

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

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2021

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

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-7
Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	11-23



Independent Auditor's Report

Board of Directors
Farm Insurance Corporation of Puerto Rico

Opinion

We have audited the accompanying financial statements of the business-type activity of the of Farm Insurance Corporation of Puerto Rico, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farm Insurance Corporation of Puerto Rico as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Farm Insurance Corporation of Puerto Rico and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Entity's Ability to continue as a Going Concern

The accompanying financial statements have been prepared to assume that the Farm Insurance Corporation of Puerto Rico will continue as a going concern. As discussed in Note 13 of the financial statements, Farm Insurance Corporation of Puerto Rico has suffered recurring operating losses during past years, has a negative financial position, and has experienced a deterioration in its financial condition that caused a deficit in the financial position. This fact raises uncertainty about the Farm Insurance Corporation of Puerto Rico's ability to continue as a going concern and the ability to raise additional capital. The management plan is described in Note 13. These financial statements do not include any adjustment that might result from the outcome of these uncertainties. Our opinion has not been modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about [Name of Company] 's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Farm Insurance Corporation of Puerto Rico's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Farm Insurance Corporation of Puerto Rico's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7, defined benefit retirement and pension plans and other post-employment benefit schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Subsequent Events

As described in Note 17 of the financial statements, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of different structures around the island. Farmers of Puerto Rico with insurance policy with the Farm Insurance Corporation of Puerto Rico (Corporation) suffered damages in their plantation and crop caused by Hurricane Fiona. At March 6, 2023 the Corporation has received 4,849 claims and paid 795 of these claims amounting \$11,471,123.


CPA Ismael Ramos Colón

Certified Public Accountants,

February 27, 2023

Stamp # E-525291 was affixed to the original of this report.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

This section of Farm Insurance of Puerto Rico (the Corporation) annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended on June 30, 2021. The Corporation's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights for 2021

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

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

1. The Corporation Liabilities exceed its assets by \$7,732,139 (net position), for the fiscal year reported. This decreased by \$199,763 in relation with the previous year when liabilities exceeded assets by \$7,532,376.
2. Premiums written this year increased by \$486,731 in relation to previous year. For fiscal year 2019-2020 they amounted to \$4,151,934 compared to \$3,665,203 in fiscal year 2018-2019.

Overview of the Corporation

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

Overview of the Financial Statements

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

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

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

The Statement of Cash Flow provides relevant information about the cash receipts and cash payments of the Corporation for the fiscal year. This statement helps financial report users assess (a) an entity's ability to generate future net cash flows, (b) its ability to meet its obligations as they come due, (c) it needs for external financing, (d)

the reasons for differences between operating income and associated cash receipts and payments, and (e) the effects on the entity's financial position of both its cash and its noncash investing, capital, and financing transactions during the period.

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

Notes to the financial statements

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

Financial Analysis of the Administration

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

Summary of Net Position			
	June 30,		
	2021	2020	Change Amount
Current Assets	\$ 9,709,625	\$ 9,104,609	\$ 605,016
Non-Assets	2,585,094	2,558,884	26,210
Total Assets	12,294,719	11,663,493	631,226
Deferred Outflow of Resources Related to Pension and Total OPEB	493,359	301,300	192,059
Total Assets and Deferred Outflows Resources	\$ 12,788,078	\$ 11,964,793	\$ 823,285
	2021	2020	Change Amount
Current Liabilities	\$ 17,405,638	\$ 17,503,816	\$ (98,178)
Non-Current liabilities	2,686,080	2,062,944	623,136
Total Liabilities	20,091,718	19,566,760	524,958
Deferred Inflows of Resources Related to Pension	162,122	186,119	(23,997)
Total Liabilities and Deferred Inflows of Resources	20,253,840	19,752,879	500,961
Net Position			
Net Investment in Capital Assets	98,628	142,180	(43,552)
Deficit	(7,564,390)	(7,930,266)	365,876
Total Net Position (Deficit)	(7,465,762)	(7,788,086)	322,324
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	\$ 12,788,078	\$ 11,964,793	\$ 823,285

Fiscal year 2021 reflects an increase in total assets amounting to \$631,226, an increase in total liabilities of \$524,958 and decrease in deferred inflows of resources of \$23,997 and a decrease in total net position of \$322,324 when compared with fiscal year 2020. Current assets increase due mainly to a increase in cash in \$1,096,518 and decrease in accounts receivable of \$497,763. Non-current assets increase mainly to the balance of accounts receivable from FCIC & ADEA. Capital assets decrease for the depreciation expense of capital assets and the disposition of equipment during fiscal year.

