary government</b>	<u>206,803,443</u>	<u>108,960,278</u>	<u>74,577,000</u>	<u>(16,284,053)</u>	<u>(6,982,112)</u>	<u>(23,266,165)</u>
			Transfer in (out):			
			Other funds	(2,008,778)	2,302,463	293,685
			Other agencies	20,361,023	-	20,361,023
			Total of transfers	18,352,245	2,302,463	20,654,708
			Change in net assets	2,068,192	(4,679,649)	(2,611,457)
			Net assets beginning, restated (see note 13)	(32,204,507)	(81,314,999)	(113,519,506)
			Net assets ending	(30,136,315)	(85,994,648)	(116,130,963)





COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>			
Cash	\$ 7,994,436	\$ 4,514,524	\$ 12,508,960
Receivables			
Trade	3,042,958	-	3,042,958
Farmers (special revenue fund)	-	4,472,268	4,472,268
Due from other funds	59,058,252	160,736,230	219,794,482
Legislative appropriations	-	48,977	48,977
Loans and notes receivables	3,833,941	2,609,586	6,443,527
Other	54,559	-	54,559
Allowance for doubtful accounts	(327,658)	(1,954,159)	(2,281,817)
Inventory of supplies	96,942	-	96,942
Prepaid expenses	1,164,312	138,182	1,302,494
<b>Total assets</b>	<u>\$ 74,917,742</u>	<u>\$ 170,565,608</u>	<u>\$ 245,483,350</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable			
Trade	\$ 3,453,692	\$ 12,106,156	\$ 15,559,848
Other	-	-	-
Due to governmental entities	4,329,645	6,549,400	10,879,045
Due to other funds	191,407,080	-	191,407,080
<b>Total liabilities</b>	<u>199,190,417</u>	<u>18,655,556</u>	<u>217,845,973</u>
<b>FUND BALANCES</b>			
Fund balance (deficit)			
Restricted	-	151,910,052	151,910,052
Unreserved	(124,272,675)	-	(124,272,675)
<b>Total fund balances (deficit)</b>	<u>(124,272,675)</u>	<u>151,910,052</u>	<u>27,637,377</u>
<b>Total liabilities and fund balances</b>	<u>\$ 74,917,742</u>	<u>\$ 170,565,608</u>	<u>\$ 245,483,350</u>

See notes to Financial Statement



COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Amount</u>
Total fund balance - total governmental funds	\$ 27,637,377
Capital assets used in governmental activities are not a current financial resources and therefore are not reported in the governmental funds balance sheet.	23,058,817
Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	83,204,889
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(164,037,398)</u>
Change in net assets of governmental activities	<u>\$ (30,136,315)</u>



COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
(DEFICIT)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
<b>Revenues</b>			
Legislative appropriations from from the Commonwealth of Puerto Rico	\$ 4,795,000	\$ 56,630,000	\$ 61,425,000
Interest	181,548	20,498	202,046
Rent income	394,335	-	394,335
Other	3,825,089	20,469,304	24,294,393
<b>Total revenues</b>	<u>9,195,972</u>	<u>77,119,802</u>	<u>86,315,774</u>
<b>Expenditures</b>			
Incentives, subsidies and other services	-	77,266,325	77,266,325
Payroll, payroll taxes and fringe benefits	13,446,600	-	13,446,600
Repairs and maintenance	105,529	-	105,529
Rent of buildings and equipment	559,352	50,700	610,052
Utilities	2,436,485	-	2,436,485
Professional services	1,876,633	-	1,876,633
Insurance	120,000	-	120,000
Supplies	-	-	-
Interest	4,633,789	-	4,633,789
Capital outlays (additions)	-	-	-
Other	1,288,532	69,587	1,358,119
<b>Total expenditures</b>	<u>24,466,920</u>	<u>77,386,612</u>	<u>101,853,532</u>
<b>Excess of expenditures over revenues</b>	(15,270,948)	(266,810)	(15,537,758)
<b>Other financing sources (uses)</b>			
Transfers in from other funds	133,421	3,800,494	3,933,915
Transfers (out) to other funds	(3,939,995)	(2,002,698)	(5,942,693)
Transfers in from governmental agencies	5,000,000	15,361,023	20,361,023
Transfers (out) to governmental agencies	-	-	-
<b>Total other financing sources</b>	<u>1,193,426</u>	<u>17,158,819</u>	<u>18,352,245</u>
<b>Net change in fund balances</b>	(14,077,522)	16,892,009	2,814,487
<b>Fund balances (deficit), beginning</b>	<u>(110,195,153)</u>	<u>135,018,043</u>	<u>24,822,890</u>
<b>Fund balances (deficit), ending</b>	<u>\$ (124,272,675)</u>	<u>\$ 151,910,052</u>	<u>\$ 27,637,377</u>

