



**PUERTO RICO TRADE AND
EXPORT COMPANY**
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
as of and for the Year Ended June 30, 2012,
and Independent Auditors' Report



Tel: 787-754-3999
Fax: 787-754-3105
www.bdopr.com

PO Box 363436
San Juan, PR 00936-3436

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Trade and Export Company:

We have audited the accompanying financial statements of the governmental activities, the business-type activities and governmental funds 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, 2012, 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 statements 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 and governmental funds of the Puerto Rico Trade and Export Company as of June 30, 2012 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.



To the Board of Directors of
Puerto Rico Trade and Export Company
Page 2

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 9, 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.

BDO Puerto Rico, PSC

San Juan, Puerto Rico

February 22, 2013

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2015
Stamp 2673585 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)
TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
STATEMENT OF NET ASSETS	10
STATEMENT OF ACTIVITIES	11
BALANCE SHEET - GOVERNMENTAL FUNDS.....	12
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	13
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	14
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	15
STATEMENT OF NET ASSETS - PROPRIETARY FUND.....	16
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND.....	17
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	19
NOTES TO THE FINANCIAL STATEMENTS.....	21



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, 2012

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, 2012. 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 \$109 million as of June 30, 2011 to \$107 million as of June 30, 2012, mostly driven by a \$1.3 million decrease in net assets of the Company's Governmental-type activities.
- 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 May 2012, \$10 million of the Company's restricted investments were redeemed by the issuer and such proceeds were used for the payment of the related collateralized promissory notes in the same amount.

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 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 the information contained in the government-wide and fund financial statements, and provides more detailed data.



**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, 2012**

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 funding requirements or availability. The Company maintains several individual governmental funds which are described in pages 7-8.
- ***Proprietary Fund*** - The Company's primary activities are included in its proprietary fund, which is accounted for in a manner similar to businesses operations in the private sector. Funding has primarily arisen through revenue derived from the rental of Company's commercial real estate.



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, 2012

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 Company's government-wide financial statements for the fiscal years ended June 30, 2012 and 2011:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS:						
Current assets	\$ 1,361,933	\$ 1,200,653	\$ 19,833,906	\$ 18,981,270	\$ 21,195,839	\$ 27,880,552
Non-current assets	6,264,141	7,698,629	374,892,513	344,287,426	381,156,654	344,287,426
Capital assets	4,195,486	4,308,980	110,795,766	114,617,446	114,991,252	118,926,426
Total assets	<u>11,821,560</u>	<u>13,208,262</u>	<u>505,522,185</u>	<u>477,886,142</u>	<u>517,343,745</u>	<u>491,094,404</u>
LIABILITIES:						
Current liabilities	3,067,242	3,127,778	10,129,674	9,617,098	13,196,916	12,744,876
Non-current liabilities	-	-	397,455,512	369,370,800	397,455,512	369,370,800
Total liabilities	<u>3,067,242</u>	<u>3,127,778</u>	<u>407,585,186</u>	<u>378,987,898</u>	<u>410,652,428</u>	<u>382,115,676</u>
Net assets:						
Invested in capital assets, net of related debt	4,195,486	4,308,980	95,143,115	98,519,390	99,338,601	102,828,370
Restricted	4,555,520	5,768,192	-	-	4,555,520	5,768,192
Unrestricted	3,312	3,312	2,793,884	378,854	2,797,196	382,166
Total net assets	<u>\$ 8,754,318</u>	<u>\$ 10,080,484</u>	<u>\$ 97,936,999</u>	<u>\$ 98,898,244</u>	<u>\$ 106,691,317</u>	<u>\$ 108,978,728</u>

Overall, the net assets of the Company decreased by approximately \$2 million from \$109 million to \$107 million, key elements for the decrease in net assets are as follows:

- Investment in restricted securities notes increased by \$30 million as a result of an unrealized fair value appreciation of \$40 million partially offset by a \$10 million redemption by the issuer.
- Capital assets decreased by \$4 million due to depreciation expense of \$3.8 million partially offset by the capital expenditures for the fiscal year.
- Long term liabilities increased by \$28 million mainly because of the appreciation of the market value of the collateralized promissory notes amounting to \$40 million, which was offset by a \$10 million of investment in restricted securities redemption by the issuer and reduction of the legal reserve amounting to \$2.6 million upon dismissal of a claim.



