

PORT OF THE AMERICAS AUTHORITY
(an instrumentality of the
Government of Puerto Rico)

AUDITORS' REPORT AND
FINANCIAL STATEMENTS

JUNE 30, 2010

PORT OF THE AMERICAS AUTHORITY
(an instrumentality of the Government of Puerto Rico)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**GOVERNMENT OF PUERTO RICO
PORT OF THE AMERICAS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2010**

INTRODUCTION

The Port of the Americas Authority (the Authority), a public corporation and an instrumentality of the Government of Puerto Rico, was created by Act No. 171 enacted on August 11, 2002. The main purpose of the Authority is to develop a deep draft port in the Southern Region of Puerto Rico. This development is part of the Government's efforts to create a world-class public marine terminal and to stimulate large-scale industrial zone in the Southern Region of Puerto Rico.

The following Management's Discussion and Analysis (MD&A) of the Authority activities and financial performance provides an introduction to the financial statements of the Authority for the Fiscal Year ended June 30, 2010, with selected comparative information to the Fiscal Year ended June 30, 2009. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

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For the year ended June 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting policy, practice and procedures fall under auspices of the Government Accounting Standards Board ("GASB"). The Authority's financial transactions and financial statements are prepared according to the GASB Statement 34 reporting model, as mandated by GASB. The purpose of the GASB 34 reporting model is to consolidate two basic forms of governmental accounting (governmental and proprietary - those entities which generate their own revenues and, therefore, are similar to a private business such as the Authority) into statements that give the reader a clearer picture of the financial position of the government as a whole. The Authority reports its financial position and results of operations as a Proprietary Fund.

The financial statements are prepared on the accrual basis of accounting, therefore, revenues are recognized when earned and expenses are recognized when incurred. The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project. Please refer to Note 1.b in the accompanying financial statements for a summary of the Port Authority's significant accounting policies. These statements along with the MD&A are designed to provide readers with a complete understanding of the Authority's finances.

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The report includes the following three basic statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows.

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For the year ended June 30, 2010**

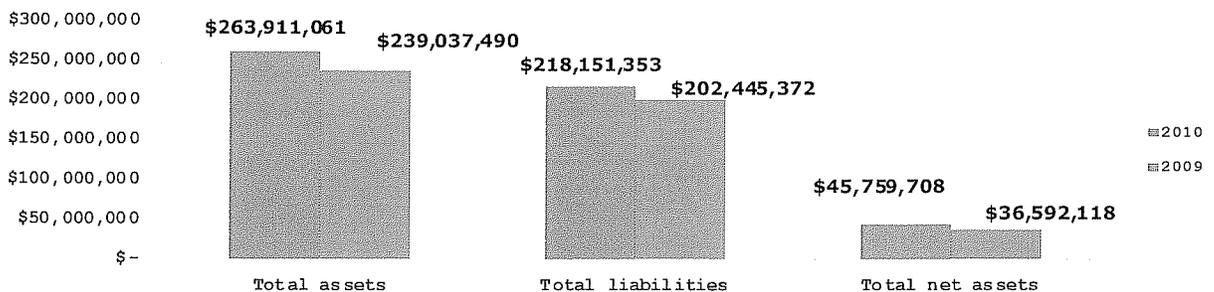
FINANCIAL POSITION SUMMARY

Statement of Net Assets

The Statement of Net Assets presents the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net Assets, the difference between total assets and total liabilities, are an indicator of the current fiscal health of the organization and the Authority's financial position over time. A summarized comparison of the Authority's assets/ liabilities, and net assets at June 30, 2010, and 2009 is as follows:

STATEMENT OF NET ASSETS

Assets	FY 2010	FY 2009	Variance
Current and other assets	\$ 2,816,737	\$ 14,995,186	\$(12,178,449)
Capital assets – net	261,094,324	224,042,304	37,052,020
Total assets	\$263,911,061	\$239,037,490	\$ 24,873,571
Liabilities			
Current liabilities	\$ 13,438,000	\$ 20,584,282	\$ (7,146,282)
Bond purchase agreement – long-term	204,713,353	181,861,090	22,852,263
Total liabilities	218,151,353	202,445,372	15,705,981
Net assets:			
Invested in capital assets, net	43,148,616	21,795,249	21,350,367
Restricted for payment of Interest	-	2,863,215	(2,863,215)
Unrestricted	2,611,092	11,933,654	(9,319,562)
Total net assets	45,759,708	36,592,118	9,167,590
Total liabilities and net assets	\$263,911,061	\$239,037,490	\$ 24,873,571