See notes to Financial Statement



COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances- total governmental funds	\$ 2,814,487
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period	<u>(746,295)</u>
Change in net assets of governmental activities	<u><u>\$ 2,068,192</u></u>

COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT)  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL FUND			SPECIAL REVENUE FUND			Variance Favorable (Unfavorable)
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
Revenues							
Legislative appropriations from the Commonwealth of Puerto Rico	\$ 4,795,000	\$ 4,795,000	-	\$ 90,314,000	\$ 76,590,000	(\$13,724,000.00)	
Interest	-	181,548	181,548	-	20,498	20,498	
Rent income	-	394,335	394,335	-	-	-	
Other	256,000	3,825,089	3,569,089	-	509,304	509,304	
Total revenues	5,051,000	9,195,972	4,144,971	90,314,000	77,119,802	(13,194,198)	
Expenditures							
Incentives, subsidies and other services	-	-	-	90,314,000	77,266,324	13,047,676	
Payroll, payroll taxes and fringe benefits	1,187,000	13,446,600	(12,259,600)	-	-	-	
Repairs and maintenance	-	105,529	(105,529)	-	-	-	
Rent	223,000	559,353	(336,353)	-	50,700	(50,700)	
Utilities	100,000	2,436,485	(2,336,485)	-	-	-	
Professional services	390,000	1,876,632	(1,486,632)	-	-	-	
Insurance	-	120,000	(120,000)	-	-	-	
Supplies	61,000	-	61,000	-	-	-	
Interest	-	4,633,789	(4,633,789)	-	-	-	
Capital Outlay	10,000	-	10,000	-	-	-	
Other	3,080,000	1,288,532	1,791,468	-	69,588	(69,588)	
Total expenditures	5,051,000	24,466,920	(19,415,920)	90,314,000	77,386,612	12,927,388	
Excess of expenditures over revenues	-	(\$15,270,948)	(\$15,270,949)	\$0	(\$266,810)	(\$266,810)	





COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2009

	<u>TOTAL CURRENT YEAR</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 15,280,501
Receivables	
Trade	5,753,034
Governmental entities	20,981,994
Due from other funds	179,439,790
Loans and notes receivables	55,000
Other	14,831
Allowance for doubtful accounts	(7,452,456)
Inventory, net of inventory reserve of \$398,006	4,166,272
Inventory of supplies	874,939
Prepaid expenses	15,976
<b>Total current assets</b>	<u>219,129,881</u>
<b>NON-CURRENT ASSETS:</b>	
Property, plant and equipment, net	16,714,428
<b>Total non-current assets</b>	<u>16,714,428</u>
	<u>\$ 235,844,309</u>
<b>CURRENT LIABILITIES:</b>	
Line of credit	\$ 12,829,906
Accounts payable	
Trade	9,946,597
Farmers	134,081
Due to governmental entities	2,700,840
Due to other funds	287,950,673
Unearned revenues	235,679
Accrued compensated absences	7,491,145
Accrued expenses - others	550,036
<b>Total current liabilities</b>	<u>321,838,957</u>
<b>NET ASSETS:</b>	
Unrestricted, restated (see note 13)	<u>(85,994,648)</u>
<b>Total net assets</b>	<u>(85,994,648)</u>
	<u>\$ 235,844,309</u>