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

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

Summary of Revenues and Changes in Net Assets			
For the Year ended on June 30,			
	2021	2020	Change Amount
Operating Revenue	\$ 3,124,390	\$ 1,742,724	\$ 1,381,666
Operating Expenses	2,805,266	2,536,397	268,869
Operating Income (loss)	319,124	(793,673)	1,650,535
Non-Operating Revenue	3,200	40,598	(37,398)
Change in Position	322,324	(753,075)	1,075,399
Net Position at Beginning of the Year	(7,732,139)	(7,532,376)	(199,763)
Prior Period Adjustment	(55,947)	553,312	(609,259)
Net Position (Deficit), at Beginning of Year, as Restated	(7,788,086)	(6,979,064)	(809,022)
Net Position (Deficit), at End for Year	\$ (7,465,762)	\$ (7,732,139)	\$ 266,377

Fiscal year 2021 reflects a increase in total operating revenues of \$1,381,666 and an increase in operating expenses of \$268,869. The Corporation had a change in net position of \$,266,377.

Capital Assets

The Corporation's investment in capital assets, net of accumulated depreciation as of June 30, 2021 and 2020, was \$98,629 and \$142,180 respectively. The total increase in this net investment was 15%.

Capital Assets			
For the year ended on June 30,			
	2021	2020	Change
Equipment	\$ 922,449	\$ 922,449	\$
Vehicles	131,334	131,334	-
	1,053,783	1,053,783	
Less: Accumulated Depreciation	(955,154)	(911,603)	(43,551)
Change in Net Capital Assets	\$ 98,629	\$ 142,180	\$ (43,551)

Line of Credit

During the fiscal year ended June 30, 2005 the Corporation borrowed \$6,500,000 from "Fondo Integral para el Desarrollo Agrícola de Puerto Rico Inc." (FIDA) under a non-revolving credit line for working capital purposes. The line of credit bears an annual interest at 2.25% over LIBOR rate. As of June 30, 2021 the outstanding balance amounted \$4,692,041.

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

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

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

Contacting the Corporation's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS

CURRENT ASSETS

Cash	\$	9,567,917
Accounts receivable, net		134,737
Prepaid expenses and other current assets		6,971
Total current assets		9,709,625

NON-CURRENT ASSETS

Accounts receivable, net		2,486,466
Capital assets, net		98,628
Total non-current assets		2,585,094

DEFERRED OUTFLOW OF RESOURCES:

Pension related		488,659
Other post-employment benefits related		4,700
Total dererred outflow of resources		493,359

Total assets and deferred outflow of resources \$ 12,788,078

LIABILITIES

CURRENT LIABILITIES

Unpaid claims	\$	52,112
Accounts payable		3,532,041
Compensated absences		158,467
Unearned premiums		4,852,815
Accrued expenses		175,157
Pension liability		98,351
Other post-employment benefit liability		4,700
Loan payable		3,839,954
Line of credit		4,692,041
Total current liabilities		17,405,638

NON-CURRENT LIABILITIES

Compensated absences		376,712
Pension liability		2,252,491
Other post-employment benefits liability		56,877
Total non-current liabilities		2,686,080

DEFERRED INFLOW OF RESOURCES

Pension related		162,122
Total liabilities and deferred inflows of resources		20,253,840

NET POSITION

Net investment in capital assets		98,628
Unrestricted		(7,564,390)
Total net position		\$ (7,465,762)