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, 2012

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES:						
Program revenues:						
Charges for services	\$ 160,610	\$ 79,210	\$ 16,395,428	\$ 16,706,011	\$ 16,556,038	\$ 16,785,221
Operating grants contributions	-	1,000,000	-	-	-	1,000,000
General revenue:						
Interest and investment earnings	5,400	11,400	18,607,592	16,241,927	18,612,992	16,253,327
Other income	174,698	74,680	291,066	69,421	465,764	144,101
Other	-	-	2,628,687	-	2,628,687	-
Total revenues	<u>340,708</u>	<u>1,165,290</u>	<u>37,922,773</u>	<u>33,017,359</u>	<u>38,263,481</u>	<u>34,182,649</u>
Program expenses:						
Administration	\$ 229,970	\$ 208,011	\$ -	\$ -	\$ 229,970	\$ 208,011
Economic development incentive	5,763	1,293,027	-	-	5,763	1,293,027
Tuition services	4,980	3,673	-	-	4,980	3,673
Promotion and commercial development	1,426,161	1,350	-	-	1,426,161	1,350
Rental activities expenses and other	-	-	20,765,123	22,767,114	20,765,123	22,767,114
Interest expense	-	-	18,118,895	16,254,984	18,118,895	16,254,984
Total expenses	<u>1,666,874</u>	<u>1,506,061</u>	<u>38,884,018</u>	<u>39,022,098</u>	<u>40,550,892</u>	<u>40,528,159</u>
Increase/(decrease) in net assets	<u>\$ (1,326,166)</u>	<u>\$ (340,771)</u>	<u>\$ (961,245)</u>	<u>\$ (6,004,739)</u>	<u>\$ (2,287,411)</u>	<u>\$ (6,345,510)</u>

During the year ended June 30, 2012, the Company's total revenues increased by approximately \$4 million, from \$34 million for the year ended June 30, 2011 to \$38 million for the year ended June 30, 2012. The increase is the effect of an increase of approximately of \$2.4 million on interest earned on promissory notes and a reversal of approximately \$2.6 million in legal reserve upon court's dismissal of claim.

GOVERNMENTAL FUND ACTIVITIES

The Company's governmental activities are accounted in for in eleven governmental funds none of them are classified as a major governmental fund. None of these funds received appropriations from the Commonwealth of Puerto Rico during the fiscal year ended on June 30, 2012. Following is a description of each governmental fund:

Administrative Fund

The administrative fund's objective is to provide funds for administrative functions of the Company not accounted for in other governmental funds. Such functions include accounting, personnel, purchases and general services among others.



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, 2012

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 finance these incentives.

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 and providing technical advice to them.

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 Company's 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.

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.

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.



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, 2012

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 assist women that are heads of family and carry out small business operations. 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 fiscal year 2012 with the remaining balance to be used in the upcoming years.

The Business Women fund is the only governmental fund with operations during the year. The other funds do not have operations since the corresponding programs expired. Management is currently in negotiations with the Office of Management and Budget to obtain authorization for the use of those funds in new programs.

Following is an analysis of the financial position and a result of operations of the Company's other governmental funds:

During the year ended June 30, 2012, governmental fund net assets decreased by approximately \$1.3 million, from \$10 million as of ended June 30, 2011 to \$8.7 million as of June 30, 2012. The decrease is mainly related to the disbursement in 2012 of the incentives under 2011 Commonwealth Grant.

PROPRIETARY FUND ACTIVITIES

The Company's proprietary fund decreased during the year ended June 30, 2012 by approximately \$1 million.

Following is an analysis of the financial position and results of operations of the proprietary fund.

