Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Supplementary Information as of and for the Year Ended June 30, 2010, and Independent Auditors' Report

Puerto Rico Trade and Export Company
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Management's Discussion and Analysis
Year Ended June 30, 2010

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Independent Auditors' Report

To the Board of Directors of
Puerto Rico Trade and Export Company
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Puerto Rico Trade and Export Company (the Company), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2010, which collectively comprise the Company's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Company'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Puerto Rico Trade and Export Company as of June 30, 2010 and the respective changes in financial position and where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule presented on pages 2 through 9 and page 33, respectively, are not a required part of the basic financial statements, but are 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 13, 2010
San Juan, Puerto Rico

Stamp No. 2570185 was affixed
to the original of this report.
License Exp. December 1, 2011

This section of the Puerto Rico Trade and Export Company's (the Company) annual financial report presents management's discussion and analysis of the Company's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the Company's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Net assets of the Company decreased from \$120.2 million as of June 30, 2009 to \$115.3 million as of June 30, 2010, comprised of a decrease in net assets of the Company's business-type activities of \$5.3 million.

- The Company continued with an interim loan facility with Banco Popular of Puerto Rico originated during the year 2008 for the construction of new warehousing facilities in the Free Trade Zone. The loan facility amounts to \$42.9 million bearing interest at a rate of 6.142% of which \$16.3 million is outstanding as of June 30, 2010.

- The largest portion of the Company's net assets (92%) reflects its investment in capital assets (e.g., buildings, land, machinery, and equipment). The Company uses these capital assets to provide warehouse facilities and services to exporting corporations, as well as for the overall administration of the Company.

- During December 2009 and February 2010, \$80 million of the collateralized promissory notes were redeemed with such proceeds used for the payment of the related collateralized notes in the same amount. During August 2009 and April 2010, the Company issued additional collateralized promissory notes in the amount of \$73.9 million. The proceeds from such notes were invested in obligations that qualify as permitted investments. The net effect of such transactions generated interest income in the amount of approximately \$527 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three parts – management's discussion and analysis (this section), the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the Company:

- The first two statements are government-wide financial statements that provide information about the Company's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the statement of net assets and the statement of activities.

- The remaining statements are fund financial statements of the Company's major and non-major governmental funds, for which activities are funded primarily from Commonwealth appropriations and for which the Company follows a modified accrual basis of accounting, and the Company's proprietary fund, which operates similar to business activities and for which the Company follows an accrual basis of accounting.

- The basic financial statements also include the notes to financial statements section that explains some of the information in the government-wide and fund financial statements, and provides more detailed data.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the Company as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the Company's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Company's most significant funds and not the Company as a whole. The Company has two fund types:

- ***Governmental Funds*** – Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. Governmental funds financial statements focus on current inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. This information may be useful in evaluating the Company's current financing requirements. The Company maintains eleven individual governmental funds.

- ***Proprietary Fund*** – The Company's primary activities are included in its proprietary fund, which is accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through revenue derived from the rental of commercial facilities.

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FINANCIAL ANALYSIS OF THE COMPANY AS A WHOLE

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the government-wide financial statements for the fiscal years ended June 30, 2010 and 2009:

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current assets	$ 17,462,699	17,052,901	17,995,259	14,291,406	35,457,958	31,344,307
Other assets	110,759	79,894	180,978,004	187,693,607	181,088,763	187,773,501
Capital assets	4,526,328	4,684,059	117,753,684	118,851,891	122,280,012	123,535,950
Total assets	22,099,786	21,816,854	316,726,947	320,836,904	338,826,733	342,653,758
Liabilities:						
Current liabilities	11,678,531	11,816,723	24,784,584	20,266,969	36,463,115	32,083,692
Long-term liabilities	—	—	187,039,380	190,357,249	187,039,380	190,357,249
Total liabilities	11,678,531	11,816,723	211,823,964	210,624,218	223,502,495	222,440,941
Net assets:						
Invested in capital assets, net of related debt	4,526,328	4,684,059	101,480,484	105,281,526	106,006,812	109,965,585
Restricted	1,096,366	993,538	—	—	1,096,366	993,538
Unrestricted	4,798,561	4,322,534	3,422,499	4,931,161	8,221,060	9,253,695
Total net assets	$ 10,421,255	10,000,131	104,902,983	110,212,687	115,324,238	120,212,818

In overall, the net assets of the Company decreased $5.3 million or 4% from $120.2 million to $115.3 million. Key elements for the decrease in net assets are as follows:

- Current assets increase in mainly due to an increase of $3.7 million in cash accounts in the business-type activities.

- Capital assets decrease is mainly due to depreciation expense of $4.1 million and the transfer of the building Edificio Juan Bigas Molina to the Municipality of Ponce, P.R. by $547 thousand in the business-type activities, net of an increase of $2.7 million in construction in progress related to the new warehouse facilities in the Free Trade Zone.

- Current liabilities increased $4.4 million or 13.7% from $32.1 million to $36.5 million. In the business-type activities there was an increase in notes payable of $2.7 million due to the construction of new warehousing facilities and an increase in accrued expenses for $1.3 million mainly due to the accrual of vacation and sick leave due to the transfer of the salaries paid by the governmental administrative fund to the proprietary fund.

- Long term liabilities decreased $3.3 million or 1.7%. At June 30, 2010 the Company had investment securities and note payable debt outstanding of $180.9 million, as a result of the collateralized promissory notes redeemed of $80 million and the issuance of $73.9 million during the current year.

This resulted in a decrease in long term debt of $6.1 million, net by an increase of $3 million in the legal claims accrual.