See accompanying notes to financial statements

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

Operating Revenues	
Premiums written	\$ 6,037,341
Ceded premiums	<u>3,122,144</u>
Net premiums	<u>2,915,197</u>
Commissions revenue	208,080
Other revenue	<u>1,113</u>
Total operating revenues	<u>3,124,390</u>
Operating Expenses	
Salaries and employee benefits	1,598,155
Pension expense	126,214
Claims	125,431
Insurance	53,256
Rent	21,595
Professional Services	468,322
Depreciation	43,551
Other	<u>368,742</u>
Total operating expenses	<u>2,805,266</u>
Reimbursement of administrative and operating expenses	<u> </u>
Net operating expenses	<u>2,805,266</u>
Operating income	<u>319,124</u>
Non-operating revenue (expenses)	
Interest	<u>3,200</u>
	3,200
CHANGE IN NET POSITION	322,324
NET POSITION (DEFICIT) AT BEGINNING OF YEAR	<u>(7,732,139)</u>
PRIOR PERIOD ADJUSTMENT	(55,947)
NET POSITION (DEFICIT) AT BEGINNING OF YEAR AS RESTATED	<u>(7,788,086)</u>
NET POSITION (DEFICIT) AT END OF YEAR	<u>\$ (7,465,762)</u>

See accompanying notes to financial statements

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:	
Receipts from customers	\$ 7,146,205
Commissions and other revenue	209,193
Salaries and employees benefits	(1,755,749)
Claims paid and payments to suppliers	<u>(3,656,402)</u>
Net cash provided by operating activities	<u>1,943,247</u>
Cash Flow from non-capital and related financing activities	
Payment of loan payable and net cash used by non-capital financing activities	<u>(849,929)</u>
Cash flows from investing activities:	
Interest received and net cash provided by investing activities	<u>3,200</u>
Increase in cash	1,096,518
Cash at beginning of year	<u>8,471,399</u>
Cash at the end of year	<u>\$ 9,567,917</u>
Cash flows from operating activities:	
Operating income	\$ 319,124
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	43,551
Bab Debts	90,788
Change in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	337,213
Deferred outflow of resources	(192,059)
Prepaid expenses	(6,260)
Increase (decrease) in:	
Accounts payable	405,079
unpaid claims	7,768
Accrued expenses	44,033
Other post-employment benefits	(3,479)
Deferred inflow of resources	(23,997)
Pension liability	240,623
Unearned premiums	<u>680,863</u>
Net cash provided by operating activities	<u>\$ 1,943,247</u>

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND REPORTING ENTITY

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

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

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

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

B. BASIS OF PRESENTATION

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

These classifications are defined as follows:

- Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – Consist of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of the related debt."

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

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

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of accounting

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

2. Earned premiums

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

3. Unbilled Receivables

Unbilled receivables represent a management's estimate of the unearned premiums related with the unwritten policies for the period cover from April 1, 2019, to March 31, 2020.

4. Unpaid claims

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

5. Capital Assets

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

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

The Corporation periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment of capital asset was identified during the year ended 2021.

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

6. Compensated absences

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

7. Accounting for pension costs

The Corporation accounts for pension costs under the provisions of GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68 that requires that employers report a net pension liability and related pension accounts. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension, pension expense, the balances have been determined on the same basis as reported by the Plan.

8. Deferred Outflows/Inflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of the GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68.

9. Statement of Cash Flows

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

10. Operating Revenues and Expenses

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

11. Risk management

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

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

12. Accrual for legal claims

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

13. Future adoption of accounting pronouncements

The GASB has issued the following standards that have effective dates after June 30, 2021:

- GASB Statement No.87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

- GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, Codification of Accounting And Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

- GASB Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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

This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

- GASB Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.
- GASB Statement No. 93, Replacement of Interbank Offered Rates (IBOR). The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

This statement achieves its objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

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

- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

- GASB Statement No. 94, Public Private and Public-Public Partnership and Availability Payment Arrangement. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

- GASB Statement No. 97, Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

- GASB Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021, the Corporation is evaluating the impact of this new statement.
- GASB Statement No. 99, Omnibus 2022. This Statement establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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

- GASB Statement No. 100, Accounting Changes and Error Corrections. This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The requirements of this Statement do not apply to the initial application of U.S. generally accepted accounting principles (GAAP) established by the GASB as a financial reporting framework in circumstances in which a government is asserting for the first time that its financial statements are prepared in accordance with U.S. GAAP established by the GASB. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

- GASB Statement No. 101, Compensated Absences. This Statement establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. This Statement does not apply to benefits that are within the scope of Statement No. 47, Accounting for Termination Benefits, as amended. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

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

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

NOTE 2 – CUSTODIAL CREDIT RISK - DEPOSITS

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

Under the Government of Puerto Rico statues, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of Treasury of Puerto Rico in the Corporation's name. At year-end the Corporation's bank balance in commercial banks amounts to \$9,563,491.