See notes to Financial Statement



COMMONWEALTH OF PUERTO RICO  
AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2009

	<u>2009</u>
<b>Revenues</b>	
Sales of goods and services	\$ 83,904,888
<b>Expenses</b>	
Cost of goods sold and services	71,720,594
Operating expenses	5,996,946
Administrative expenses	24,798,645
Depreciation	1,244,102
Total operating expenses	<u>103,760,287</u>
<b>Operating income (loss)</b>	<u>(19,855,399)</u>
<b>Non-operating revenues (expenses)</b>	
Interest (net of interest income of \$164,616)	<u>(278,713)</u>
Total non operating expenses-net	<u>(278,713)</u>
<b>Loss before contributions and transfers</b>	<u>(20,134,112)</u>
Legislative appropriations	13,152,000
Transfers in from other funds	20,910,640
Operating transfers from governmental agencies	-
Operating transfers to other funds	<u>(18,608,177)</u>
	<u>15,454,463</u>
<b>Change in net assets</b>	(4,679,649)
<b>Total net assets, beginning restated (see note 13)</b>	<u>(81,314,999)</u>
<b>Total net assets, ending</b>	<u><u>\$ (85,994,648)</u></u>



**COMMONWEALTH OF PUERTO RICO**  
**AGRICULTURAL SERVICES AND DEVELOPMENT ADMINISTRATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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

**Organization and Reporting Entity**

The Agricultural Services and Development Administration (“ASDA”) 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). ASDA was created to provide a wide variety of services and incentives to the agricultural sector. The Law transferred to the ASDA certain duties and responsibilities of the Department, including personnel, property and funds.

The ASDA 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, ASDA, is also included as part of 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.

**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.



### Significant Accounting Policies

The accounting policies of ASDA 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 ASDA 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 ASDA:

### 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, ASDA 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 ASDA's governmental fund types:

#### General Fund

This fund is established to account for resources devoted to financing the general services that ASDA provides. General revenues and other sources of revenue used to finance the fundamental operations of ASDA 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.

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 ASDA. 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 ASDA 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:

	June 30, 2009	
	General Fund	Special Revenue Fund
Excess of revenues and other sources over expenditures (expenditures and other uses over revenues) - GAAP basis	\$ (15,270,948)	\$ (266,810)
Current year-operating transfer-in	7,133,421	19,161,517
Current year-operating transfer-out	(3,939,995)	(2,002,698)
Excess of expenditures over revenues - budgetary basis	<u>\$ (12,077,522)</u>	<u>\$ 16,892,009</u>

#### CASH

ASDA 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 ASDA's cash and cash equivalents are considered to be cash on hand and demand deposits.

#### ACCOUNTS RECEIVABLE

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

#### 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.

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 ASDA 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 31st 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.

### Accounting for Pension Costs

The management of ASDA 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", ASDA 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

ASDA is exposed to different risks of loss from torts, theft of, 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 ASDA.

### Totals Column

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

ASDA 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 ASDA.

The ASDA'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, 2009, the ASDA's deposits had a carrying amount of \$4,514,524 and a bank balance of \$8,684,938 of the special revenue fund. Of the bank balance, \$500,000 was covered by federal depository insurance.

At June 30, 2009 ASDA had \$23,274,937 and a bank balance of \$23,864,166 for the proprietary fund and the general fund, respectively.

Custodial Credit Risk. For deposits, custodial credit risks is the risk that in the event of the failure of a depository financial institution, ASDA will not be able to recover deposits or recover collateral securities that are in the possession of an outside party. The ASDA's \$27,900,000 (rounded) deposits are uninsured or uncollateralized. ASDA has no policy on custodial credit risk.