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	$ 175,612	184,855	16,138,323	16,712,089	16,313,935	16,896,944
Operating grants and contributions	5,159,851	4,179,699	—	—	5,159,851	4,179,699
General revenue:						
Interest and investment earnigs	16,011	281,253	9,411,154	15,703,548	9,427,165	15,984,801
Other income	898,895	53,366	224,047	2,526,802	1,122,942	2,580,168
Transfer	1,161,174	—	(1,161,174)	—	—	—
Total revenues	7,411,543	4,699,173	24,612,350	34,942,439	32,023,893	39,641,612
Program expenses						
Administration	2,350,348	3,061,106	—	—	2,350,348	3,061,106
Employment development incentive	2,528,119	3,377,110	—	—	2,528,119	3,377,110
Economic development incentive	255,854	350,975	—	—	255,854	350,975
Tuition services	283,146	274,816	—	—	283,146	274,816
Promotion and commercial development	55,783	799,711	—	—	55,783	799,711
Payment due to Commonwealth	1,517,169	10,216,427			1,517,169	10,216,427
Rental activities expenses and other	—	—	20,512,081	18,405,567	20,512,081	18,405,567
Interest expense	—	—	8,862,870	13,910,756	8,862,870	13,910,756
Loss on disposition of real estate	—	—	547,103	—	547,103	—
Total expenses	6,990,419	18,080,145	29,922,054	32,316,323	36,912,473	50,396,468
Increase (decrease) in net assets	$ 421,124	(13,380,972)	(5,309,704)	2,626,116	(4,888,580)	(10,754,856)

During the year ended June 30, 2010, the Company's total revenues decreased by approximately $7.6 million or 19.2%, from $39.6 million for the year ended June 30, 2009 to $32.0 million for the year ended June 30, 2010. The decrease is the net effect of an increase in operating grants approved during the fiscal year by the Legislature of Puerto Rico (the Legislature), included within the governmental funds of approximately $1 million for the Business Women Fund and $864 thousand included in other income related to a favorable legal settlement, combined with a decrease in rental revenues for an approximated $600 thousand, a decrease in other income of approximately $2.3 million related to the gain on sale of real estate in prior year and a decrease in interest and investment earnings of approximately $5.7 million related to the collateralized notes in the business-type activities.

Total expenses decreased by approximately $13.5 million or 26.8%. Key elements for this decrease are, in the governmental activities, there was a decrease in the payment due to the Commonwealth for $8.7 million related to unused expired grants, a decrease in all the program expenses of $1.7 million and a decrease in the administrative fund of $711 thousand. In the business-type activities, the decrease is due to the interest expense of $5.1 million related to the collateralized notes, net of an increase of $3 million related to a legal claim accrual.

GOVERNMENTAL FUND RESULTS

The Company has two major governmental funds, and nine non-major governmental funds. Following is an analysis of the financial position and results of operations of the Company's major governmental funds:

Administrative Fund

The fund's operating objective is to provide funds for administrative functions of the Company not accounted for in other governmental funds such as accounting, personnel, purchases and general services. The fund received appropriations from the Commonwealth to fund these expenditures.
During fiscal year 2010, deficit was eliminated due to the transfer of employee's salaries from the administrative fund to the proprietary fund. Effective, fiscal year 2011 the Company will not receive funds from the Commonwealth and should become financially independent.

Direct Employment for Urban Centers Fund

The fund's operating objective is to provide grants of salary incentives for small and medium size entities located in the urban centers. This program wants to strengthen and revitalize the urban centers. The fund receives appropriations from the Commonwealth to fund these incentives.

During the year ended June 30, 2010, this fund received appropriations from the Commonwealth of Puerto Rico in the amount of $1.3 million. Net assets were used for its intended purpose during the current year with the remaining balance to be used in the upcoming years. This fund also generated approximately $12 thousand in interest revenue derived from interest-bearing deposits and $864 thousand related to the settlement of a legal case.

Following is an analysis of the financial position and results of operations of the Company's non-major governmental funds:

Key for Your Business Fund

This fund was created with the objective of providing incentives for the creation and strengthening of small and medium businesses.

During the fiscal year 2010, no appropriations were received from the Commonwealth of Puerto Rico. As of June 30, 2010 the amount of approximately $1.5 million of the operating grant expired unused and is payable to the Commonwealth of Puerto Rico.

Economic Incentive for Roosevelt Roads Fund

This fund is used to account for resources and expenditures related to the grant of economic incentives for new business development for persons within the east coast, which were affected by the closing of the naval base of Roosevelt Roads. The objective is to improve the probabilities of success of the new merchant, increasing its working capital and providing technical advice to them.

During the fiscal year 2010, the fund continued to provide incentives for the eligible merchants of the east coast, with the unexpended balance from funds received in previous years for the amount of approximately $93 thousand. During the current fiscal year, no additional funds were provided by the Legislature. As of June 30, 2010 approximately $8.4 million of the operating grant expired unused and is payable to the Commonwealth of Puerto Rico.

Business School Fund

This fund is used to account for expenditures related to activities for continued training on commercial development to individuals or enterprises engaged in commercial activities through the Business School Division.
During the fiscal year 2010, no funds were provided by the Legislature. The fund generated approximately $134 thousand in fees collected from training and seminars provided as part of the tuition services.

Commercial Impact to Urban Centers Fund

This fund is used to account for resources and expenditures related to activities conducted to revitalize the commerce on the traditional urban centers through the performance of activities designed to attract the flow of clients to the urban centers.

During the fiscal year 2010, this fund received $643 thousand in appropriations from the Commonwealth of Puerto Rico. A portion of its net assets were used to pay incentives during the current year with the remaining balance to be used in the upcoming years.

