

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, 2011,
and Independent Auditors' Report



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
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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, 2011, 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 opinion.

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, 2011 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.

As explained in Note 2 to the financial statements, during the fiscal year ended June 30, 2011, the Company implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

To the Board of Directors of
Puerto Rico Trade and Export Company
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Scherrer Hernandez & Co.

San Juan, Puerto Rico

December 2, 2011

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2619521 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 ended June 30, 2011. 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 \$115.3 million as of June 30, 2010 to \$109 million as of June 30, 2011, mostly comprised of a decrease in net assets of the Company's business-type activities of \$6 million.
- The Company continued with an interim loan facility with Banco Popular of Puerto Rico, originally granted in 2008, for the construction of new warehousing facilities in the Free Trade Zone. The loan facility was amended and reduced to \$16.3 million, bearing interest at a rate of 5.20% of which \$16.1 million is outstanding as of June 30, 2011.
- The largest portion of the Company's net assets (94%) reflects its investment in capital assets (e.g., buildings, land, machinery, and equipment, net of related debt). The Company uses these capital assets to provide rental warehouse facilities and services to exporting corporations, as well as for the overall administration of the Company.
- During July 2010, \$137 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 July 2010 and January 2011, the Company issued additional collateralized promissory notes in the aggregate amount of \$283.1 million. The proceeds from such notes were invested in obligations that qualify as permitted investments. The net interest spread on the Company's collateralized notes program amounted to approximately \$1.2 million during the fiscal year ended June 30, 2011.

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.

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- 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 several 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, 2011 and 2010:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
ASSETS:						
Current assets	\$ 8,899,282	\$ 17,462,699	\$ 18,981,270	\$ 17,995,259	\$ 27,880,552	\$ 35,457,958
Other assets	-	110,759	344,287,426	180,978,004	344,287,426	181,088,763
Capital assets	4,308,980	4,526,328	114,617,446	117,753,684	118,926,426	122,280,012
Total assets	<u>13,208,262</u>	<u>22,099,786</u>	<u>477,886,142</u>	<u>316,726,947</u>	<u>491,094,404</u>	<u>338,826,733</u>
LIABILITIES:						
Current liabilities	3,127,778	11,678,531	9,617,098	24,784,584	12,744,876	36,463,115
Long-term liabilities	-	-	369,370,800	187,039,380	369,370,800	187,039,380
Total liabilities	<u>3,127,778</u>	<u>11,678,531</u>	<u>378,987,898</u>	<u>211,823,964</u>	<u>382,115,676</u>	<u>223,502,495</u>
Net assets:						
Invested in capital assets, net of related debt	4,308,980	4,526,328	98,519,390	101,480,484	102,828,370	106,006,812
Restricted	5,768,192	1,096,366	-	-	5,768,192	1,096,366
Unrestricted	3,312	4,798,561	378,854	3,422,499	382,166	8,221,060
Total net assets	<u>\$ 10,080,484</u>	<u>\$ 10,421,255</u>	<u>\$ 98,898,244</u>	<u>\$ 104,902,983</u>	<u>\$ 108,978,728</u>	<u>\$ 115,324,238</u>

Overall, the net assets of the Company decreased \$6.3 million or approximately 5% from \$115.3 million to \$109 million. Key elements for the decrease in net assets are as follows:

- Current assets decrease is mainly due to a decrease of approximately \$9 million in cash accounts in the governmental activities, offset by an increase in accrued interest receivable of \$3.7 million.
- Capital assets decrease is mainly due to depreciation expense of \$3.9 million net of capital expenditures of approximately \$740 thousand.
- Long term liabilities increased \$182.3 million or 97%. At June 30, 2011 the Company had investment securities and notes payable debt outstanding of \$344.3 million, as a result of the collateralized promissory notes redeemed of \$137 million and the issuance of \$283.1 million during the current year, in addition to fair value unrealized appreciation of \$17.3 million. As well as the recording of a termination benefits obligation of \$2.6 million, of which \$2.3 million represents a long term liability.



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	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES:						
Program revenues:						
Charges for services	\$ 79,210	\$ 175,612	\$ 16,706,011	\$ 16,138,323	\$ 16,785,221	\$ 16,313,935
Operating grants contributions	1,000,000	5,159,851	-	-	1,000,000	5,159,851
General revenue:						
Interest and investment earnings	11,400	16,011	16,241,927	9,411,154	16,253,327	9,427,165
Other income	74,680	898,895	69,421	224,047	144,101	1,122,942
Transfer	-	1,161,174	-	(1,161,174)	-	-
Total revenues	<u>1,165,290</u>	<u>7,411,543</u>	<u>33,017,359</u>	<u>24,612,350</u>	<u>34,182,649</u>	<u>32,023,893</u>
Program expenses:						
Administration	\$ 208,011	\$ 2,350,348	\$ -	\$ -	\$ 208,011	\$ 2,350,348
Employment development incentive	-	2,528,119	-	-	-	2,528,119
Economic development incentive	1,293,027	255,854	-	-	1,293,027	255,854
Tuition services	3,673	283,146	-	-	3,673	283,146
Promotion and commercial development	1,350	55,783	-	-	1,350	55,783
Payment due to Commonwealth	-	1,517,169	-	-	-	1,517,169
Rental activities expenses and other	-	-	22,767,114	20,512,081	22,767,114	20,512,081
Interest expense	-	-	16,254,984	8,862,870	16,254,984	8,862,870
Loss on disposition of real estate	-	-	-	547,103	-	547,103
Total expenses	<u>1,506,061</u>	<u>6,990,419</u>	<u>39,022,098</u>	<u>29,922,054</u>	<u>40,528,159</u>	<u>36,912,473</u>
Increase/(decrease) in net assets	\$ (340,771)	\$ 421,124	\$ (6,004,739)	\$ (5,309,704)	\$ (6,345,510)	\$ (4,888,580)