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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2010**

At June 30, 2010, the Authority's capital assets increased by \$37.0 million due the development of 18 acres of land adjacent to the new piers for the storage of containers as part of the Phase II, and the development of additional 19 acres of land to increase the total container handling capacity to 500 thousand TEU per year under Phase III A-3. Total liabilities increased by \$15.7 million principally for the use of the three lines of credit to develop the storage containers of the Phase II and Phase III A.2 to build the Pluvial Canal for the Percon Property as well as Relocating the Potable and Wastewater Facilities. For the Fiscal Year ended June 30, 2010 the largest portion of the Authority's net assets represents its investment in capital assets, less the related debts outstanding used to acquire those capital assets.

Statements of Revenues, Expenses and Changes in Net Assets

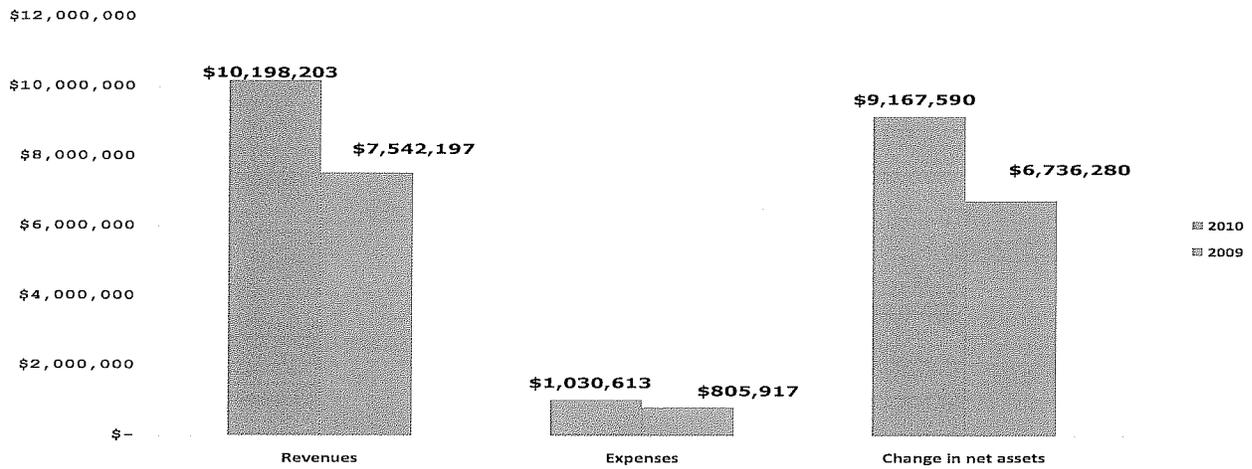
The Statements of Revenues, Expenses and Changes in Net Assets are an indicator of the overall fiscal condition of the Authority that improved during the Fiscal Year 2010. Following is a summary of the Statements of Revenues, Expenses, Changes in net Assets:

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
	FY 2010	FY 2009	VARIANCE
Revenues	\$ 6,848	\$ 32,926	\$ (26,078)
Operating expenses	1,030,613	805,917	224,696
Operating loss before non-operating revenues	(1,023,765)	(772,991)	(250,774)
Non-operating revenues			
Contributions from the Commonwealth of Puerto Rico	10,186,818	7,425,659	2,761,159
Interest	4,537	83,612	(79,075)
Changes in net assets	9,167,590	6,736,280	2,431,310
Total net assets, beginning of year, as previously presented	36,592,118	29,842,636	6,749,482
Correction of an error	-	13,202	(13,202)
Total net assets, beginning of year, as restated	36,592,118	29,855,838	6,736,280
Total net assets, end of year	\$ 45,759,708	\$ 36,592,118	\$ 9,167,590