The Corporation established, in accordance with the requirements of the Federal Crop Insurance Corporation (FCIC), separate bank accounts dedicated solely to the federally reinsured crop insurance program. For the fiscal year ended June 30, 2021, the Corporation deposits all producer-paid premium, reinsurance recoveries, and FCIC paid premium subsidy in the accounts and pays all crop insurance losses and reinsurance premium from the accounts. Additionally, the Corporation must not commingle other funds not related to the federal crop insurance program.

NOTE 3- ACCOUNTS RECEIVABLE-NET

The net accounts receivable of the Corporation as of June 30, 2021, are composed of the following:

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

"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	\$ 629,950
Less: allowance for uncollectible accounts	<u>(596,173)</u>
	<u>33,777</u>
Federal Crop Insurance Corporation (FCIC)	45,775
Other receivables	<u>133,975</u>
	179,750
Less: allowance for uncollectible accounts	<u>(78,790)</u>
	<u>100,960</u>
Total account receivable current, net	<u>\$ 134,737</u>
Unbilled receivable:	
"Administración para el Desarrollo de Empresas Agropecuarias" (ADEA)	1,891,710
Federal Crop Insurance Corporation (FCIC)	<u>594,756</u>
	2,486,466
Total receivable	2,621,203
Less: current account receivable, net	<u>(134,737)</u>
	<u>2,486,466</u>
Non-current account receivable, net	<u>\$ 2,486,466</u>

Accounts receivable from the "Administración para el Desarrollo de Empresas Agropecuarias" (ADEA), another instrumentally ascribed to the Department, mainly include insurance premiums of policies issued to farmers for which ADEA has agreed to pay the corporation. The above aggregate receivable balances have been classified as noncurrent because they are not expected to be collected within one year from the statement of net position date, June 30, 2021. The unbilled receivable represents a management estimate of the unearned premiums related to unwritten policies for the period that covers April 1, 2020, to March 31, 2021.

NOTE 4- CAPITAL ASSETS - NET

Property and equipment as of June 30, 2021, consist of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets being depreciated:				
Equipment	\$ 922,449	\$ -	\$ -	\$ 922,449
Motor vehicles	<u>131,334</u>	<u>-</u>	<u>-</u>	<u>131,334</u>
	<u>1,053,783</u>	<u>-</u>	<u>-</u>	<u>1,053,783</u>
Less: accumulated depreciation:				
Equipment	(780,269)	(43,551)	-	(825,821)
Motor vehicles	<u>(131,334)</u>	<u>-</u>	<u>-</u>	<u>(131,334)</u>
	<u>(911,603)</u>	<u>(43,551)</u>	<u>-</u>	<u>(955,154)</u>
Capital assets, net	<u>\$ 142,180</u>	<u>\$ (43,551)</u>	<u>\$ -</u>	<u>\$ 98,628</u>

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

NOTE 5- PENSION PLAN

Plan Description

Before July 1, 2017, the Corporation was a participating employer in the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS covered employees of certain public corporation not having their own retirement systems (including the Corporation), employees of the Fire and Police Departments of Puerto Rico, all regular full-time public employees working for the executive and legislative branches of the Commonwealth, and the municipalities of Puerto Rico.

On August 23, 2017, the Governor signed into law Act No. 106-2017, known as the "Act to Guarantee the Payments to our Pensioners and Establish a New Plan of Defined Contributions for Public Employees" that approved a substantial pension reform for all of the Commonwealth's retirement systems. This reform modified most of the Retirement System's activities, eliminated the employer contribution, created legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct payments to the pensioners and then gets reimbursed for those payments by the applicable employers.