During the year ended June 30, 2011, the Company's total revenues increased by approximately \$2.2 million or 7%, from \$32 million for the year ended June 30, 2010 to \$34.2 million for the year ended June 30, 2011. The increase is the net effect of a decrease in operating grants approved during the fiscal year, included within the governmental funds of approximately \$4.2 million, an increase in rental revenues for an approximated \$568 thousand, and an increase in interest and investment earnings of approximately \$6.8 million related to the collateralized notes in the business-type activities.

Total expenses increased by approximately \$3.6 million or 10%. Key elements for this increase are, in the governmental activities, a decrease in the payment due to the Commonwealth for \$1.5 million, and a decrease in all other program expenses of \$4 million. Offset by an increase in the interest expense of \$7.4 million, mostly related to the collateralized notes, in the business-type activities.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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. Effective fiscal year 2011, no appropriations were received from the Commonwealth of Puerto Rico.

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 targets to strengthen and revitalize the urban centers. The fund receives appropriations from the Commonwealth to fund these incentives.

During the year ended June 30, 2011, this fund did not receive appropriations from the Commonwealth of Puerto Rico. This fund generated approximately \$8 thousand in interest revenue derived from interest-earning deposits.

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 2011, no appropriations were received from 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 2011, 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 \$3 thousand. During the current fiscal year, no additional funds were provided by the Legislature.

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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 2011, no funds were provided by the Legislature. The fund generated approximately \$79 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 2011, no funds were provided by the Legislature.

Mitigation Fund

This fund was created with the objective of providing flood mitigation.

During the fiscal year 2011, no funds were appropriated by the Legislature.

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 2011, this fund provided incentives in accordance with its objective, amounting to approximately \$3.5 thousand. 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.

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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 2011, 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, 2011 by \$6 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 \$98.9 million, of which \$98.5 million, ninety-nine percent (99.6%) is reflected as invested in capital assets, net of related debt, with an unrestricted fund of \$378 thousand. The proprietary fund total assets as of June 30, 2011 amounted to \$477.9 million, versus \$316.7 million in fiscal year 2010 which represents an increase of \$161.2 million (51%) mainly as a result of the redemption of collateralized notes for \$137 million and the issuance of additional collateralized notes for \$283.1 million. The net capital assets for the year then ended amount to \$114.6 million, which represents twenty four percent (24%) of total assets, versus 2010 net capital assets which amounted to \$117.8 million, thirty seven percent (37%) of total assets. Current assets and non-current assets amount to \$19 million and \$458.9 million, respectively in fiscal year 2011, while in 2010 such captions amounted to \$18 million and \$298.7 million, respectively.

During the fiscal year ended June 30, 2011, the Company increased their rent-derived operating revenue in the amount of approximately \$568 thousand. Operating expenses increased by approximately \$2.2 million, mainly due to the termination benefits accrual of \$2.6 million and an increase in payroll related expenses of \$1.2 million, partially offset by the decrease in the provision for legal claims by \$3 million, and the increase in the provision for uncollectible accounts of approximately \$1.5 million.

COLLATERALIZED PROMISSORY NOTE ADMINISTRATION

At June 30, 2011, the Company had collateralized promissory notes in the amount of \$344.3 million. The debt is fully collateralized by permitted and qualified investments in the same amount, with an approximated fair value of \$344.3 million. Refer to Notes 5 and 9 to the basic financial statements.

CAPITAL ASSETS

The Company's investment in capital assets for its business-type activities as of June 30, 2011 amounted to approximately \$98.5 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 2011 of approximately \$3.1 million (3%) is the net effect of capital expenditures of approximately \$740 thousand, net of depreciation expense recorded during fiscal year 2011 of approximately \$3.9 million. Refer to 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 the second warehouse facility under construction in the Free Trade Zone.