Mitigation Fund

This fund was created with the objective of providing flood mitigation. During the fiscal year 2010, no funds were appropriated by the Legislature. As of June 30, 2010 the amount of approximately $1.3 million expired unused and is payable to the Commonwealth of Puerto Rico.

World Trade Center Fund

This fund is used to account for resources and expenditures related to the development of enterprises in Puerto Rico, and the development and maintenance of information systems for the service management of the enterprises in Puerto Rico.

During the fiscal year 2010, this fund provided incentives in accordance with its objective, but did not generate any revenues, as no grants were provided by the Legislature. The fund generated approximately $1 thousand in interest revenue derived from interest-bearing deposits.

Ideal Certification Fund

This fund was created with the objective of providing businessmen interested in establishing, operating or expanding their business, certifications from the government agencies in order to expedite such process. The fund had no significant activity during the current fiscal year.

Merchant's Register Fund

This fund was created with the objective of preparing a Merchant's Register for the preparation of statistical and economic studies. The fund had no significant activity during the current fiscal year.

Business Women Fund

This fund was created to implement an economic incentive program to develop women that are family heads in small business. During the fiscal year 2010, this fund received $1 million in appropriations from the Commonwealth of Puerto Rico. A portion of its net assets were used to pay incentives during the current year with the remaining balance to be used in the upcoming years.

PROPRIETARY FUND RESULTS

Net assets of the Company's proprietary fund, decreased during the year ended June 30, 2010 by $5.3 million. Following is an analysis of the financial position and results of operations of the proprietary fund.

The total net assets for the proprietary fund amount to $104.9 million, of which $101.5 million, ninety-seven percent (97%) is reflected as invested in capital assets, net of related debt, with an unrestricted fund of $3.4 million. The proprietary fund total assets as of June 30, 2010 amounted to $317 million, versus $321 million in fiscal year 2009 which represents a decrease of $4 million (1.3%) as a result of the redemption of collateralized notes for $80 million and the issuance of additional collateralized notes for $73.9 million. The net capital assets for the year then ended amount to $117.8 million, which represents thirty seven percent (37%) of total assets, the same as 2009 net capital assets which amounted to $118.9 million, thirty seven percent (37%) of total assets. Current assets and non current assets amount to $18.2 million and $298.7 million, respectively in fiscal year 2010, while in 2009 such captions amounted to $14.5 million and $306.5 million, respectively.

During the fiscal year ended June 30, 2010, the Company decreased their rent-derived operating revenue in the amount of approximately $600 thousand. Operating expenses increased by approximately $2.1 million, mainly due to the legal claim accrual of $3 million and the increase in depreciation and amortization of $643 thousand, net by the decreases in voluntary separation costs by $481 thousand and occupancy and related expenses by $813 thousand. Non-operating revenues decreased from $4.3 million in 2009 to $225 thousand in 2010 or 95% mainly due to the decrease in interest income related to the collateralized notes by $1.2 million, also, in 2009 there was a gain on sale of real estate of $2.3 million while in 2010 there was a loss on disposition of real estate of $547 thousand.

COLLATERALIZED PROMISSORY NOTE ADMINISTRATION

At June 30, 2010, the Company had a collateralized promissory note in the amount of $180.9 million. The debt is fully collateralized by permitted and qualified investments in the same amount, with an approximated fair value of $182.7 million. See note 9 to the basic financial statements.

CAPITAL ASSETS

The Company's investment in capital assets for its business-type activities as of June 30, 2010 amounted to approximately $101.5 million, net of accumulated depreciation, amortization and related debt. Capital assets include rental property, information systems, leasehold improvements, office furniture, equipment, capital leases and vehicles. The decrease for fiscal year 2010 of approximately $1.1 million (1%) is the net effect of capital expenditures of approximately $2.7 million, net of the accumulated depreciation recorded during fiscal year 2010 of approximately $4.1 million. See note 6 to the basic financial statements for additional details on capital assets at the end of the year and the activity during the fiscal year.

Major capital asset events during the fiscal year included the completion of one of the two warehouse facilities under construction in the Free Trade Zone. The Company expects to complete the construction of the second warehouse facilities during fiscal year 2011, which would increase its client's base and enhance the Company's contribution to the government's economic development policy.

ADMINISTRATIVE FUND BUDGETARY HIGHLIGHTS

During the fiscal year ended June 30, 2010, there was no amendment to the administrative fund original budget. A total positive variance of $1.1 million was noted between budget and actual figures. The main reason for such variance is due to the transfer of payroll and related accruals to the proprietary fund, as the Company will not receive funds assigned by the Legislature because the transition period ended June 30, 2010.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Puerto Rico Trade and Export Company finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Trade and Export Company, Controller's Office, PO Box 195009, San Juan, Puerto Rico 00919-5009.

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Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Assets