Act 106-217 also created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employee hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on these accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Prior to July 1, 2013 the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 (Act No. 447) effective on January 1, 1952, for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 (Act No. 1) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 are participants of a cost-sharing multiple employers defined benefit plan. Act No. 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000 there was a pool of pension assets invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Effective July 1, 2013, Act No. 3 of 2013 (Act No. 3) amends the provisions of the different benefits structures under the ERS. Act No. 3 moves all participants (employees) under the defined benefit pension plans (Act No. 447 and Act No. 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act No. 447 and Act No. 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013, of System 2000 participants and, (3) the investment yield for each semester of the fiscal year.

Benefits provided before July 1, 2017

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

The following summary of the ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in accordance with the applicable laws and regulations.

(i) Service Retirements

- (a) Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013, would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions, attainment of age 50 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951 members who would attain 30 years of credited service by December 31, 2013, would be eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (b) Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; (3) for public officers in high-risk positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 public officers in high-risk positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (c) Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for public officers in high-risk positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for public officers in high-risk positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

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

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957, or later	55 or less	65
July 1, 1956, to June 30, 1957	56	64
July 1, 1955, to June 30, 1956	57	63
July 1, 1954, to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(d) Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a public officer in a high-risk position and attainment of age 67 otherwise.

(ii) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity.

(a) Accrued Benefit as of June 30, 2013, for Act No. 447-1951 Members: The accrued benefit as of June 30, 2013 was determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447-1951 members, determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013, or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service were considered pre- July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the policemen and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1%

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

of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a Mayor.

- (b) **Accrued Benefit as of June 30, 2013.** for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013 is determined based on the average compensation for Act No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor was determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter member that had at least 30 years of credited service as June 30, 2013, the accrued benefit equaled 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(iii) **Compulsory Retirement**

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions were required to retire upon attainment of age 58 and 30 years of credited service. A two-year- extension may be requested by the member from the Superintendent of the PRPOB, the Chief of the Firefighter Corps, or supervising Corporation as applicable.

(iv) **Termination Benefits**

(a) **Lump Sum Withdrawal**

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is \$10,000 or less.

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

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(b) Deferred Retirement

Eligibility: A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

(v) Death Benefits

(a) Pre-retirement- Death Benefit

Eligibility: Any current nonretired member was eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.

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

(b) High Risk Death Benefit under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member should each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Postdeath Increases: Effective July 1, 1996, and subsequently every three-years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three-years.

The cost of these benefits was paid by the Commonwealth.

(c) Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who had not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

- i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan-30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No.158 of 2003.
- ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than \$1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to \$250, between (1) the accumulated contributions less the lifetime annual income paid and (2) \$1,000. ERS pays for the rest. See Article 2-113 of Act No. 447 of 1951, as amended by Act No. 524 of 2004.

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

(d) Postretirement Death Benefit for Members Who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013, continue to be eligible to receive such benefits.

(vi) Disability Benefits

(a) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013, commencing at the applicable retirement eligibility age.

(b) High Risk Disability under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended).

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127-1958, as amended). The cost of these benefits was paid by the Commonwealth.

(c) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

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

(vii) Special Benefits

(a) Minimum Benefits

- i. Past Ad hoc Increases: The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by the ERS.
- ii. Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007). The increase in the minimum monthly benefit from \$200 per month to \$300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from \$300 per month to \$400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.
- iii. Coordination Plan Minimum Benefit: A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

- (b)* Cost of Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004, less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS. All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

(c) Special "Bonus" Benefits

- (i)* Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

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

- (ii) Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the Supplemental Contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

(viii) Contributions

Prior to July 1, 2017, the plan contributions requirements were as follows:

- (a) (Article 5-105 of Law 447, as amended by Law No. 3 of 2013, amended by Law No. 106 of 2017 and amended by Law 71 of 2019): Effective July 1, 2013 through June 30, 2017, contributions by members consisted of 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions were 7% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2013- 2014 fiscal year and 8.5% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2014-2015 fiscal year. Effective July 1, 2015 for members who selected the Coordination Plan, member contribution increased to 10% of compensation. Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to \$6,600 plus 8.275% of compensation in excess of \$6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Treasury Department in the individual member accounts under the New Defined Contribution Plan created pursuant to Act 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to the ERS. However, in the case of members of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the Puerto Rico Police Bureau, which have less than 10 years to qualify for retirement as established by Act No. 447, the reduction in the percentage of contribution from the 8.5% level will apply voluntarily.