PUERTO RICO TRADE AND EXPORT COMPANY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Puerto Rico Trade and Export Company's 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.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash	\$ 868,670	\$ 8,868,289	\$ 9,736,959
Funds held by Commonwealth of Puerto Rico	7,246	-	7,246
Interest earning deposits	-	3,676,138	3,676,138
Restricted cash	5,946,580	-	5,946,580
Restricted interest earning deposits	1,752,049	-	1,752,049
Accounts receivable - rent, net of allowance for uncollectible accounts of \$3,057,180	-	954,359	954,359
Accounts receivable - other, net of allowance for uncollectible accounts of \$2,544,976	148,235	76,625	224,860
Accrued interest receivable	1,286	5,352,693	5,353,979
Prepaid expenses	750	227,632	228,382
Internal balances	174,466	(174,466)	-
Restricted investment securities	-	344,287,426	344,287,426
Capital assets:			
Non-depreciable	578,720	59,700,720	60,279,440
Depreciable, net	3,730,260	54,916,726	58,646,986
Total assets	13,208,262	477,886,142	491,094,404
Liabilities:			
Accounts payable	3,094,667	1,595,451	4,690,118
Accrued interest payable	-	4,989,089	4,989,089
Accrued liabilities	33,111	1,594,895	1,628,006
Termination benefits obligation - current portion	-	289,513	289,513
Compensated absences, current portion	-	702,441	702,441
Current portion of obligations under capital leases	-	22,799	22,799
Current portion of mortgage notes payable	-	422,910	422,910
Long-term obligations:			
Termination benefits obligation - long-term portion	-	2,316,102	2,316,102
Compensated absences, long-term portion	-	1,219,979	1,219,979
Obligations under capital leases, long-term	-	16,663	16,663
Deposits from tenants	-	2,741,470	2,741,470
Collateralized notes payable	-	344,287,426	344,287,426
Mortgage note, long-term	-	15,675,146	15,675,146
Legal claims reserve	-	3,114,014	3,114,014
Total liabilities	3,127,778	378,987,898	382,115,676
Net assets:			
Invested in capital assets, net of related debt	4,308,980	98,519,390	102,828,370
Restricted	5,768,192	-	5,768,192
Unrestricted	3,312	378,854	382,166
Total net assets	\$ 10,080,484	\$ 98,898,244	\$ 108,978,728

The accompanying notes are an integral part of these financial statements.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Programs Revenues			Net Revenues/(Expenses) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
Administration	\$ 208,011	\$ -	\$ -	\$ (208,011)	\$ -	\$ (208,011)
Economic development incentive	1,293,027	-	1,000,000	(293,027)	-	(293,027)
Tuition services	3,673	79,210	-	75,537	-	75,537
Promotion and commercial development	1,350	-	-	(1,350)	-	(1,350)
Total governmental activities	1,506,061	79,210	1,000,000	(426,851)	-	(426,851)
Business-type activities -						
Rental activities	22,767,114	16,706,011	-	-	(6,061,103)	(6,061,103)
Total	\$ 24,273,175	\$ 16,785,221	\$ 1,000,000	\$ (426,851)	\$ (6,061,103)	\$ (6,487,954)
General revenues:						
Interest income on investments held as collateral and other				11,400	16,241,927	16,253,327
Interest expense on collateralized notes				-	(15,086,718)	(15,086,718)
Interest expense on mortgage loan				-	(1,164,857)	(1,164,857)
Other interest expense				-	(3,409)	(3,409)
Other revenue				74,680	69,421	144,101
Net general revenues				86,080	56,364	142,444
Change in net assets				(340,771)	(6,004,739)	(6,345,510)
Net assets, beginning of year				10,421,255	104,902,983	115,324,238
Net assets, end of year				\$ 10,080,484	\$ 98,898,244	\$ 108,978,728

The accompanying notes are an integral part of these financial statements.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2011

	Adminiastrative	Direct Employment for Urban Centers	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 507	\$ 475,158	\$ 393,005	\$ 868,670
Funds held by Commonwealth of Puerto Rico	-	-	7,246	7,246
Restricted cash	-	-	5,946,580	5,946,580
Restricted interest earning deposits	-	561,372	1,190,677	1,752,049
Accrued interest receivable	-	760	526	1,286
Due from other funds	-	-	174,466	174,466
Other receivables - net	2,828	32,714	112,693	148,235
Prepaid expenses	-	-	750	750
	<u>\$ 3,335</u>	<u>\$ 1,070,004</u>	<u>\$ 7,825,943</u>	<u>\$ 8,899,282</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 23	\$ 15,069	\$ 3,079,575	\$ 3,094,667
Accrued liabilities	-	267	32,844	33,111
	<u>23</u>	<u>15,336</u>	<u>3,112,419</u>	<u>3,127,778</u>
Fund balances:				
Non spendable	-	-	750	750
Restricted:				
Economic development incentive	-	-	3,706,139	3,706,139
Employment development incentive	-	1,054,668	-	1,054,668
Loan guarantee	-	-	1,007,385	1,007,385
Unrestricted	3,312	-	(750)	2,562
	<u>3,312</u>	<u>1,054,668</u>	<u>4,713,524</u>	<u>5,771,504</u>
Total fund balances	<u>\$ 3,335</u>	<u>\$ 1,070,004</u>	<u>\$ 7,825,943</u>	<u>\$ 8,899,282</u>

The accompanying notes are an integral part of these financial statements.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>2011</u>
Total fund balance of governmental funds	\$ 5,771,504
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds, net of accumulated depreciation of \$1,333,519.	<u>4,308,980</u>
Net assets of governmental activities	<u>\$ 10,080,484</u>