June 30, 2010

		Governmental Activities	Business-Type Activities	Total
Assets:				
Cash	$	7,026,901	11,770,843	18,797,744
Funds held by Commonwealth of Puerto Rico		7,246	—	7,246
Interest bearing deposits (including $1,096,366 restricted)		10,238,007	3,646,260	13,884,267
Rent receivable, net of allowance for uncollectibles of		—	1,034,403	1,034,403
Accrued interest receivable		15,009	1,659,104	1,674,113
Prepaid expenses		750	59,435	60,185
Internal balances		174,786	(174,786)	—
Investment securities - restricted		—	180,915,000	180,915,000
Other receivables		110,759	63,004	173,763
Capital assets:				
Non-depreciable assets		578,720	68,712,167	69,290,887
Depreciable assets, net		3,947,608	49,041,517	52,989,125
Total assets		22,099,786	316,726,947	338,826,733
Liabilities:				
Notes payable		—	16,273,200	16,273,200
Accounts payable		1,723,302	2,004,939	3,728,241
Payment due to Commonwealth of Puerto Rico		9,922,118	—	9,922,118
Accrued interest payable		—	1,585,008	1,585,008
Accrued liabilities		33,111	4,879,082	4,912,193
Current portion obligations under capital leases		—	42,355	42,355
Liabilities - Due over one year:				
Obligations under capital leases		—	38,907	38,907
Deposits from tenants		—	2,585,621	2,585,621
Borrowed funds payable from restricted assets		—	180,915,000	180,915,000
Accrual for legal claims		—	3,499,852	3,499,852
Total liabilities		11,678,531	211,823,964	223,502,495
Net assets:				
Invested in capital assets, net of related debt		4,526,328	101,480,484	106,006,812
Restricted		1,096,366	—	1,096,366
Unrestricted		4,798,561	3,422,499	8,221,060
Total net assets	$	10,421,255	104,902,983	115,324,238

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets: Governmental Activities	Net Revenue (Expense) and Changes in Net Assets: Business-Type Activities	Net Revenue (Expense) and Changes in Net Assets: Total
Governmental activities:						
Administration	$ 2,350,348	—	2,173,000	(177,348)	—	(177,348)
Employment development incentive	2,528,119	—	1,343,442	(1,184,677)	—	(1,184,677)
Economic development incentive	255,854	—	1,643,409	1,387,555	—	1,387,555
Tuition services	283,146	133,758	—	(149,388)	—	(149,388)
Promotion and commercial development	55,783	41,854	—	(13,929)	—	(13,929)
Payment due to Commonwealth	1,517,169	—	—	(1,517,169)	—	(1,517,169)
Total governmental activities	6,990,419	175,612	5,159,851	(1,654,956)	—	(1,654,956)
Business-type activities- Rental activities	29,922,054	16,138,323	—	—	(13,783,731)	(13,783,731)
Total	$ 36,912,473	16,313,935	5,159,851	(1,654,956)	(13,783,731)	(15,438,687)
General revenue:						
Interest and investment earnings				16,011	9,411,154	9,427,165
Other income				898,895	224,047	1,122,942
Total general revenue				914,906	9,635,201	10,550,107
Transfer				1,161,174	(1,161,174)	—
Change in net assets				421,124	(5,309,704)	(4,888,580)
Net assets - beginning of year				10,000,131	110,212,687	120,212,818
Net assets - end of year				$ 10,421,255	104,902,983	115,324,238

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet – Governmental Funds

June 30, 2010

Assets	Administrative	Direct Employment for Urban Centers	Other Governmental Funds	Total Governmental Funds
Cash	$ 484	736,802	6,289,615	7,026,901
Funds held by Commonwealth of Puerto Rico	—	—	7,246	7,246
Interest bearing deposits	—	644,104	9,593,903	10,238,007
Due from other funds	—	—	235,639	235,639
Other receivables - net	2,828	32,932	90,008	125,768
Prepaid expenses	—	—	750	750
Total	$ 3,312	1,413,838	16,217,161	17,634,311
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ —	127,988	1,595,314	1,723,302
Payment due to Commonwealth of Puerto Rico	—	—	9,922,118	9,922,118
Accrued liabilities	—	266	32,845	33,111
Due to other funds	—	—	60,853	60,853
Total liabilities	—	128,254	11,611,130	11,739,384
Fund Balances:				
Unreserved	3,312	—	—	3,312
Reserved for:				
Economic development incentive	—	—	2,224,914	2,224,914
Employment development incentive	—	1,285,584	—	1,285,584
Tuition services	—	—	873,791	873,791
Promotion and commercial development	—	—	410,960	410,960
Loan guarantee	—	—	1,096,366	1,096,366
Total fund balances	3,312	1,285,584	4,606,031	5,894,927
Total	$ 3,312	1,413,838	16,217,161	17,634,311

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds

June 30, 2010

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

Total fund balance of governmental funds	$	5,894,927
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds, net accumulated depreciation of $1,116,169		4,526,328
Net assets of governmental activities	$	10,421,255

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2010

	Administrative	Direct Employment for Urban Centers	Other Governmental Funds	Total Governmental Funds
Revenues:				
Appropriations from Commonwealth of Puerto Rico	$ 2,173,000	1,343,442	1,643,409	5,159,851
Tuition	—	—	133,758	133,758
Interest	—	12,054	3,957	16,011
Others	—	866,353	74,396	940,749
Total revenues	2,173,000	2,221,849	1,855,520	6,250,369
Expenditures:				
Current:				
Administration	2,232,439	—	—	2,232,439
Employment development incentive	—	2,526,837	—	2,526,837
Economic development incentive	—	—	250,626	250,626
Tuition services	—	—	279,929	279,929
Promotion and commercial development	—	—	25,688	25,688
Payment due to Commonwealth of Puerto Rico	—	—	1,517,169	1,517,169
Total expenditures	2,232,439	2,526,837	2,073,412	6,832,688
Transfer	1,161,174	—	—	1,161,174
Excess (deficiency) of revenue over (under) expenditures	1,101,735	(304,988)	(217,892)	578,855
Fund balances (deficit) - beginning of year	(1,098,423)	1,590,572	4,823,923	5,316,072
Fund balances - end of year	$ 3,312	1,285,584	4,606,031	5,894,927

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds

Year Ended June 30, 2010

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds	$	578,855
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlays ($9,297) exceed depreciation ($167,028) for the year.		(157,731)
Net change in net assets of governmental activities	$	421,124