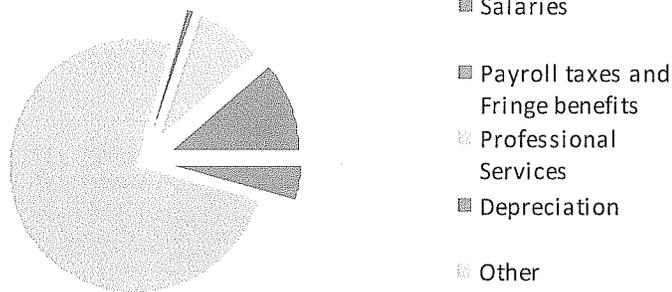
**GOVERNMENT OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2010**

The highlights for the Statements of Revenues, Expenses and Changes in Net Assets are as follow:

- Overall increase in net assets for Fiscal Year 2010 was around \$9.2 million compared to an increase of \$6.8 million in Fiscal Year 2009. The increase was mainly due to a Puerto Rico Sales Tax Financing Corp. (COFINA) bond issuance.
- Miscellaneous revenues decreased by 79% from \$32.9 thousand in Fiscal Year 2009 to \$6.8 thousand in Fiscal Year 2010. The decrease in rent revenue arose from the cancellation of rent agreements due to the development of the port facilities.
- Operating expenses increased around \$224 thousand, primarily due to legal and other professional services contracted for the fiscal year 2010.



Expenses



**GOVERNMENT OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2010**

CAPITAL ASSETS

The Authority's capital assets consist mainly of construction in progress. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related projects.

At the end of Fiscal Year 2010, the Authority had invested \$261 million in a broad range of capital assets. This amount represents an increase of approximately \$37 million compared to Fiscal Year 2009.

During 2010, the Authority has been negotiating to obtain a world class operator for the 500,000 TEU facilities constructed near berths 4, 5, and 6 of the Ponce Port facilities. The Authority has received various unsolicited proposals to invest in the port and the value added zones.

DEBT ADMINISTRATION

As of June 30, 2010, the principal balance outstanding amounted to \$204.7 million which is composed by Series A Bond amounting to \$70 million, Series B Bond amounting to \$40 million, and Series C Bond amounting to \$94.7 million.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning this report or request for additional information should be addressed to Eng. Rhonda M. Castillo Gammill, J.D., Executive Director, Port of the Americas Authority, P.O. Box 195534, San Juan, Puerto Rico 00919-5534. Information may also be obtained on the Authority's website at www.portoftheamericas.com.

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BASIC FINANCIAL STATEMENTS

VALDES, GARCIA, MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

P.O. Box 364831
SAN JUAN, P.R. 00936-4831

TELEPHONE: (787) 725-1600
TELEFAX: (787) 721-2795

To the Board of Directors of
Port of the Americas Authority

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of Port of the Americas Authority (the "Authority"), an instrumentality of the Government of Puerto Rico, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Port of the Americas Authority as of June 30, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 11 to the financial statements, the Autonomous Municipality of Ponce currently is in negotiations with the Puerto Rico Central Government to continue with the development and operation of the Port facilities. If the Port is transferred to the Municipality under a different legal structure it is uncertain that the Authority will continue to exist as a going concern. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 1 through 6 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Valdes, Garcia, Marin & Martinez, LLP

San Juan, Puerto Rico
February 2, 2011

Stamp 2587248 was affixed
to the original.

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STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS

Cash in bank	\$	2,813,386
Accounts receivable		1,549
Prepaid insurance		1,802
Capital assets - net		<u>261,094,324</u>
Total assets	\$	<u>263,911,061</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable		
Contractors and other	\$	7,740,294
Retainage		5,492,062
Accrued payroll taxes and other expenses		205,644
Bond purchase agreements		<u>204,713,353</u>
Total liabilities		<u>218,151,353</u>

COMMITMENT AND CONTINGENCIES

-

NET ASSETS

Invested in capital assets, net of related debts		43,148,615
Unrestricted		<u>2,611,093</u>
		<u>45,759,708</u>
Total liabilities and net assets	\$	<u>263,911,061</u>

See accompanying notes to financial statements.