### 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 ASDA to a concentration of credit risk are its cash and accounts receivable. The accounts receivable balances as of June 30, 2009 were mainly from farmers and governmental entities. ASDA 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, 2009 was as follows:

<u>Location</u>	<u>Valuation</u>
<b>Coffee</b>	
Yahuecas - Adjuntas	\$ 458,081
<b>Other</b>	
Merchandise for sale at stores in Caguas, Cayey and seed and limestone programs	4,106,197
	<hr/> 4,564,278
Allowance to reduce the inventory to its estimated net realizable value	(398,006)
	<hr/> <hr/> \$ 4,166,272

**NOTE 6 PROPERTY, PLANT AND EQUIPMENT**

The activity for the investment in the general fund for the fiscal year ended June 30, 2009 was as follows:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions and</u> <u>Adjustments</u>	<u>Retirements and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2009</u>
Land	\$ 537,077	\$ 30,000	\$ 20,399	\$ 546,678
Building	1,910,279	212,632	110,000	2,012,911
Building improvements	4,835,716	44,832	-	4,880,548
Equipment	13,972,950	519,155	2,078,489	12,413,616
Furniture and fixtures	2,548,911	361,785	-	2,910,696
Automobiles	1,342,241	-	193,968	1,148,273
Other	86,557	670	3,658	83,569
<b>Total</b>	<hr/> 25,233,731	<hr/> \$ 1,169,074	<hr/> \$ 2,406,514	<hr/> 23,996,291
Less: Accumulated depreciation	12,062,914			11,164,809
Property and equipment, net	<hr/> \$ 13,170,817			<hr/> \$ 12,831,482



The activity for the investment in the proprietary fund for the fiscal year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions and Adjustments	Retirements and Adjustments	Balance June 30, 2009
Land	\$ 1,907,534	\$ 1,201,770		\$ 3,109,304
Building	13,989,622		436,990	13,552,632
Building improvements	1,429,458		146,611	1,282,847
Machinery and equipment	7,906,637	5,760		7,912,397
Furniture and fixtures	968,034		555,742	412,292
Motor vehicles	6,833,984	13,947	300	6,847,631
Total	<u>33,035,269</u>			<u>33,117,103</u>
Less: Accumulated depreciation	16,239,262	<u>\$ 1,221,477</u>	<u>\$ 1,139,643</u>	16,402,675
Property and equipment, net	<u>\$ 16,796,007</u>			<u>\$ 16,714,428</u>

**NOTE 7 OPERATING LEASE AGREEMENTS**

ASDA 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, 2009 was \$ 559,000, 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:

Year ending June 30,	Amount
2010	\$ 1,272,510
2011	1,270,049
2012	583,752
2013	49,470
2014	49,470
2015 and thereafter	<u>250,298</u>
	<u>\$ 3,475,549</u>

**NOTE 8 LINES OF CREDIT**

ASDA has a \$67,000,000 and a \$65,000,000 non-revolving lines of credit with the Governmental Development Bank, a \$15,000,000 and a \$30,000,000 revolving line of credit with First Bank of Puerto Rico and a \$14,478,600 non-revolving line of credit with the "Fondo Integral para el DeBartolo Agricola" (FIDA).



The Governmental Development Bank lines of credit of \$67,000,000 and \$65,000,000 are due on June 30, 2022 and June 30, 2030, respectively, and are 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. The interest will be payable on an annual basis but 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%. At June 30, 2009, ASDA had borrowed \$62,578,254 and \$65,000,000 on its lines of credit.

The First Bank of Puerto Rico lines of credit of \$15,000,000 and \$30,000,000 have a first lien over all coffee inventories stored at ASDA'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. The interest rate is stated at 4.5%. At June 30, 2009, ASDA had borrowed \$11,354,233 on its line of credit.

The FIDA lines of credit are due upon presentation. At June 30, 2009, ASDA had borrowed \$13,044,342 on its line of credit. Line of credit bears an annual variable interest of 2.25% over LIBOR (London Inter-bank Offer Rate). 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.

#### **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 ASDA, 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. ASDA is required by the same statute to contribute 9.275% of the participant's gross salary.

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

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

ASDA 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 participants death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.



Employer contributions, which represented 100% of the required contributions, amounted to approximately \$ 2,539,901, \$ 2,220,627, \$ 4,112,912 in 2009, 2008, and 2007, respectively. In addition, ASDA has paid the Retirement System \$ 1,415,023, in cost-of-living adjustment for it's employees during the year 2009.