The Company's rental operations resulted in a loss of approximately \$4.4 million out of which \$4.2 million is related to depreciation of the commercial real estate. This loss was offset by a non-operating net revenue \$3.4 million for the fiscal year. The non-operating revenue mostly consists of net interest spread of \$1.3 million on the Company's collateralized notes and investment program. In addition the Company's reversed \$2.6 million from its legal claim reserves upon a favorable Court's judgment in a previously reserved litigation. The Company's also incurred \$845 thousand in interest cost in its mortgage loan and had other non-operating revenues of \$291 thousand.



**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, 2012**

COLLATERALIZED PROMISSORY NOTES ADMINISTRATION

At June 30, 2012, the Company had collateralized promissory notes in the amount of \$374.8 million. The debt is fully collateralized by permitted and qualified investments in the same amount, with an approximated fair value of \$374.8 million. Refer to notes 5 and 11 to the financial statements for additional information.

CAPITAL ASSETS

The Company's investment in capital assets for its business-type activities as of June 30, 2012 amounted to approximately \$95 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. Net capital assets decreased during fiscal year 2012 by approximately \$3.8 million and as a result of the depreciation expense recorded during 2012 of approximately \$4.2 million offset by \$398 thousand of capital expenditures.

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, 2012

	2012		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash	\$ 1,029,852	\$ 8,875,412	\$ 9,905,264
Funds held by the Commonwealth of Puerto Rico	7,246	-	7,246
Interest earning deposits	-	3,695,675	3,695,675
Accounts receivable - rent, net of allowance for uncollectible accounts of \$1,591,883	-	1,209,199	1,209,199
Accounts receivable - other, net of allowance for uncollectible accounts of \$3,797,399	253,464	722,797	976,261
Accrued interest receivable	438	5,292,011	5,292,449
Prepaid expenses	-	109,745	109,745
Internal balances	70,933	(70,933)	-
Restricted Cash	4,997,147	-	4,997,147
Restricted interest earning deposits	1,266,994	-	1,266,994
Restricted investment securities	-	374,892,513	374,892,513
Capital assets:			
Non-depreciable	578,720	59,700,720	60,279,440
Depreciable, net	3,616,766	51,095,046	54,711,812
Total assets	11,821,560	505,522,185	517,343,745
Liabilities:			
Accounts payable	3,038,207	2,296,456	5,334,663
Accrued interest payable	-	4,932,332	4,932,332
Accrued liabilities	29,035	1,556,071	1,585,106
Termination benefits obligation - current portion	-	339,457	339,457
Compensated absences - current portion	-	498,298	498,298
Obligations under capital leases - current portion	-	13,697	13,697
Mortgage notes payable - current portion	-	493,363	493,363
Long-term obligations:			
Termination benefits obligation - long-term portion	-	2,932,402	2,932,402
Compensated absences - long-term portion	-	1,371,177	1,371,177
Deposits from tenants	-	2,798,502	2,798,502
Collateralized notes payable	-	374,892,513	374,892,513
Mortgage note - long-term portion	-	15,145,591	15,145,591
Legal claims reserve	-	315,327	315,327
Total liabilities	3,067,242	407,585,186	410,652,428
Net assets:			
Invested in capital assets, net of related debt	4,195,486	95,143,115	99,338,601
Restricted	4,555,520	-	4,555,520
Unrestricted	3,312	2,793,884	2,797,196
Total net assets	\$ 8,754,318	\$ 97,936,999	\$ 106,691,317

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
JUNE 30, 2012

Functions/Programs	2012					
	Expenses	Programs Revenues		Net Revenues/(Expenses) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
Administration	\$ 229,970	\$ -	\$ -	\$ (229,970)	\$ -	\$ (229,970)
Economic development Incentive	5,763	-	-	(5,763)	-	(5,763)
Tuition services	4,980	160,610	-	155,630	-	155,630
Promotion and commercial development	1,426,161	-	-	(1,426,161)	-	(1,426,161)
Total governmental activities	1,666,874	160,610	-	(1,506,264)	-	(1,506,264)
Business-type activities:						
Rental activities	20,765,123	16,395,428	-	-	(4,369,695)	(4,369,695)
Total	\$ 22,431,997	\$ 16,556,038	\$ -	\$ (1,506,264)	\$ (4,369,695)	\$ (5,875,959)
General revenues:						
Interest income on investments held as collateral and other				5,400	18,607,592	18,612,992
Interest expense on collateralized notes				-	(17,274,243)	(17,274,243)
Interest expense on mortgage loan				-	(844,652)	(844,652)
Reversal of legal reserve upon favorable judgment					2,628,687	2,628,687
Other revenue				174,698	291,066	465,764
Net general revenues				180,098	3,408,450	3,588,548
Change in net assets				(1,326,166)	(961,245)	(2,287,411)
Net assets, beginning of year				10,080,484	98,898,244	108,978,728
Net assets, end of year				\$ 8,754,318	\$ 97,936,999	\$ 106,691,317