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

Revenues	
Miscellaneous	\$ <u>6,848</u>
Operating expenses	
Salaries	116,759
Payroll taxes and fringe benefits	46,151
Professional services	772,772
Depreciation	4,914
Other	<u>90,017</u>
Total operating expenses	<u>1,030,613</u>
Operating loss before non-operating revenues	<u>(1,023,765)</u>
Non-operating revenues	
Contributions from the Government of Puerto Rico (restricted funds for the payment of interest)	10,186,818
Interest	<u>4,537</u>
Total non-operating revenues	<u>10,191,355</u>
Changes in net assets	9,167,590
Total net assets, beginning of year	<u>36,592,118</u>
Total net assets, end of year	<u>\$ 45,759,708</u>

See accompanying notes to financial statements.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Cash flows from operating activities:	
Cash received from contribution receivable and other revenue	\$ 7,432,507
Cash paid to suppliers and other	(733,187)
Cash paid to employees and other	<u>(103,029)</u>
Net cash provided by operating activities	<u>6,596,291</u>
Cash flows from capital and related financing activities:	
Payments for capital assets	(44,393,311)
Advances from bond purchase agreements	22,852,263
Contributions from the Government of Puerto Rico	<u>10,186,818</u>
Net cash used in capital and related financing activities	<u>(11,354,230)</u>
Cash flows from and net cash provided by investing activity:	
Interest received	<u>4,537</u>
Net decrease in cash	(4,753,402)
Cash at beginning of year	<u>7,566,788</u>
Cash at end of year	<u>\$ 2,813,386</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss before non-operating revenues and contributions	\$ (1,023,765)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	4,914
Change in assets and liabilities:	
Decrease in contribution receivable - Government of Puerto Rico	7,425,659
Increase in prepaid assets	(1,802)
Increase in accrued payroll taxes and other expenses	<u>191,285</u>
Net cash provided by operating activities	<u>\$ 6,596,291</u>

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Port of the Americas Authority (the "Authority") is an instrumentality of the Government of Puerto Rico created by Law No. 171 of August 11, 2002, as amended. On June 28, 2004 the law that created the Authority was amended by Law No. 166 to change the name of the port to "Puerto de Las Americas Rafael Cordero Santiago". Also, on September 22, 2004, the Puerto Rico Legislature enacted Law No. 409 to provide a \$250 million financing for the development of the project. The main purpose of the Authority is to provide an alternative to container transshipment port in the south of Puerto Rico. By law, the Puerto Rico Infrastructure Financing Authority (PRIFA) will provide administrative and other assistance to the Authority, until the Board of Directors of the Port of the Americas Authority determines, through the adoption of a resolution, that the Authority is prepared to continue operations on its own. Refer to Note 11.

Basis of presentation

The Authority reports its financial position and results of operations as an enterprise fund, similar to private business enterprises on which the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of accounting

As an enterprise fund, the Authority follows the accrual method of accounting. 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. Pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting", the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Accounting policies

The Authority's accounting policies are in accordance with the requirements of the law under which it was created and with accounting principles generally accepted in the United States of America.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A summary of the Authority's significant accounting policies applied in the preparation of the accompanying financial statements follows:

a. Governmental contributions

The Authority follows the provisions of Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement establishes accounting and financial reporting standards for nonexchange transactions, which includes contributions from the Government of Puerto Rico and other entities. These contributions are classified as either Government-Mandated Nonexchange Transactions or Voluntary Nonexchange Transactions and Revenues.

b. Capital assets

The Authority's capital assets consist of construction in progress, including design and planning costs, office equipment and a vehicle.

Capital assets are recorded at cost or estimated historical cost. Major renewals and improvements are capitalized while replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense as incurred. Upon retirement or other disposal of properties, the related cost and accumulated depreciation are removed from the accounts. Gains or losses on sale or retirement of properties are reflected in earnings.

The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project.

Estimated useful lives of office equipment and vehicle are three and five years, respectively.

The Authority capitalized interest in the amount of approximately \$10,186,818 during the year ended June 30, 2010.

c. Use of estimates

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

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Net assets

Net assets represent the difference between assets and liabilities and are presented in three components, when applicable, as follows:

1. Invested in capital assets, net of related debts - Consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
2. Restricted net assets - Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Authority's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
3. Unrestricted net assets - Consist of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debts".

e. Risk management

The Authority is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, environmental and other losses. The Authority is covered with adequate insurance for these risks.

f. Long-lived assets

The Authority reviews the carrying value of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell. The Authority has not identified any significant impairment of its long-lived assets as of June 30, 2010.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Authority has not yet adopted:

	<u>Statement</u>	<u>To be adopted in Fiscal year ending</u>
54	Fund Balance Reporting and Governmental Fund Type Definition	June 30, 2011
57	OPEB Measurements by Agent Employers And Agent Multiple-Employer Plans	June 30, 2012
60	Accounting and Financial Reporting for Service Concession Arrangements	December 15, 2011
61	The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34	June 15, 2012
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	December 15, 2011

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

NOTE 2 CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority maintains all cash deposits in governmental banks located in Puerto Rico.