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Assets – Proprietary Fund

June 30, 2010

Assets		
Current Assets:		
Cash	$	11,770,843
Interest bearing deposits		3,646,260
Rent receivable, net of allowance for uncollectibles of $1,874,180		1,034,403
Accrued interest receivable		1,659,104
Prepaid expenses		59,435
Due from other funds		60,763
Total current assets		18,230,808
Noncurrent Assets:		
Investment securities - restricted		180,915,000
Other assets		63,004
Capital assets:		
Non-depreciable assets		68,712,167
Depreciable assets, net		49,041,517
Total capital assets, net		117,753,684
Total noncurrent assets		298,731,688
Total	$	316,962,496
Liabilities and Net Assets		
Current Liabilities:		
Notes payable	$	16,273,200
Accounts payable		2,004,939
Accrued interest payable		1,585,008
Accrued expenses		4,879,082
Current portion of obligations under capital leases		42,355
Due to other funds		235,549
Total current liabilities		25,020,133
Noncurrent Liabilities:		
Obligations under capital leases		38,907
Deposits from tenants		2,585,621
Borrowed funds -Due over one year, payable from restricted assets		180,915,000
Accrual for legal claims		3,499,852
Total noncurrent liabilities		187,039,380
Total liabilities		212,059,513
Net Assets:		
Invested in capital assets, net of related debt		101,480,484
Unrestricted		3,422,499
Total net assets		104,902,983
Total	$	316,962,496

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund

Year Ended June 30, 2010

Operating revenue:		
Rent revenue	$	15,809,799
Other		328,524
Total operating revenue		16,138,323
Operating expenses:		
Salaries and employees benefits		7,405,291
Legal reserve		3,052,487
Occupancy and related expenses		3,001,602
Depreciation and amortization		4,174,279
Professional fees		649,341
Advertising		426,959
Insurance		805,284
Security services		610,428
Commercial development		57,061
Travel expenses		80,994
Office supplies		151,861
Other		96,494
Total operating expenses		20,512,081
Operating loss		(4,373,758)
Non operating revenue (expenses):		
Loss on disposition of real estate		(547,103)
Other income		224,047
Interest income and other		9,411,154
Interest expense		(8,862,870)
Total non operating expenses, net		225,228
Transfer		(1,161,174)
Change in net assets		(5,309,704)
Net assets - beginning of year		110,212,687
Net assets - end of year	$	104,902,983

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows – Proprietary Fund

Year Ended June 30, 2010

Cash flows from operating activities:	
Collection of rent	$ 15,646,586
Payments to employees	(9,060,312)
Payments to suppliers	(2,327,946)
Other operating revenues	269,521
Net cash provided by operating activities	4,527,849
Cash flows used in non capital financing activities:	
Proceeds from issuance of borrowed funds	73,915,000
Principal paid on collateralized notes	(80,000,000)
Interest paid on borrowed funds	(8,851,631)
Transfer of payroll accruals from governmental to proprietary fund	(1,161,174)
Net advances to and from other funds	(10)
Net cash used in non-capital financing activities	(16,097,815)
Cash flows used in capital and related financing activities:	
Acquisitions of capital assets	(3,076,072)
Payments of obligations under capital leases	(56,516)
Net cash used in capital and related financing activities	(3,132,588)
Cash flows from investing activities:	
Interest collected on interest-bearing deposits and restricted investments	9,410,957
Proceeds from non-operating activities	224,047
Proceeds from issuance of notes payable	2,702,835
Purchase of investment securities	(73,915,000)
Investment securities redeemd	80,000,000
Net increase in interest-bearing deposits	(39,518)
Net cash provided by investing activities	18,383,321
Net change in cash and cash equivalents	3,680,767
Cash, beginning of year	8,090,076
Cash, end of year	$ 11,770,843
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (4,373,758)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation and amortization	4,174,279
Changes in assets and liabilities:	
Decrease in rent receivable	6,272
Decrease in prepaid expenses	10,367
Decrease in other assets	83,501
Increase in accounts payable	449,476
Increase in accrued expenses	1,311,710
Decrease in deposits from tenants	(169,485)
Increase in accrual for legal claims	3,035,487
Total adjustments	8,901,607
Net cash provided by operating activities	$ 4,527,849

See accompanying notes to basic financial statements.

1. REPORTING ENTITY

The Puerto Rico Trade and Export Company (the Company) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Law No. 323 of December 28, 2003. The Company has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium-sized enterprises, and the export of products and services from Puerto Rico to other countries to strengthen the economy of the Commonwealth and promote the creation and retention of employments.

In accordance with Article 18 of Law No. 323, the balances and other funds available through other laws and special funds of the Puerto Rico Export Development Corporation and the Commerce Development Administration, which are under the custody of the Puerto Rico Department of Treasury, were transferred to the Company to allow it perform the functions, faculties and powers commended by this Law. A transition period of six years is expressly established to let the Company become financially independent. During such period, the Company shall submit an annual petition of funds to the Puerto Rico Office of Management and Budget (the OMB), subject to the approval of the Legislature of Puerto Rico of the Commonwealth of Puerto Rico, to carry on its governmental activities, and to provide incentives and services to the entrepreneurs and merchants of the Commonwealth. For fiscal years subsequent to the transition period, the Legislature of the Commonwealth of Puerto Rico, in the performance of its powers, could grant additional funds to maintain the incentive programs and services. The transition period ended effective June 30, 2010.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities.

Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Company elected to apply all applicable statements and interpretations issued by the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 and all FASB statements and interpretations issued after November 30, 1989, except for those that conflict or contradict GASB pronouncements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The statement of net assets and the statement of activities report information on all activities of the Company. The effect of interfund balances has been removed from the government-wide statement of net assets. The Company's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues, and other non exchange revenues. Business-type activities are financed through rental activities in connection with the proprietary fund's principal ongoing operations. Following is a description of the Company's government-wide financial statements.