The accompanying notes are an integral part of these 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
BALANCE – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Administrative	Direct Employment for Urban Centers	Other Governmental Funds	Total Governmental Funds
Revenues:				
Appropriations from the Commonwealth of Puerto Rico	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Tuition	-	-	79,210	79,210
Interest	-	7,808	3,592	11,400
Other	-	-	74,680	74,680
Total revenues	-	7,808	1,157,482	1,165,290
Expenditures:				
Administration	-	-	93,734	93,734
Economic development incentives	-	238,724	951,232	1,189,956
Tuition services	-	-	3,673	3,673
Promotion and commercial development	-	-	1,350	1,350
Total expenditures	-	238,724	1,049,989	1,288,713
Excess/(deficiency) of revenue over/(under) expenditures	-	(230,916)	107,493	(123,423)
Fund balances, beginning of year	3,312	1,285,584	4,606,031	5,894,927
Fund balances, end of year	\$ 3,312	\$ 1,054,668	\$ 4,713,524	\$ 5,771,504

The accompanying notes are an integral part of these 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 – GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>2011</u>
Net changes in fund balance - total government funds	\$ (123,423)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but do not require the use of current financial resources. Therefore, depreciation expense on capital assets is not reported as expenditure in the governmental funds	<u>(217,348)</u>
Net change in net assets of governmental activities	<u>\$ (340,771)</u>

The accompanying notes are an integral part of these 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, 2011

Assets	2011
Current assets:	
Cash	\$ 8,868,289
Interest bearing deposits	3,676,138
Rent receivable, net of allowance for uncollectible accounts of \$3,057,180	954,359
Other receivable, net of allowance for uncollectible accounts of \$2,544,976	76,625
Accrued interest receivable	5,352,693
Prepaid expenses	227,632
Total current assets	19,155,736
Noncurrent assets:	
Restricted investment securities	344,287,426
Capital assets:	
Non-depreciable assets	59,700,720
Depreciable assets, net	54,916,726
Total capital assets, net	114,617,446
Total noncurrent assets	458,904,872
	\$ 478,060,608

Continues

The accompanying notes are an integral part of these 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, 2011

Continued

Liabilities	<u>2011</u>
Current liabilities:	
Accounts payable	\$ 1,595,451
Accrued interest payable	4,989,089
Accrued liabilities	1,594,895
Termination benefits obligation - current portion	289,513
Compensated absences, current portion	702,441
Current portion of mortgage note	422,910
Current portion of obligations under capital leases	22,799
Due to other funds	174,466
	<u>9,791,564</u>
Total current liabilities	
Noncurrent liabilities:	
Termination benefits obligation - long-term portion	2,316,102
Compensated absences, long-term portion	1,219,979
Obligations under capital leases, long-term	16,663
Deposits from tenants	2,741,470
Collateralized notes payable	344,287,426
Mortgage note, long-term portion	15,675,146
Legal claims reserve	3,114,014
	<u>369,370,800</u>
Total noncurrent liabilities	
	<u>379,162,364</u>
Net assets:	
Invested in capital assets, net of related debt	98,519,390
Unrestricted	378,854
	<u>98,898,244</u>
Total net assets	
	<u>\$ 478,060,608</u>

Concluded

The accompanying notes are an integral part of these 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 –
PROPIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>2011</u>
Operating revenues:	
Rent revenue	\$ 16,337,370
Other	368,641
Total operating revenues	<u>16,706,011</u>
Operating expenses:	
Salaries and employees benefits	8,546,724
Employees termination benefits	2,605,615
Provision for uncollectible accounts	1,517,027
Depreciation and amortization	3,873,175
Occupancy and related expenses	2,717,168
Insurance	777,838
Administrative and management services	743,378
Security services	625,880
Professional fees	560,543
Advertising	413,451
Office supplies	111,399
Travel expenses	71,089
Commercial development	48,458
Other	155,369
Total operating expenses	<u>22,767,114</u>
Operating loss	<u>(6,061,103)</u>
Non-operating revenues/(expenses):	
Other income	69,421
Interest income and other	16,241,927
Interest expense	(16,254,984)
Total non-operating revenues, net	<u>56,364</u>
CHANGE IN NET ASSETS	(6,004,739)
NET ASSETS, beginning of year	<u>\$ 104,902,983</u>
NET ASSETS, end of year	<u>\$ 98,898,244</u>

The accompanying notes are an integral part of these financial statements.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Continued

	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED	
IN OPERATING EXPENSES:	
Operating loss	(6,061,103)
Adjustments to reconcile change in net assets to cash used in	
operating activities:	
Depreciation and amortization	3,873,175
Changes in assets and liabilities:	
Increase in rent receivable	(1,454,338)
Provision for uncollectible accounts receivable	1,517,027
Increase in prepaid expenses	(168,197)
Decrease in other assets	59,002
Decrease in accounts payable	(464,756)
Decrease in accrued expenses	(480,082)
Decrease in compensated absences	(881,685)
Increase in termination benefits accrual	2,605,615
Increase in deposits from tenants	155,849
Decrease in legal claims reserve	(385,838)
Total adjustments	<u>4,375,772</u>
Net cash used in operating activities	<u>\$ (1,685,331)</u>

Concluded

The accompanying notes are an integral part of these financial statements.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 of promoting 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 to 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 were under the custody of the Puerto Rico Department of Treasury, were transferred to the Company to allow it to perform the functions, faculties and powers commended by this Law. A transition period of six years was 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 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 with 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 reporting period. Actual results could differ from those estimates.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 net of related debt - consists of capital assets, net of accumulated depreciation and amortization and their underlying indebtedness.
- 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.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 2010 the Company became 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 aims 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 a 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 by providing technical advice.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

- *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 2011, no funds were appropriated by the Legislature.
- *World Trade Center Fund Project* – This fund is used to account for 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 other 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 in small businesses that are heads of family.