Deposits in governmental bank accounts are uninsured and uncollateralized. The cash and deposits in the Government Development Bank are excluded from the requirements of Law No. 69 of August 14, 1991, "Law regulating the deposit of public funds and to provide about security", and the Authority does not have a deposit policy on these deposits. At June 30, 2010 the Authority's bank balance in the governmental bank accounts was \$2,987,446.

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NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Information about capital assets as of June 30, 2010 is as follows:

	<u>June 30,</u> <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2010</u>
Being depreciated:				
Office equipment	\$ 1,830	\$ 10,627	\$ -	\$ 12,457
Vehicle	<u>22,018</u>	<u>-</u>	<u>-</u>	<u>22,018</u>
	23,848	10,627	-	34,475
Less: accumulated depreciation	<u>(17,242)</u>	<u>(4,914)</u>	<u>-</u>	<u>(22,156)</u>
	6,606	5,713	-	12,319
Not depreciated:				
Construction in process	<u>224,035,698</u>	<u>37,046,307</u>	<u>-</u>	<u>261,082,005</u>
	<u>\$224,042,304</u>	<u>\$37,052,020</u>	<u>\$ -</u>	<u>\$261,094,324</u>

Port of the Americas Authority is developing a deep draft port in the southern coast of Puerto Rico (Municipality of Ponce) with a terminal at Ponce Harbor. The terminal required federal authorizations under Section 10 of the Rivers and Harbors Act as well as under Section 404 of the Clean Water Act (Section 10 and Section 404 Permits). An additional permit under Section 103 of the Marine Protection, Research and Sanctuaries Act (Section 103 Permit) also was required for the Ponce Harbor navigation channel, where dredging and ocean disposal of the dredged material has been completed. The Authority obtained all the necessary permits from the federal government.

As the responsible Federal official, the District Engineer for the Jacksonville District determined that the activity constitutes a major federal action that affects the quality of the human environment, hence requiring the preparation of a Final Environmental Impact Statement (FEIS) as mandated by the National Environmental Policy Act. The Authority, as the lead agency for the Government responsible for obtaining all the required permits and endorsements for the Project, provided information and assisted the U.S. Army Corps of Engineers (USACE) in the preparation of the FEIS. All permits were issued by USACE to the Authority on February 4, 2005. Refer to Note 10.

(Continues)

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NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (CONTINUED)

During the fiscal year ended June 30, 2010 the Authority paid to Shanghai Zhenhua Port Machinery Co, Ltd. (ZPMC) the amount of \$2,262,460 for the construction of two units of ship-to-shore cranes contracted in a prior year for a total of approximately \$22.6 million. In January 2010, the Authority paid the amount of \$99,715 for custom duties and bond required to import the cranes. Also, the Authority paid to Luis Ayala Colón Sucrs., Inc. the amount of \$411,950 to assist the personnel of ZPMC in the delivery of the cranes. This amount was claimed and deducted to ZPMC. Refer to Note 9.

NOTE 4 LAND FACILITIES

The Port of Ponce is owned by the Autonomous Municipality of Ponce. As of June 30, 2010 the Authority had an agreement with the Municipality for the use and exploitation of the facilities and some of the Municipality's adjacent properties under certain terms and conditions. On September 30, 2010 the agreement expired and the Municipality of Ponce commenced negotiations with the Central Government to continue directly with the development and operation of the port facilities. Refer to Note 11.