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

(b) Employer Contributions (Article 2 116, as Amended by Act No. 116-2010 and Act No. 3- 2013):

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions were 10.275% of compensation. For the next four fiscal years effective July 1, 2012, employer contributions were increased annually by 1% of compensation. For the next five fiscal years, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.53% of compensation effective July 1, 2020. Under Act 106-2017, all employers' obligations to contribute to the ERS were eliminated.

Act 106-2017 eliminated the employer contributions to the ERS as of July 1, 2017. Instead, participating employers are responsible for the payment of the PayGo fee to the newly created accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

(c) Supplemental Contributions from the Commonwealth, Certain Public Corporations, and Municipalities (Act No. 3-2013): Effective July 1, 2013, ERS received a supplemental contribution of \$2,000 each year for each pensioner (including beneficiaries receiving survivor benefits) that was previously benefitting an Act No. 447-1951 or Act No. 1-1990 member while an active employee. This supplemental contribution was paid by the Commonwealth Fund for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

Act 106 of 2017 eliminated the special benefits contribution requirement to the ERS, instead they will be allocated to the new PayGo System through legislative appropriations, as necessary.

(d) Additional Uniform Contribution (Act No. 32-2013, as Amended): The additional uniform contribution (AUG) was to be certified by the external actuary of ERS each fiscal year from fiscal year 2015 through 2033 as necessary to avoid the projected gross assets of ERS, falling below \$1 billion during any subsequent fiscal year. The AUG was to be paid by the Commonwealth, public corporations with their own treasuries, and municipalities. All employers' contributions, including the additional uniform contribution were eliminated effectively on July 1, 2017 by Act 106-2017.

Net Pension Liability, Pension Expense (Benefit), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

On August 12, 2021, the ERS issued an audited report for the year ended June 30, 2018, in accordance with GASB Statement No. 73, providing information about pension amounts by employer and the corresponding employer allocation percentage. The Corporation disclosed the below mentioned information based on this audited data reported by ERS and the ERS Actuarial Valuation Report.

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

As of June 30, 2021, the Corporation reported a liability of \$2,350,842 for its proportionate share of the total pension liability. The collective total pension liability which amounts to approximately \$31.6 billion was determined by an actuarial valuation as of July 1, 2020, that was rolled forward to June 30, 2021 (measurement date as of June 30, 2020). The Corporation's proportion of the total pension liability was based on the ratio of the Corporation's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. As of June 30, 2019, the Corporation's proportionate share was 0.00849%.

For the year ended June 30, 2021, the Corporation recognized pension expense of \$126,214. Pension expense represents the change in the total pension liability during the measurement period. At June 30, 2021, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	5 years	\$ 4,849	\$ 52,920
Changes in assumptions	5 years	295,125	40,354
Changes in proportion	5 years	90,334	68,848
Benefit paid subsequent to measurement date	5 years	<u>98,351</u>	<u>-</u>
Balance as of June 30, 2021		<u>\$ 488,659</u>	<u>\$ 162,122</u>

For the fiscal year 2021 there were benefits paid after the measurement date amounting to \$98,351 reported as deferred outflow of resources, since for fiscal year 2021 the retirement systems operate on a pay-as-you-go basis.

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

Actuarial methods and assumptions

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

Discount Rate

The discount rate for June 30, 2020, was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2020; actuarial valuation was as follows:

a) Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

b) Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

c) Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

Other Assumptions as of June 30, 2020

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

Sensitivity of the Corporation's Proportionate Share of the Net Pension Asset to Changes in the Discount Rate

The following table presents Corporation proportionate share of the total pension liability for the Plan calculated using the discount rate of 3.50% as well what Corporation proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current discount rate	1% Increase
	1.21%	2.21%	3.21%
Total net pension liability	<u>\$ 2,695,005</u>	<u>\$ 2,349,441</u>	<u>\$ 2,070,778</u>

NOTE 6- OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Corporation participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the "OPEB Plan"). The OPEB Plan is an unfunded defined benefit other postemployment healthcare benefit plan administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("GASB No. 75"). Under the guidance of GASB No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB Plan.