Additional information on the Retirement System is provided in its financial statements for the years ended June 30, 2009, a copy of which may be obtained from:

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

**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**

ASDA 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 ASDA's financial position.

**NOTE 12 SALE OF THE RICE MILL**

On October 20, 2008, ASDA closed the sale of the Arecibo Rice Mill with Trofima Corporation. The sale price established accordingly is \$3,000,000, including the personal property (\$600,00) and the real estate property (\$2,400,000). As part of the agreement ASDA received two (2) mortgage notes in the amounts of \$ 2,094,566, for the mill and land and \$ 549,643, for the equipment. The notes mature on the year 2020 and carry interest at 4%.

**NOTE 13 BEGINNING FUND BALANCE, PROPRIETARY FUND**

During the audit for the year ended June 30, 2008, the previous auditor posted an audit adjustment principally to record liabilities in the Proprietary Fund. ASDA did not agree with this audit adjustment, for their contention is there were already recorded in the books and records as of June 30, 2008.

As such, there is a discrepancy between ASDA's books and the June 30, 2009, for financial statements as to the operating balance of the Proprietary Fund balance. The opening balance of the Proprietary Fund for the year ended June 30, 2009 has been restated, for financial statements purposes, as follows:

<b>Proprietary Fund Balance</b>	
Balance June 30, 2008, as previously reported	\$ 78,153,140
June 30, 2008 audit adjustment	3,161,859
Balance June 30, 2008, as restated	\$ 81,314,999



ASDA's Management has provided our current auditor with the documentation on hand as to this audit adjustment not recorded on the books and records of ASDA as of June 30, 2008 and our current auditor concurs.

We have contacted our predecessor auditor on this restatement of the Proprietary Fund balance as of June 30, 2008. He has indicated that he stands by his report.

**NOTE 14 GOING CONCERN**

The accompanying financial statements reflect a net loss of \$2,600,000 (rounded) during the year ended June 30, 2008 and, as of that date, the liabilities exceed the assets by \$123,000,000.

The ability of ASDA to continue as a going concern depends on the success of several plans to reduce the budget for payroll and other operating expenses. During the year 2008 an estimated 280 employees decided to take this compensation package and ASDA expected to decrease payroll expenses by \$3,200,000, with this plan. ASDA requested from the Department of Labor and Human Resources a \$6,000,000, of which \$4 million were approved, as of June 30, 2008; \$2,000,000, of which were received during the year 2009. However, the balance of \$2 million will not be forthcoming and an adjustment has been made in the books of ASDA in 2009 to reflect this.

As discussed in Note 15 below, the implementation of Act 7 (of March 9<sup>th</sup> 2009, Special Law to the Fiscal Situation of the State...), will provide further cost-cutting measures in order to allow ASDA to balance its budget.

**NOTE 15 SUBSEQUENT EVENTS**

As a direct result of the implementation of Act 7 (of March 9<sup>th</sup> 2009, Special Law to the Fiscal Situation of the State...), there will be eventually approximately 275 employees that will be laid off at ASDA in a cost-cutting, budget-balancing action. All salaries, benefits, and compensated absences costs related to this action will be paid by the Central Government through special funding to be assigned to ASDA by the Governor's Office of Budget and Management. As such, accruals in the books of ASDA for these previously incurred expenses will have to be reversed to income at that particular time. Since it is not known at this time the exact number or the employees that will be laid off, it is not possible to determine the financial impact.

On November 2009, ASDA renegotiated the \$65 million non-revolving line of credit with the GDB. This line is now due on June 30, 2030 and it carries interest at 2.43%.

Also, the revolving line of credit with First Bank was due on for renewal on October 2009. This has been extended to March 2010.

In addition, the Governor's Office is in the process of implementing a Central Government Reorganization Plan to eliminate within Agencies and their related Units duplicitous duties. ASDA as a component of the Department of Agriculture may be a part of said Plan. However there is nothing definite at this time as to the particular steps to be undertaken