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.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Fund Balances – During the fiscal year ended June 30, 2011, the Company implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with GASB 54, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent, as follows:

Non-spendable fund balance – amounts that cannot be spent because they are either: (a) not in spendable form or (b) legally or contractually required to be maintained intact. Non-spendable fund balance consists of the following:

- *Prepaid expenses* – is not an available resource because it represents the year-end balance, which is not expected to be converted into cash.

Restricted fund balance – amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The Company's restricted fund balance consists of the Direct Employment for Urban Centers fund, Key for Your Business fund, Economic Incentive for Roosevelt Roads fund, Business School fund, Commercial Impact to Urban Centers fund, Mitigation fund, World Trade Center Fund Project, Ideal Certification, Merchant's Register fund, and Business Women fund. These fund balance amounts arise from special resolutions of the Government of the Commonwealth of Puerto Rico and private entities and can only be spent in specified purposes.

Committed fund balance – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Directors (the "Board"). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.

Assigned fund balance – amounts in the assigned fund balance classification are intended to be used by the Company for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the Administrative Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the Administrative Fund, assigned amounts represent intended uses established by the Board or Company official delegated that authority by Board resolution.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The Company's unassigned fund balance consists of the fund balance amount in the Administrative Fund. This fund balance is available for any purpose and management may determine how to spend it.

The Company applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Company does not have a formal minimum fund balance policy.

PUERTO RICO TRADE AND EXPORT COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Concentration of Credit Risk - The Company maintains cash on deposit with high rated financial institutions, with the Puerto Rico Treasury Department, with the Puerto Rico Government Development Bank and with the Puerto Rico Economic Development Bank. The laws of the Commonwealth of Puerto Rico require public funds deposited in commercial banks to be collateralized by the bank when funds exceed the amount federally insured. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth of Puerto Rico. Deposits with the Government Development Bank and with the Economic Development Bank of Puerto Rico are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the bank, the entity may not recover its deposits.

Cash and Cash Equivalents - Cash and cash equivalents include petty cash, checking, certificates of deposit and other instruments with original maturities of three months or less.

Restricted Cash and Restricted Time Deposits - Restricted cash and time deposits represent funds that may only be disbursed pursuant to the provisions of the granting law or authority.

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 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.

Allowance for Uncollectible Accounts - The allowance for uncollectible accounts 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 collectability 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.

PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Generally, estimated useful lives are as follows:

Buildings	40-50 years
Leasehold improvements	Lesser of 10 year 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, 2011, 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.

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 corresponding allowance for uncollectible accounts.

Property, Income and Other 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.

Accounting for Pension Costs - The Company accounts for pension costs in accordance with the provisions of GASB No. 27, *Accounting for Pensions by States and Local Governmental Employers*, as amended by GASB No. 50, *Pension Disclosures*. GASB No. 27 establishes standards of accounting and financial reporting for pension expenditures/expenses and related pension liabilities, pension assets, financial statement disclosures, and required supplementary information in the financial reports of state and local governmental employers. The Statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

PUERTO RICO TRADE AND EXPORT COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Termination Benefits – The Company accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for *voluntary* termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for *involuntary* termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Recently Issued Accounting Guidance:

Subsequent Events - In May 2009, the FASB issued authoritative guidance for the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. This guidance is effective for interim and annual periods ending after June 15, 2009, and is required to be applied prospectively.

For purposes of these financial statements, subsequent events have been evaluated through December 2, 2011, which is the date the financial statements were available to be issued. There are no material subsequent events that require further disclosures in the Company's financial statements.

Fund Balance Reporting and Governmental Fund Type Definitions – In February 2009, the GASB issued GASB Statement No. 54, which establishes accounting and financial reporting standards for all governments that report governmental funds. The standard clarifies definitions for governmental fund types and establishes criteria for classifying fund balances into specifically defined classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. In addition, in accordance with GASB No. 54, the amount of significant outstanding encumbrances must be disclosed for each major fund and in the aggregate for non-major funds. This standard is effective for financial statements for periods beginning after June 30, 2010, and should be applied retroactively to fund balances for all prior periods presented. This standard was adopted during the fiscal year ended June 30, 2011. The adoption of this Statement did not cause a significant impact in the Company's financial positions or results of operations.

Other Recent Accounting Pronouncements – During the year ended June 30, 2011, the FASB, GASB and other standard setting bodies issued other accounting standard updates and guidance that were not relevant to the Company's operations.

3. CASH AND INTEREST BEARING DEPOSITS

The information presented below discloses the level of custodial credit risk assumed by the Company at June 30, 2011. Custodial credit risk is the risk that in the event of a financial institution failure, the Company's deposits may not be recovered. 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

PUERTO RICO TRADE AND EXPORT COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Government Development Bank (the "GDB") or the Economic Development Bank of Puerto Rico (the "EDB"), component units of the Commonwealth, are not covered by this Commonwealth requirement.