The OPEB Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer monthly for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the OPEB plan members that retired after June 30, 2013.

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

Total OPEB Liability

As of June 30, 2021, the Corporation reported a liability of approximately \$65,056 for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date). As of June 30, 2020, the Corporation's proportionate share was 0.00704%.

The following table illustrates changes in the total OPEB liability for the year ended June 30, 2021 (in thousands):

Balance at beginning of the year	\$ 65
Changes for the year	
OPEB expense	1.3
Benefits payments	(4.8)
Net charges	<u>(3.5)</u>
Balance at end of the year	<u>\$ 61.5</u>

For the year ended June 30, 2021, the Corporation recognized an OPEB benefit of \$1,322.

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

GASB No. 75 required to determine deferred outflows of resources and deferred inflows of resources to be amortized and recognized in the annual OPEB expense. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement date. However, as of June 30, 2021, \$4 thousand reported as deferred outflows of resources related to OPEB, resulting from the benefits paid subsequent to the measurement date, will be recognized as a reduction of total OPEB liability in the year ended June 30, 2021.

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

Discount Rate

The discount rate for June 30, 2019 (measurement date) was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

- a) Pre-retirement Mortality — For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the

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

2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

- b) Post-retirement Healthy Mortality — Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- c) Post-retirement Disabled Mortality — Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of the Corporation's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate

The following presents the Corporation's proportionate share of total OPEB liability calculated using the discount rate of 3.50%, as well as what the Corporation's proportionate share of total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (1.21%) or 1-percentage-point higher (3.21%) than the current discount rate (in thousands).

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability	\$ 67,885	\$ 61,574	\$ 56,242

NOTE 7- Reinsurance

Federal Crop Insurance Corporation Reinsurance

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

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

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

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

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

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

Other Reinsurance

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

NOTE 8- Unpaid Estimated Claims

Management estimated its liability for unpaid claims to farmers as of June 30, 2021, for the amount of \$52,113, substantially related to losses caused by prior year claims.

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

Beginning Balance	Claims Incurred	Claims Paid	Adjustment	Ending Balance
\$ 44,344	\$ 265,943	\$ 258,174		\$ 52,113

NOTE 9- LINE OF CREDIT

The Corporation borrowed in a prior year \$6,500,000 to the "Fondo Integral para el Desarrollo Agrícola de Puerto Rico Inc." (FIDA) under a non-revolving credit line for working capital purposes. The line of credit bears a 2.25% over LIBOR rate. As of June 30, 2021, the outstanding balance amounted to \$4,692,041.

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

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

NOTE 10- LOAN PAYABLE

Loan payable for the term of three months with original amount of \$5,000,000 with "Administración Para el Desarrollo de Empresas Agropecuarias (ADEA)". Payable in three months once received the total of \$5,000,000 non-interest bearing. As of June 30, 2021, the outstanding balance amounted to \$3,839,954.

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

NOTE 11- Contingencies

As of June 30, 2021, the Corporation is defendant in class action alleging a breach of contract obligations by the corporation. The claimant alleges that corporation breached the contract when it negated to pay losses incurred during the event included in the insurance contract and claimed the related insurance premiums. Managements has not reported a liability for these claims because of the stage of the proceedings. The Corporation's management intends to vigorously defend its position.

NOTE 12- Commitment

In September 4, 2014, the Corporation sign a collective bargain with "Union de General de Trabajadores (UGT) local 1199" that will regulate the labor affairs among the parties from July 31, 2013 thought December 31, 2016; said agreement was extended until June 30, 2017. On April 29, 2017, Public Law 26 known as "Fiscal Plan Compliance Law" suspended all economic clauses on collective bargain and no extension has been approved.

NOTE 13- GOING CONCERN, UNCERTANTIES AND LIQUIDITY RISK

As shown in the accompanying financial statements, the Corporation has incurred in accumulated losses in the amount of \$7.6 million and as of June 30, 2021 the Corporation's liabilities exceeded its assets by approximately \$7.4 million. In addition, at June 30, 2021 the Corporation has a working capital deficiency of approximately \$8 millions making difficult for the Corporation to pay its liabilities in the normal course of business. These facts indicates that the Corporation needs the continued support from the Commonwealth of Puerto Rico in the form of operating grants to continue to operate at its present level and to continue as a going concern.