NOTE 5 BOND PURCHASE AGREEMENTS

On April 20, 2005 the Authority entered into a bond purchase agreement with the Government Development Bank for Puerto Rico (GDB), whereby GDB agreed to disburse the Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of \$70 million (Port of the Americas Authority 2005 Series A Bond). The proceeds of the bonds are to be used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015. The principal amount may be paid with any of the following: (1) a long-term bond issue once the project is completed, (2) other revenue of the Port of the Americas Authority, or (3) legislative appropriations as established in Act No 409 of September 22, 2004 (Act No. 409). Principal and interest payments are guaranteed by the Government of Puerto Rico by Act No. 409. As of June 30, 2010, the principal outstanding under this bond purchase agreement amounted to \$70 million.

On August 31, 2005 and November 10, 2005, the Authority entered into additional bond purchase agreements with GDB whereby GDB agreed to disburse the Authority from time-to-time certain bond principal advances up to a maximum aggregate principal amount of \$40 million (Port of the Americas Authority 2005 Series B Bond) and \$140 million (Port of the Americas Authority 2005 Series C Bond), respectively, with the following terms:

- The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable on January 15, 2015.

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NOTES TO FINANCIAL STATEMENTS

NOTE 5 BOND PURCHASE AGREEMENTS (CONTINUED)

- The principal amount should be paid with any of the following: (1) a long-term bond issue once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Act No. 409.

As of June 30, 2010, the principal balance outstanding under Series B Bond amounted to \$40 million, and under Series C Bond amounted to \$94,713,353, respectively.

The following summarizes the activity in bond purchase agreements for the fiscal year ended June 30, 2010:

Balance as of June 30, 2009	\$181,861,090
Advances	<u>22,852,263</u>
Balance as of June 30, 2010	<u>\$204,713,353</u>

In November 2009, the Government Development Bank of Puerto Rico increased the Authority's access to the line of credit by \$15.4 million for a total authorized access of \$210.4 million under a total approved line of credit of \$250 million. Refer to Note 10.

NOTE 6 NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBTS

In accordance with the requirements of GASB Statement No. 34, net assets classification "invested in capital assets" as of June 30, 2010 is disclosed as follows:

Capital assets, net of accumulated depreciation	\$ 261,094,324
Bond purchase agreements attributable to the acquisition, construction or improvements of capital assets	(204,713,353)
Other liabilities	<u>(13,232,356)</u>
	<u>\$ 43,148,615</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 CONSTRUCTION AGREEMENTS

The Authority has entered into various construction agreements to develop the Port, as follows:

- a. Construction of Phase II - On April 20, 2006 the Authority contracted the services of Del Valle Group, S.P. (Del Valle) to build Phase II, rehabilitation of a container yard adjacent to Piers 4, 5 and 6. The contract amount, including amendments through February 9, 2009, is \$43,455,254. Construction costs totaling \$5,363,181 were paid to Del Valle during the year ended June 30, 2010. The balance of the contract is the retainage payable of \$128,855 as of June 30, 2010.
- b. Dredging project - On May 18, 2005 the Authority contracted the services of Weeks de Puerto Rico, Inc. (Weeks) for the dredging project of the Ponce Bay. The contract amount, including amendments through October 2008, is \$13,287,333. The balance of the contract is the retainage payable of \$132,923 as of June 30, 2010.
- c. Construction manager - On May 9, 2005 the Authority contracted the services of Iglesias Vázquez & Associates, P.S.C. (Iglesias) to perform the designing of the Port, and any inspections, evaluation, experiments, analyses and others. The contract amount, including amendments through June 30, 2009, is \$11,225,277. Construction costs totaling \$910,748 were paid to Iglesias during the year ended June 30, 2010. The balance of the contract is \$540,916, payable as of June 30, 2010.
- d. Construction of Phase III - On March 12, 2007 the Authority contracted the services of Del Valle Group, SP to build Phase III, an improvement to the entrance of the Port. The contract amount, as amended through October 31, 2009, is \$4,670,021. Construction costs totaling \$452,002 were paid to Del Valle during the year ended June 30, 2010. The balance of the contract is the retainage payable of \$15,000 as of June 30, 2010.
- e. Construction of Phase III A.2 - On July 2, 2007 the Authority contracted the services of Del Valle Group, SP to construct a storm sewer channel, relocate the sewer, potable water and power distribution system. The contract amount, as amended on March 23, 2010, is \$83,364,640. Construction costs totaling \$22,279,459 were paid during the year ended June 30, 2010. Also, construction costs totaling \$4,604,006 were payable as of June 30, 2010. The balance of the contract is \$41,642,079, including a retainage payable of \$5,215,283 as of June 30, 2010.