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, 2012

	<u>2012</u>
	<u>Governmental</u>
	<u>Funds</u>
Assets	
Cash	\$ 1,029,852
Funds held by Commonwealth of Puerto Rico	7,246
Restricted cash	4,997,147
Restricted interest earning deposits	1,266,994
Accrued interest receivable	438
Due from other funds	236,231
Other receivables - net	253,464
	<hr/>
Total assets	\$ 7,791,372
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 3,038,207
Accrued liabilities	29,035
Due to other funds	165,298
	<hr/>
Total liabilities	3,232,540
Fund balances:	
Restricted:	
Economic development incentive	3,498,679
Employment development incentive	1,056,841
Unassigned	3,312
	<hr/>
Total fund balances	4,558,832
	<hr/>
	\$ 7,791,372

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, 2012

	<u>2012</u>
Total fund balance of governmental funds	\$4,558,832
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 \$1,429,474	<u>4,195,486</u>
Net assets of governmental activities	<u>\$8,754,318</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, 2012

	<u>2012</u>
	<u>Governmental</u>
	<u>Funds</u>
Revenues:	
Tuition	\$ 160,610
Interest	5,400
Other	174,698
	<hr/>
Total revenues	340,708
	<hr/>
Expenditures:	
Administration	122,239
Tuition services	4,980
Promotion and commercial development	1,426,161
	<hr/>
Total expenditures	1,553,380
	<hr/>
Expenditures in excess of revenues	(1,212,672)
Fund balances, beginning of year	5,771,504
	<hr/>
Fund balances, end of year	\$ 4,558,832
	<hr/>

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, 2012

	<u>2012</u>
Net changes in fund balance - total government funds	\$ (1,212,672)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets are allocated over their estimate usefull life.	4,088
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>(117,582)</u>
Net change in net assets of governmental activities	<u>\$ (1,326,166)</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, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY
FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>2012</u>
Assets	
Current assets:	
Cash	\$ 8,875,412
Interest bearing deposits	3,695,675
Rent receivable, net of allowance for uncollectible accounts of \$1,591,883	1,209,199
Other receivable, net of allowance for uncollectible accounts of \$3,797,399	722,797
Accrued interest receivable	5,292,011
Due from other fund	164,608
Prepaid expenses	109,745
	<hr/>
Total current assets	20,069,447
	<hr/>
Noncurrent assets:	
Restricted investment securities	374,892,513
Capital assets:	
Non-depreciable assets	59,700,720
Depreciable assets, net	51,095,046
	<hr/>
Total capital assets, net	110,795,766
	<hr/>
Total noncurrent assets	485,688,279
	<hr/>
	\$ 505,757,726
	<hr/>

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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY
FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Liabilities	
Current liabilities:	
Accounts payable	\$ 2,296,456
Accrued interest payable	4,932,332
Accrued liabilities	1,556,071
Termination benefits obligation - current portion	339,457
Compensated absences; current portion	498,298
Current portion of mortgage note	493,363
Current portion of obligations under capital leases	13,697
Due to other funds	235,541
	<hr/>
Total current liabilities	10,365,215
	<hr/>
Noncurrent liabilities:	
Termination benefits obligation - long-term portion	2,932,402
Compensated absences, long-term portion	1,371,177
Deposits from tenants	2,798,502
Collateralized notes payable	374,892,513
Mortgage note, long-term portion	15,145,591
Legal claims reserve	315,327
	<hr/>
Total noncurrent liabilities	397,455,512
	<hr/>
	407,820,727
	<hr/>
Net assets:	
Invested in capital assets, net of related debt	95,143,115
Unrestricted	2,793,884
	<hr/>
Total net assets	97,936,999
	<hr/>
	\$ 505,757,726
	<hr/>