As of June 30, 2011, the Company had approximately \$2.2 million and \$1.2 million deposited with GDB and with EDB, respectively. The carrying amount for deposits with GDB and EDB is similar to the banks' balances. The Company also has deposit accounts with commercial banks with an aggregate carrying amount of approximately \$17.7 million and an aggregate bank balance of approximately \$18.4 million as of June 30, 2011.

4. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Changes in the allowance for uncollectible accounts during the fiscal year ended June 30, 2011 are as follows:

	Rent Receivable	Other Receivable
Allowance for uncollectible accounts, beginning of period	\$ 1,874,180	\$ 2,210,949
Provision for doubtful accounts	1,183,000	334,027
Allowance for uncollectible accounts, end of period	<u>\$ 3,057,180</u>	<u>\$ 2,544,976</u>

5. RESTRICTED INVESTMENT SECURITIES

As of June 30, 2011, the Company had the following investments:

	Coupon Rate	Rating	Maturity Date	Cost	Unrealized Gain/(Loss)	Fair Market Value
NY State Dorm Authority Bond Due 3/15/2024	4.60%	AAA	3/15/2024	50,000,000	4,110,000	54,110,000
Tacoma Electric System Rev Bond Due 1/1/2032	5.39%	AAA	1/1/2032	34,500,000	(279,450)	34,220,550
Pennsylvania St Build America Bond Due 5/1/2030	4.95%	AAA	5/1/2030	34,200,000	(441,180)	33,758,820
Kansas St. Public Employee Ret Syst Due 5/1/2034	5.10%	AAA	5/1/2034	17,305,000	(141,901)	17,163,099
Florida State Build America Bond Due 6/1/2035	5.55%	AAA	4/1/2030	43,915,000	1,313,049	45,228,049
Illinois State Build America Bond Due 7/1/2022	5.55%	AAA	4/1/2022	24,005,000	1,622,738	25,627,738
Illinois State Build America Bond Due 7/1/2025	6.48%	AAA	7/1/2025	48,000,000	5,438,400	53,438,400
NY City Transitional Fin Auth Rev Bond Due 8/1/2027	5.00%	AAA	2/1/2027	10,195,000	1,079,650	11,274,650
NY City Transitional Fin Auth Rev Bond Due 8/1/2037	5.11%	AAA	8/2/2037	4,400,000	78,320	4,478,320
NY City Transitional Fin Auth Rev Bond Due 8/1/2036	5.37%	AAA	8/1/2036	3,000,000	124,800	3,124,800
NY State Dorm Authority Bond Due 3/15/2030	5.10%	AAA	3/15/2030	20,000,000	1,560,000	21,560,000
NY State Dorm Authority Bond Due 3/15/2033	4.89%	AAA	3/15/2033	5,000,000	(39,500)	4,960,500
Dist of Columbia Income Tax Rev Bond Due 12/01/2023	4.51%	AAA	12/1/2023	7,500,000	510,000	8,010,000
Dist of Columbia Income Tax Rev Bond Due 12/01/2026	4.88%	AAA	12/1/2026	25,000,000	2,332,500	27,332,500
				<u>\$ 327,020,000</u>	<u>\$ 17,267,426</u>	<u>\$ 344,287,426</u>

PUERTO RICO TRADE AND EXPORT COMPANY
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As described in Note 9, the investments are related to a collateralized notes payable program, which involves matched transactions that generate a fixed spread of income to the Company. These investments are pledged as collateral for such notes.

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, consists of the following:

	Balance July 1, 2010	Increase	Decrease	Balance June 30, 2011
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	756,823	-	-	756,823
Less accumulated depreciation	(1,116,171)	(217,348)	-	(1,333,519)
Total capital assets, being depreciated	3,947,608	(217,348)	-	3,730,260
Total governmental activities capital assets, net	\$ 4,526,328	\$ (217,348)	\$ -	\$ 4,308,980
Business-type activities:				
Rental properties not being depreciated:				
Land and land improvements	59,655,145	41,074	-	59,696,219
Construction in progress	9,057,022	48,310	(9,100,831)	4,501
Total capital assets, not being depreciated	68,712,167	89,384	(9,100,831)	59,700,720
Rental properties being depreciated:				
Building and building improvements	94,212,728	9,076,116	-	103,288,844
Furniture and equipment	2,883,973	-	-	2,883,973
Subtotal	97,096,701	9,076,116	-	106,172,817
Other properties not for rent being depreciated:				
Building and building improvements	5,687,940	567,189	-	6,255,129
Furniture and equipment	4,283,557	105,078	-	4,388,635
Capital leases	206,090	-	-	206,090
Vehicles	370,112	-	-	370,112
Sub-total	10,547,699	672,267	-	11,219,966
Total cost of depreciable assets	107,644,400	9,748,383	-	117,392,783
Less accumulated depreciation:				
Rental properties	(51,391,118)	(3,082,393)	-	(54,473,511)
Other properties not for rent	(7,211,764)	(790,782)	-	(8,002,546)
Total accumulated depreciation	(58,602,882)	(3,873,175)	-	(62,476,057)
Total capital assets, being depreciated	49,041,518	5,875,208	-	54,916,726
Total business-type capital assets, net	\$ 117,753,685	\$ 5,964,592	\$ (9,100,831)	\$ 114,617,446

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7. INTERNAL BALANCES

Internal balances as of June 30, 2011 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	\$ -	\$ (174,466)	\$ (174,466)
OTHERS	174,466	-	174,466
	<u>\$ 174,466</u>	<u>\$ (174,466)</u>	<u>\$ -</u>

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

8. MORTGAGE LOAN

On May 17, 2007, the Company entered into a Credit Agreement (the "Agreement") with various financial institutions. The Company was granted a non-revolving loan facility convertible to a term loan in an aggregate principal amount of up to \$42,925,000, to be used for the development and construction cost of certain rental facilities.