The statement of net assets presents the Company's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, consists of capital assets, net of accumulated depreciation and amortization and any related debt.

- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenue include: charges paid by the tenants for the leasing of commercial facilities, amounts received from those who use or directly benefit from a program, and operating grants and contributions from parties outside the Company. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Company that are reported in the accompanying basic financial statements have been classified into governmental and proprietary funds.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements, with non major funds being combined into a single column.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

Government-Wide Financial Statement – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements – The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Company considers revenues to be available if they are collected within 60 days after the end of the fiscal year. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Governmental Funds – The following governmental activities of the Company are classified as major governmental funds:

- *Administrative Fund* – This fund is used to account for resources and expenditures related to administrative functions not accounted for in other funds such as accounting, personnel, purchases and general services. These functions are constituted by several departments independent from each other which are responsible for the supervision and coordination of all administrative matters of the Company. Effective June 30, 2010 the Company transferred all employees paid under the administrative fund to the proprietary fund, since for fiscal year 2011 the Company should become financially independent.

- *Direct Employment for Urban Centers Fund* – This fund is used to account for resources and expenditures related to the grant of salary incentives for the small and medium size entities located in the urban centers. This program wants to strengthen and revitalize the urban centers.

The following governmental activities of the Company are accounted for in other governmental funds:

- *Key for Your Business Fund* – This fund was created with the objective of providing incentives for the creation and strengthening of small and medium businesses.

- *Economic Incentive for Roosevelt Roads Fund* – This fund is used to account for resources and expenditures related to the grant of economic incentives for new business development for persons within the east coast, which were affected by the closing of the naval base of Roosevelt Roads. The objective is to improve the probabilities of success of the new merchant, increasing its working capital providing technical advice to them.

- *Business School Fund* – The Company provides continuous training and commercial development to individuals or enterprises engaged in commercial activities through the Business School Division.

- *Commercial Impact to Urban Centers Fund* – This fund is used to account for resources and expenditures related to activities conducted to revitalize the commerce on the traditional urban centers through the performance of activities designed to attract the flow of clients to the urban centers.

- ***Mitigation Fund*** – This fund was created with the objective of providing flood mitigation subsidies to small and medium businesses. During the fiscal year 2010, no funds were appropriated by the Legislature.

- ***World Trade Center Fund Project*** – This fund is used to account the resources and expenditures related to the development and maintenance of information systems for the service management of the enterprises in Puerto Rico, a sponsorship of a council of exportations among others activities related to the development of services and programs in accordance with the development plan of the Company.

- ***Ideal Certification*** –This fund was created with the objective of providing businessmen interested in establishing, operating or expanding their business, certifications from the government agencies in order to expedite such process.

- ***Merchant's Register Fund*** – This fund was created with the objective of preparing a Merchant's Register for the preparation of statistical and economic studies.

- ***Business Women Fund*** – This fund was created to implement an economic incentive program to develop women that are family heads in small business.

Proprietary Fund Financial Statements – The financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses are those that result from the Company providing the services that correspond to their principal ongoing operations. Operating revenues are generated from charges paid by the tenants for the leasing of commercial facilities and other related activities. Operating expenses for the proprietary fund include among others, the cost of personnel and contractual services, supplies and depreciation on capital assets. Revenues and expenses not meeting these definitions are reported as non operating revenues and expenses.

Interfund Balances – Interfund receivables and payables have been eliminated from the statement of net assets.

Investments – The Company follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools. For most other governmental entities it requires that most investments be reported at fair value in the statement of net assets. The Board of Directors (Board) established limitations and other guidelines on amounts invested and which investment transactions can be entered into. In addition, the Board may approve, as necessary, other transactions that the Company may enter into. Since the Company has a put and call options for the investments in portfolio, such investments were recorded at cost.

Allowance for Uncollectibles – The allowance for uncollectible receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectibility of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

Capital Assets – Capital assets, which include leasehold improvements, information systems, office furniture, equipment and vehicles, are reported in the business-type activities column and in the government-wide financial statements. Capital assets are defined by the Company as assets which have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Purchased capital assets are valued at historical cost. Donated fixed assets are recorded at their fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Generally, estimated useful lives are as follows:

Buildings	40 - 50 years
Leasehold improvements	Lesser of 10 years or lease term
Office furniture and equipment	3-5 years
Vehicles	5 years

Accounting for the Impairment or Disposal of Long-lived Assets – The Company follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2010, the Company evaluated its capital assets for impairment under the guidance of this Statement and determined that the possible impairment amount, if any, would not have a material impact in the Company's basic financial statements.

Compensated Absences – The employees of the Company are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed and for sick leave up to a maximum of 36 days. For the year ended June 30, 2010 the cost of accumulated vacation and sick leave of approximately $877 thousand was transferred from the government-wide financial statements to the proprietary fund as an accrued liability.

Rental Income – The Company leases commercial facilities under the operational method of accounting recognizing the rental income as earned during the term of the lease. The rent receivable is presented as the unpaid balance less the allowance for uncollectible accounts.

Property Taxes – The Company is exempt from the payment of Puerto Rico taxes, except real property taxes and excise taxes on certain purchases.

Risk Financing – The Company carries commercial insurance to cover for casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Company also pays premiums for workmen's compensation insurance to another component unit of the Commonwealth of Puerto Rico. There has been no settlement in excess of coverage amounts during the last three years.