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 - PROPRIETARY
FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>2012</u>
Operating revenues:	
Rent revenue	\$ 16,296,199
Other	99,229
Total operating revenues	<u>16,395,428</u>
Operating expenses:	
Salaries and employees benefits	8,793,119
Employees termination benefits	869,102
Provision for uncollectible accounts	153,373
Depreciation and amortization	4,220,550
Occupancy and related expenses	3,483,451
Insurance	618,380
Administrative and management services	522,198
Security services	561,471
Professional fees	426,528
Advertising	761,751
Office supplies	99,692
Travel expenses	91,696
Commercial development	48,220
Other	115,592
Total operating expenses	<u>20,765,123</u>
Operating loss	<u>(4,369,695)</u>
Non-operating revenues/(expenses):	
Decrease in legal claims reserve upon favorable judgment	2,628,687
Other income	291,066
Interest income and other	18,607,592
Interest expense on mortgage loan	(844,652)
Interest expense on collateralized notes	(17,274,243)
Total non-operating revenues, net	<u>3,408,450</u>
CHANGE IN NET ASSETS	(961,245)
NET ASSETS, beginning of year	<u>\$ 98,898,244</u>
NET ASSETS, end of year	<u>\$ 97,936,999</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, 2012

	<u>2012</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Collection of rent	\$ 15,786,261
Payments to suppliers	(6,293,328)
Payments to employees	(9,087,501)
Other operating revenues	99,229
	<hr/>
Net cash provided by operating activities	504,661
	<hr/>
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES:	
Principal paid on collateralized notes	(10,000,000)
Interest paid on collateralized notes	(17,294,806)
	<hr/>
Net cash used in noncapital financing activities	(27,294,806)
	<hr/>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisitions of capital assets	(398,870)
Payments of obligations under capital leases	(25,765)
	<hr/>
Net cash used in capital and related financing activities	(424,635)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest collected on interest-bearing deposits and restricted investments	18,541,028
Repayments of mortgage note	(459,102)
Payment of mortgage note interest	(880,845)
Investment securities redeemed	10,000,000
Net increase in interest-bearing deposits	20,822
	<hr/>
Net cash provided by investing activities	27,221,903
	<hr/>
Net increase in cash	7,123
CASH, beginning of year	8,868,289
CASH, end of year	<u>\$ 8,875,412</u>

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 CASH FLOWS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY IN OPERATING ACTIVITIES:	
Operating loss	(4,369,695)
Adjustments to reconcile change in net assets to cash used in operating activities:	
Depreciation and amortization	4,220,550
Changes in assets and liabilities:	
Increase in rent receivable	(686,544)
Provision for uncollectible accounts receivable	153,373
Decrease in prepaid expenses	124,099
Increase in due from other fund	(99,581)
Increase in due to other fund	(52)
Increase in accounts payable	701,005
Decrease in accrued expenses	(38,824)
Decrease in compensated absences	(52,945)
Increase in termination benefits accrual	666,244
Increase in deposits from tenants	57,032
Other decrease in legal claims reserve	(170,001)
Total adjustments	<u>4,874,356</u>
Net cash used in operating activities	<u>\$ 504,661</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, 2012

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. 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. No additional funds were granted by the Commonwealth during the fiscal year ended on June 30, 2012.

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, 2012

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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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. The Company's governmental funds are reported all together since none of them meet the major fund criteria for financial reporting purposes.

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 - None of the governmental funds were considered major funds since most of them do not have operations during the year or their operations were not material when compared to the proprietary fund operations. The following funds are part of the governmental funds of the Company:

- ***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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

- **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 by increasing its working capital and by providing technical advice.
- **Business School Fund** - The Company provides continuous training and commercial development to individuals or enterprises engaged in commercial activities through its 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.
- **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 their permit processing.
- **Merchant's Register Fund** - This fund was created with the objective of preparing a Merchant's Register in Puerto Rico for the preparation of statistical and economic studies.
- **Business Women Fund** - This fund was created to implement an economic incentive program to provide support to 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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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.