Pursuant to the provisions of the amendment agreements no. 1 (on September 1, 2010), no.2 (on February 28, 2011), and no. 3 (on June 23, 2011, the closing date), the credit facility was reduced to an aggregate principal amount of up to \$16.3 million, and converted into a mortgage loan. The mortgage loan was issued by two financial institutions composing 46.5% and 53.5%, respectively, of the total principal amount, with interest based on a fixed rate of 5.20%. The mortgage loan requires 59 monthly payments of principal and interest amounting to approximately \$108,646, and a final balloon payment of the outstanding principal on June 23, 2016. The loan is secured by a mortgage over certain warehouse facilities and land located in Buchanan, San Juan, Puerto Rico, and a pledge over certain rental agreements.

The following summarizes the activity related to the mortgage note for the fiscal year ended June 30, 2011.

	Beginning Balance	Increases	Decreases	Ending Balance
Notes payable	\$ 16,273,200	\$ -	\$ (175,144)	\$ 16,098,056

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At June 30, 2011, the future minimum principal payments on the mortgage notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 422,910	\$ 880,844	\$ 1,303,754
2013	493,363	810,391	1,303,754
2014	519,686	784,068	1,303,754
2015	541,234	762,520	1,303,754
2016	14,120,863	717,510	14,838,373
	<u>\$ 16,098,056</u>	<u>\$ 3,955,333</u>	<u>\$ 20,053,389</u>

9. COLLATERALIZED NOTES PAYABLE

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 July 9, 2010, collateralized promissory notes amounting to \$137 million were redeemed. During fiscal year 2011, the Company issued additional collateralized promissory notes amounting to \$283.1 million, in the aggregate. These notes pay interest semi-annually at rates ranging from 4.51% through 6.48%, and mature on dates between December 1, 2023 and May 1, 2034.

These promissory notes are collateralized with investment securities with an aggregate fair value of \$344,287,436, as disclosed in Note 5. At June 30, 2011, the principal balance of the promissory notes outstanding under this program amounted to \$327,020,000, with interest rates ranging from 4.51% through 6.48% and maturity dates from December 1, 2023 through May 1, 2034. The collateralized notes are matched to their respective investments, and as such are presented at the same fair value of the underlying collateral. The unrealized appreciation as of June 30, 2011 amounted to approximately \$17,267,346.



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The following summarizes the collateralized notes' activity for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Unrealized Appreciation</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Promissory Notes	\$ 180,915,000	\$ 283,105,000	\$ 17,267,426	\$ (137,000,000)	\$ 344,287,426	\$ -

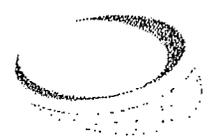
Promissory notes principal maturities and related interest payments in future years are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 17,331,000	\$ 17,331,000
2013	-	17,331,000	17,331,000
2014	-	17,331,000	17,331,000
2015	-	17,331,000	17,331,000
2016	-	17,331,000	17,331,000
2017-2021	-	86,655,000	86,655,000
2022-2026	87,747,738	72,606,245	160,353,983
2027-2031	158,833,610	36,576,520	195,410,130
2032-2033	97,706,078	488,900	98,194,978
	<u>\$ 344,287,426</u>	<u>\$ 282,981,665</u>	<u>\$ 627,269,091</u>

10. CAPITAL LEASES

The Company has non-cancelable capital lease obligations for office equipment expiring through 2013. The future commitments under these leases are as follow:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 24,265
2013	17,054
Total minimum lease payments	41,319
Less: Amount representing interest	(1,857)
Present value of future minimum lease payments	39,462
Less: Current portion	(22,799)
Obligations under capital lease, long-term portion	<u>\$ 16,663</u>



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11. FUND BALANCES

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Company is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are as follows:

	2011			
	Administrative	Direct Employment for Urban Centers	Other Governmental Fund	Total Governmental Funds
FUND BALANCES:				
Non spendable	\$ -	\$ -	\$ 750	\$ 750
Restricted:				
Economic development incentive	-	-	3,706,139	3,706,139
Employment development incentive	-	1,054,668	-	1,054,668
Loan guarantees	-	-	1,007,385	1,007,385
Total restricted	-	1,054,668	4,713,524	5,768,192
Unassigned	3,312	-	(750)	2,562
Total fund balances	\$ 3,312	\$ 1,054,668	\$ 4,713,524	\$ 5,771,504

12. RESTRICTED ASSETS

The Company's restricted assets as of June 30, 2011, consist of: (a) cash and interest earning deposits related to the operations of the governmental programs granted by the Commonwealth; and (b) restricted investment securities that are pledged to secure collateralized notes, as follow:

Restricted Assets as of June 30, 2011		
Type of Asset	Program Description	Amount
Restricted Cash	Commercial Impact to Urban Centers	\$ 716,532
	Direct Employment for Urban Centers	475,157
	Merchant's Register	97,904
	Ideal Certification	26,011
	Flood Mitigation	1,337,800
	Business Women Fund	1,373,158
	Key for Your Business Program	1,517,169
	Other Programs	402,847
		\$ 5,946,580
Restricted Interest Earning Deposits	Direct Employment for Urban Centers	\$ 561,371
	World Trade Center	183,292
	Key for Your Business Program	1,007,386
	\$ 1,752,049	
Restricted Investment Securities	Pledged for Collateralized Notes Payable Program	\$ 344,287,426
	Total Restricted Assets	\$ 351,986,055

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13. RENTAL INCOME

The Company's principal leasing activities consist of commercial warehouse and office space rentals under non-cancelable operating leases. Minimum future rentals to be received on non-cancelable leases are as follows:

Year Ending June 30,	Amount
2012	\$ 9,216,491
2013	8,132,651
2014	7,752,920
2015	5,975,949
2016	3,443,123
2017 and thereafter	5,308,777
	\$ 39,829,911

14. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employee's Retirement System ("Retirement System" or "ERS") of the Commonwealth is a defined benefit pension plan administered by the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The Retirement System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the Retirement System) are covered by the Retirement System. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan 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.

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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 \$6,600 of their annual gross salary and 8.275% for the salary in excess of \$6,600, for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Company's contribution is 9.275% of gross salary. Total payroll subjected to retirement contribution amounted to \$5,984,784 for the year ended June 30, 2011. Those amounts are the compensation paid by the Corporation to active employees covered by the System, which is the basis for the contribution. The pension expenses incurred by the Company for the year ended June 30, 2011, amounted to \$314,950.

Act number 1 of February 16, 1990 made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

The amount of the total pension benefits obligation is based on a standardized measurement established by accounting principles generally accepted in the United States of America that, with some exceptions, must be used by a public employee retirement system. The Standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases.

The most recent actuarial valuation is as of June 30, 2011. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

- | | |
|--|---|
| • Investments Rate of Return | 7.5% a year |
| • Payroll growth | 3.0% per year |
| • Mortality | RP 2000 Mortality Rates |
| • Disability | Adjusted 1987 Commissioners Group
Disability Table |
| • Retirement age | Graded scale of retirement ages |
| • Proportion of participants with spouses | 50% of participants assumed to be married,
with wives assumed to be four years
younger than husbands. |
| • Number of employees electing higher
contributions | 15% of retiring employees assumed to pay
retroactive contributions |



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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 the beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability. The pension expenses incurred by the Company for the year ended June 30, 2011, amounted to \$241,223.

The financial statements and required supplementary information for the pension plan are available at the administration office of the Employees' Retirement System of the Government of Puerto Rico, P.O. Box 42003 Minillas, San Juan, Puerto Rico 00940.

15. TERMINATION BENEFITS

During the fiscal year ended June 30, 2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations whose budget is fully or partially funded by the General Fund, known as Law #70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows:

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Article 4(a) provides economic incentive based on the following parameters:

<u>Years of Services in Public Sector</u>	<u>Incentive Gross Amount</u>
Up to 1 year	1 month of salary
From 1 year and 1 day up to 3 years	3 months of salary
From 3 years and 1 day and up	6 months of salary

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements. Annuity pension payment is based on the following parameters:

<u>Credited Years of Service</u>	<u>Pension Payment (As a % of salary)</u>
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50.0%

The Company will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

At June 30, 2011, the present value of future incentive payments reported as a liability in the statement of net assets was \$2,605,615. During the year ended June 30, 2011, a total of 3, 9 and 1 employees, respectively, opted for the early retirement incentives. Total expense recorded for the



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selected options 4(a), 4(b) and 4(c), were \$61,131, \$2,484,325 and \$60,159, respectively. The total aggregate liability of the program as of June 30, 2011 amounted to \$2,605,615, of which \$289,513 should be funded during the next fiscal year. The long-term portion of the early termination obligation amounted to \$2,316,102. Such amounts are disclosed respectively, as short-term and long-term liability in the accompanying statement of net assets.

16. COMMITMENTS

The Company leases land and office space under operating leases expiring in various years through 2014. Rental expense for the operating leases for the year ended June 30, 2011 amounted to approximately \$291,400. Minimum future rental payments under non-cancelable operating leases having as of June 30, 2011, are as follow:

Year Ending June 30,	Amount
2012	\$ 801,807
2013	414,593
2014	15,200
	\$ 1,231,600

17. CONTINGENCIES

At June 30, 2011, the Company is a defendant in various lawsuits, claims and legal proceedings arising in the normal course of business, covering a wide range of matters including, but not limited to, labor and breach of contracts. Management has established a legal claims reserve in the amount of \$3,114,014. Based on an evaluation of the matters and consultations with external counsels, management believes that the established reserves are adequate to cover the ultimate liability that may result from such claims and proceedings.

The legal claims reserve activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Legal claims reserve	\$ 3,449,852	\$ 50,000	\$ (385,838)	\$ 3,114,014

18. 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 running their operations and business activities.