3. CASH AND INTEREST BEARING DEPOSITS

The information presented below discloses the level of custodial credit risk assumed by the Company at June 30, 2010. Custodial credit risk is the risk that in the event of a financial institution failure, the Company's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. Funds deposited with the Government Development Bank (GDB) or the Economic Development Bank for Puerto Rico (EDB), component units of the Commonwealth, are not covered by this Commonwealth requirement.

As of June 30, 2010, the Company had $1.4 million deposited with GDB. The Company has certificates of deposit with EDB amounting to approximately $1.3 million as of June 30, 2010. The remaining balances of approximately $30.9 million are maintained in commercial banks. The interest bearing deposits include a certificate of deposit of $1,096,363 maintained with EDB as collateral for loans granted by EDB under the Program Key for your Business to qualified companies. When the loans are fully collected, the certificate of deposit plus the interest generated will be returned to the Company.

4. RENT AND TUITION RECEIVABLES

As of June 30, 2010, rent and tuition receivables were as follows:

	Rent	Tuition
Rent and land leases (including rent from government entities for approximately $261,042)	$ 2,908,583	—
Tuition fees receivables	—	82,000
	2,908,583	82,000
Less: Allowance for uncollectible accounts	1,874,180	82,000
	$ 1,034,403	—

5. INVESTMENTS

As of June 30, 2010, the Company had the following investments:

Investment Type	Coupon Rate	Rating	Maturity Date	Cost	Fair Market Value	Unrealized Gain
FHLMC	4.75%	AAA	4/9/2024	$ 137,000,000	137,000,000	—
First Puerto Rico Funds	5.90%	AAA	4/1/2030	43,915,000	45,747,573	1,832,573
				$ 180,915,000	182,747,573	1,832,573

The investments relate to the notes payable program, which involve matched transactions that generate a fixed spread of income to the Company. These investments are pledged as collaterals to the notes issued during the fiscal year for the same amount (refer to Note 9).

The investments are not recorded at fair value since they contain the call and put option described in Note 10, therefore, the investments are recorded at cost.

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, consists of the following:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Governmental Activities:				
Properties not being depreciated				
Land	$ 578,720	—	—	578,720
Total capital assets, not being depreciated	578,720	—	—	578,720
Properties being depreciated				
Building and building improvements	4,306,956	—	—	4,306,956
Furniture and equipment	737,696	9,297	—	746,993
Less accumulated depreciation	(939,313)	(167,028)	—	(1,106,341)
Total capital assets, being depreciated	4,105,339	(157,731)	—	3,947,608
Total governmental activities capital assets, net	$ 4,684,059	(157,731)	—	4,526,328
Business-type Activities:				
Rental Properties not being depreciated				
Land and land improvements	$ 59,655,145	—	—	59,655,145
Construction in progress	15,972,113	1,765,668	(8,680,759)	9,057,022
Total capital assets, not being depreciated	75,627,258	1,765,668	(8,680,759)	68,712,167
Rental Properties being depreciated				
Building and building improvements	84,806,610	9,406,117	—	94,212,727
Furniture and equipment	2,883,973	—	—	2,883,973
Sub-total	87,690,583	9,406,117	—	97,096,700
Other Properties Not For Rent being depreciated				
Building and building improvements	5,255,550	432,390	—	5,687,940
Furniture and equipment	4,130,901	152,656	—	4,283,557
Capital leases	206,090	—	—	206,090
Vehicles	370,112	—	—	370,112
Sub-total	9,962,653	585,046	—	10,547,699
Total cost of depreciable assets	97,653,236	9,991,163	—	107,644,399
Less accumulated depreciation				
Rental properties	(48,103,215)	(3,287,903)	—	(51,391,118)
Other properties not for rent	(6,325,388)	(886,376)	—	(7,211,764)
Total accumulated depreciation	(54,428,603)	(4,174,279)	—	(58,602,882)
Total capital assets, being depreciated	43,224,633	5,816,884	—	49,041,517
Total business-type capital assets, net	$ 118,851,891	7,582,552	(8,680,759)	117,753,684

Total aggregate interest costs capitalized as of June 30, 2010 amounts to $1,739,335, of which

$934,720 were capitalized during current fiscal year 2010.

The Company's principal leasing activities consist of building space rentals under non-cancelable operating leases. Lease terms expire at various future dates. Minimum future rentals to be received on non-cancelable leases for each of the next five years and thereafter are approximately as follows:

Year Ending June 30,	Amount
2011	$ 15,268,192
2012	7,841,329
2013	6,838,212
2014	5,446,701
2015	4,616,314
2016-2020	6,308,161
Total	$ 46,318,909

7. INTERNAL BALANCES

Internal balances as of June 30, 2010 are comprised of amounts due to and from the business-type fund and governmental funds, as shown below:

	Business Type Activities (PRTEC)	Others	Total
PRTEC	$ —	(174,786)	(174,786)
OTHERS	174,786	—	174,786
	$ 174,786	(174,786)	—

The transactions resulting in the balances shown in the table above are mainly due to payments made to (by) a fund(s) on behalf other fund(s) as result of cash shortage in such funds. Such transactions are non-interest bearing and short term in nature.

8. NOTES PAYABLE

On May 17, 2007, the Company entered into a Credit Agreement with various financial institutions. The Company was granted a non-revolving loan facility convertible to term loan advances in an aggregate principal amount of up to $42,925,000 to be used for the development and construction cost of a project and to cover certain expenses in connection with closing of the transaction.

The non-revolving loan facility bears an interest rate of 6.142%, is due on demand and is collateralized by real estate and construction of industrial facility. As of June 30, 2010 the outstanding balance amounted to $16,273,200.