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 CONSTRUCTION AGREEMENTS (CONTINUED)

- f. Inter-agency contract - On August 29, 2007 the Authority signed an agreement with the Aqueduct and Sewer Authority (AAA) in which the latter agreed to reimburse the Authority up to \$4 million for the relocation of the sewer and potable water distribution system to support the Port of the Americas. The cost of this construction is estimated at approximately \$10.4 million.

NOTE 8 COMMITMENT

On March 11, 2010 the Authority contracted UBS Financial Services, Inc. of Puerto Rico (UBS) as financial advisor in a long-term concession and lease agreement that the Authority will enter with PKCT Corporation, a Korean entity. UBS would perform a review of the agreement. The negotiations with PKCT ended in the second quarter of 2010, and the contract with UBS expired in December 2010.

NOTE 9 CONTINGENCIES

The Authority is a party in several expropriation proceedings before the San Juan Superior Court (the Court) represented by the Puerto Rico Department of Justice and outside legal counselors. The expropriations of certain parcels of land were commenced in 2005, 2006 and 2007 by the Puerto Rico Roads and Transportation Authority (RTA) and the Puerto Rico Land Administration (LA).

In 1990 the RTA expropriated certain parcels of land located at Ponce, Puerto Rico. The total aggregate amount paid to the party with interest as of June 30, 2010 was approximately \$15,084,000 based on the valuation reports of an independent appraiser contracted by the RTA. On September 6, 2010 the First Instance Court notified sentence requiring an additional payment of \$13,553,500 for a total appraised value of the property of \$28,437,500 (including the amount previously paid by the Authority). The sentence was appealed by the Authority and also a request for reconsideration was filed by the party with interest asking land to be appraised at \$35,695,000. The case is still under the Court's consideration.

The Authority has an agreement for services with the LA for preparing, filing and defending expropriations of land before the Court. As of June 30, 2010 there are other pending expropriation cases with an aggregate appraised value of \$7,283,000, determined by an independent appraiser contracted by the LA. The expropriations have been contested by the interested parties over the years. As of June 30, 2010 the total aggregate amount of \$7,283,000 has been paid to the former owners of the expropriated parcels of land. The interested parties claim a total appraised value of \$27,407,200. As of December 2010 the cases are in the discovery stage and no final determinations have been made by the Court. The Authority and its legal counselors intend to vigorously contest the above expropriation cases.

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NOTES TO FINANCIAL STATEMENTS

NOTE 9 CONTINGENCIES (CONTINUED)

On July 12, 2008 the Authority purchased two ship-to-shore gantry cranes from Shanghai Zhenhua Port Machinery Co, Ltd. ("ZPMC"), a company organized under the laws of the Peoples Republic of China. Subsequent to the delivery of the cranes to the Authority's facilities in Ponce, Puerto Rico, a dispute has arisen under the terms and conditions of the contract of sale as to which party is responsible for payment of the discharging cost to off load the two cranes from the carrying vessel. The amount deducted from the final payment to ZPMC is \$411,950. Refer to Note 3.

NOTE 10 SUBSEQUENT EVENTS

In August 2010 the Government of Puerto Rico approved a legislative assignment of \$16.5 million for the payment of principal and interest of the Series A Bond and the payment of interest only of the Series B and C Bonds of the Port of the Americas Authority under the bond purchase agreements with the Government Development Bank for Puerto Rico.

In November 2010 the Government Development Bank for Puerto Rico approved an increase of \$19.6 million in the line of credit for a total authorized access of \$230 million under a total line of credit of \$250 million.

The US Corps of Engineers permit for the development of the Port of the Americas was extended until February 4, 2011. On December 15, 2010 the Authority requested an additional 5-year extension to allow for the full development of the Port.

NOTE 11 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As of September 30, 2010 the Authority had not been able to negotiate a contract for the operation of the port facilities. The Autonomous Municipality of Ponce entered into negotiations with the Central Government in order to transfer the Port of the Americas operations to the Municipality of Ponce. The Authority's continuation as a going concern is dependent on the results of the negotiations between the Central Government and the Municipality of Ponce. These financial statements do not include any adjustments that may result from the outcome of this uncertainty.