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

Remediation Plan

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

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

1. Rent expense have been reduced to zero by moving central office to a facility provided by Department of Agriculture at no cost;
2. Steps are being taken with two insurance corporations in order to increase insurance income provided by agricultural structures insurance;
3. Insurance coverage cost in coffee, banana and plantain have been increased;

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

4. A reduction in agricultural area space requirements in order to be eligible for insurance coverage has been made in order to increase insurance income by making insurance coverage available to more farmers;
5. Roster of employees have been reduced and a reassignment of function to existing employees have taken place in order to reduce payroll costs.

NOTE 14- INSURANCE RESERVE

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

NOTE 15- RESTATEMENT OF NET POSITION

During 2021 the Corporation identified an error related to the prior year's financial statements, related to accruals of pension not recognized during the year 2020, which resulted in restatements of the beginning net position of the Corporation's financial statements. The impact of these adjustments in the beginning net position is described as follows:

Description	
Net position at July 1, 2020, as previously reported	\$ (7,732,139)
Underaccrued pension	<u>(55,947)</u>
Net position at July 1, 2020 as restated	<u>\$ (7,788,086)</u>

NOTE 16- PROMESA

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

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

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

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

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

NOTE 17- Subsequent Events

The Corporation has evaluated all transactions occurring subsequent to the statement of financial position as of June 30, 2020, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through March 1, 2023, the date the accompanying financial statements were available to be issued. The following material events were noted:

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of different structures around the island. Farmers of Puerto Rico with insurance policy with the Farm Insurance Corporation of Puerto Rico (Corporation) suffered damages in their plantation and crop caused by Hurricane Fiona. At March 6, 2023 the Corporation has received 4,849 claims and paid 795 of these claims amounting \$11,471,123.

NOTE 18- COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization declared the coronavirus disease ("COVID- 19") as a global pandemic. Subsequently, on March 15, 2020, the Commonwealth declared a "State of Emergency and Quarantine", as a consequence of the spread of COVID-19 in Puerto Rico, issuing a series of provisions to contain its spread, such as: exceptional restrictive traffic measures, the drastic reduction of activities and the issuance of economic regulations, among others; that have affected and are expected to significantly affect the economic activity of the country and the markets in general. Subsequent executive orders have been issued through the date of the financial statements to continue addressing the pandemic, always to balance the measures directed to containing the spread of the virus with those measures geared toward the stabilization of the economy. Extensive economic stabilization measures have been enacted by both the Federal and local government, in order alleviate the heavy impact of this pandemic on the economic activity. As the Commonwealth observes and assesses the results of recent reopening of the economy, it will continue to re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

At the date of issuance of the financial statements, the duration of the exceptional measures and the effects that they may have on the corporation cannot be reasonably estimated.

End of Notes

REQUIRED SUPPLEMENTARY INFORMATION

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

Description	2021*	2020*	2020*
Proportion of Total Pension Liability	0.00837%	0.00849%	0.00791%
Proportionate Share of Total Pension Liability	\$ 2,350,842	\$ 2,110,219	\$ 1,973,943

*The amounts presented have a measurement date of the previous fiscal year end.

*Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2019 was the first year that the Corporation transitioned from GASB No. 68 to No. GASB 73, as

See notes to required supplementary information and accompanying independent auditors' report.

Description	2021*	2020*	2019*
Proportion of Total Other Post Employment Benefit Liability	0.00704%	0.00782%	0.00684%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 60,256	\$ 65,056	\$ 57,598

*The amounts presented have a measurement date of the previous fiscal year end.

*Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented at Corporation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying notes are an integral part of this required supplementary information.

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

1. As a result of the implementation of the PayGo system, the Pension Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units, including the Company) are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.
2. The information presented in the schedules relates solely to the Corporation and not Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.
3. The data provided in the schedules is based as of the measurement date of the total pension liability and total other post-employment benefits liability, which is as of the prior fiscal year ended June 30th.