		Beginning Balance	Increases	Decreases	Ending Balance
Notes payable	$	13,570,365	2,702,835	—	16,273,200

9. BORROWED FUNDS

In September 2005, the Company was authorized to issue up to $500 million in collateralized promissory notes. The proceeds received by the Company from the issuance of these notes shall be invested in obligations that qualify as "permitted investments" under applicable laws, and the investment guidelines adopted by the Company. Such notes have maturities not exceeding 20 years. These notes contain certain call and put options agreed by the Company and the creditor. The put options grant the Company the exercisable right, at the Company's sole discretion, to require the note holder to purchase, on established exercise dates, the collateral of this note at a price equal to 100% of the outstanding principal amount of the collateral securities. The call option permits the note holders, on the same established dates of the Company's put option, to require the Company to redeem the promissory notes at their outstanding principal amount. The call options on the notes are considered clearly and closely related to the notes, while the mirror put options held by the Company are considered in accounting for the fair value of the underlying investments. As a result no separate asset or obligation is recorded related to the put and call options.

On December 9, 2009 and on February 19, 2010, collateralized promissory notes amounting to $50 million and $30 million, respectively, were redeemed. On August 20, 2009 and April 6, 2010, the Company issued additional collateralized promissory notes in the amount of $30 million and $43.9 million, respectively. These notes pay interest semi-annually at a rate of 5.10% and 5.55%, respectively, and mature on August 19, 2024 and April 1, 2030, respectively.

These promissory notes are collateralized with investment securities with an aggregate fair value of $182,747,573. At June 30, 2010, the principal balance of the promissory notes outstanding under this program amounted to $180,915,000, of which $137 million have an interest rate of 4.75% and its maturity date is on April 9, 2024 and the other $43.9 million have an interest rate of 5.90% and its maturity date is on April 1, 2030.

The long-term debt activity for the year ended June 30, 2010, was as follows:

		Beginning Balance	Increases	Decreases	Ending Balance
Promissory notes	$	187,000,000	73,915,000	(80,000,000)	180,915,000
Accrual for legal claims		464,365	3,052,487	(17,000)	3,499,852
Deposits from tenants		2,755,106	96,132	(265,617)	2,585,621
	$	190,219,471	77,063,619	(80,282,617)	187,000,473

Promissory notes principal maturities and related interest payments in future years are as follows:

Year ending June 30,	Principal	Interest
2011	$ —	8,648,825
2012	—	8,648,825
2013	—	8,648,825
2014	—	8,648,825
2015	—	8,648,825
2016-2020	—	43,244,125
2021-2025	137,000,000	43,244,125
2026-2030	43,915,000	12,076,625
	$ 180,915,000	141,809,000

The Company has a non-cancelable capital lease obligation for office equipment. The term of the lease is for five years, beginning 2008 through 2014. The future commitments under this lease are as follows:

Year Ending June 30,	Amount
2011	$ 42,355
2012	22,639
2013	16,268
Total	$ 81,262

10. RETIREMENT SYSTEM

Defined Benefit Pension Plan

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

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature of Puerto Rico. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non occupational disabilities. However, a member must have at least 10 years of service to receive non occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payment monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $300 per month.

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

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Company is required by the same statute to contribute 9.275% of the participant's gross salary. Total payroll covered for fiscal year 2010 was approximately $5,989,000. Total employee and employer contributions for the year ended June 30, 2010 were approximately $222,000 and $235,000, respectively.

Defined Contribution Plan

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

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

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

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to any beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability. The total employee and employer contributions for the year ended June 30, 2010 were estimated to approximately $278,000 and $321,000, respectively.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42004, San Juan, PR 00940-2004.

11. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases office spaces under operating leases expiring in various years through 2014. Rental expense for the operating leases for the year ended June 30, 2010 amounted to approximately $778,000. As of June 30, 2010, the Company has entered into various construction agreements which have already been certified and paid, or accrued. Future construction commitments amount to approximately $45 thousand.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one (1) year as of June 30, 2010 are:

Year Ending June 30,	Amount
2011	$ 69,276
2012	60,800
2013	60,800
2014	15,200
Total	$ 206,076

Contingencies

At June 30, 2010, the Company is a defendant in various lawsuits, claims, legal proceedings and investigations resulting from the normal course of business covering a wide range of matters including but not limited to labor and breach of contracts. Management, after consultation with legal counsel, has established an accrual, which amounts to approximately $3.5 million as of June 30, 2010, to cover its estimate of the ultimate liability that may result from such legal claims. Legal counsels for the Company have advised that at this stage in the proceedings, they cannot offer an opinion as to the probable outcome.

12. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The Company's rental activities are directed for the most part to private enterprises, usually chain stores, small businesses and farmers, craftsmen and the like, with the purpose to initiate and keep in operation all types of agricultural and business activities.

13. SUBSEQUENT EVENTS

On July 1, 2010 and July 27, 2010 collateralized promissory notes for $72 million and $136 million, respectively, were issued. On July 9, 2010, collateralized promissory notes for $137 million were called.

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Puerto Rico Trade and Export Company

(A Component Unit of the Commonwealth of Puerto Rico)

Budgetary Comparison Schedule – Administrative Fund

Year Ended June 30, 2010

		Original Budget	Actual	Variance
Revenue:				
Appropriations from Legislature of Puerto Rico	$	2,173,000	2,173,000	—
Total revenues		2,173,000	2,173,000	—
Expenditures-				
Administration		2,173,000	2,232,439	59,439
Excess of expenses over expenditures		—	(59,439)	(59,439)
Transfer		—	1,161,174	1,161,174
Fund deficit - beginning of year		(1,098,423)	(1,098,423)	—
Fund deficit - end of year	$	(1,098,423)	3,312	1,101,735

Notes to Schedule:

The Company is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year, which is prepared by the Commonwealth's OMB. Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

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