Restricted fund balance - amounts that are restricted for 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 activities.

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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 uses restricted resources first, when expenditures are incurred for purposes for which restricted 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.

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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 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, 2012, 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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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:

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2012:

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this statement, a SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This statement modifies existing requirements for the assessment of the potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental components units. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012.

In December 2010, the GASB issued GASB Statement No. 62, *Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) FASB Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011.

In March 2012 the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, this Statement amends or supersedes requirements for the determination of major funds and addresses other statement of net position and governmental funds balance sheet presentation issues. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

In March 2012 the GASB issued Statement No. 66, *Technical Corrections 2012 an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011.

On June 2012 the GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The Statement is effective for fiscal years beginning after June 15, 2014.

The impact of these statements on the Company basic financial statements has not yet been determined.

3. CASH AND INTEREST BEARING DEPOSITS

The information presented in the following table discloses the level of custodial credit risk assumed by the Company at June 30, 2012. 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 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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

The carrying amount and bank balance of deposits of the Company consists of the following:

2012				
GOVERNMENTAL ACTIVITES				
Carrying Amount				
	Unrestricted	Restricted	Total	Bank Balance
Commercial Bank	\$ 1,029,852	\$ 4,997,147	\$ 6,026,999	\$ 6,067,813
BUSINESS TYPE ACTIVITES				
Carrying Amount				
	Unrestricted	Restricted	Total	Bank Balance
Governmental Banks	\$ 3,499,332	\$ -	\$ 3,499,332	\$ 3,499,332
Commercial Bank	5,376,080	-	5,376,080	5,454,843
Total	\$ 8,875,412	\$ -	\$ 8,875,412	\$ 8,954,175

4. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Changes in the allowance for uncollectible accounts during the fiscal year ended June 30, 2012 are as follows:

	2012	
	Rent Receivable	Other Receivable
Allowance for uncollectible accounts, beginning of period	\$ 3,057,180	\$ 2,544,976
Provision for doubtful accounts	153,373	-
Other	(1,618,670)	1,252,423
Allowance for uncollectible accounts, end of period	\$ 1,591,883	\$ 3,797,399



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

5. RESTRICTED INVESTMENT SECURITIES

As of June 30, 2012, the Company had the following investments:

	2012					
	Coupon		Maturity	Cost	Unrealized	Fair
	Rate	Rating	Date			
NY State Dorm Authority Bond Due 3/15/2024	4.60%	AAA	3/15/2024	\$ 49,000,000	\$ 8,922,900	\$ 57,922,900
Tacoma Electric System Rev Bond Due 1/1/2032	5.39%	AA	1/1/2032	33,500,000	6,472,200	39,972,200
Pennsylvania St Build America Bond Due 5/1/2030	4.95%	AA	5/1/2030	33,200,000	3,937,520	37,137,520
Kansas St. Public Employee Ret Syst Due 5/1/2034	5.10%	AA	5/1/2034	17,305,000	2,950,886	20,265,886
Florida State Build America Bond Due 6/1/2035	5.55%	AAA	4/1/2030	43,915,000	5,423,503	49,338,503
Illinois State Build America Bond Due 7/1/2022	5.55%	AA-	4/1/2022	17,005,000	1,967,478	18,972,478
Illinois State Build America Bond Due 7/1/2025	6.46%	AA-	7/1/2025	48,000,000	12,657,600	60,657,600
NY City Transitional Fin Auth Rev Bond Due 8/1/2027	5.00%	AAA	2/1/2027	10,195,000	1,863,646	12,058,646
NY City Transitional Fin Auth Rev Bond Due 8/1/2037	5.11%	AAA	8/2/2037	4,400,000	933,680	5,333,680
NY City Transitional Fin Auth Rev Bond Due 8/1/2036	5.37%	AAA	8/1/2036	3,000,000	647,100	3,647,100
NY State Dorm Authority Bond Due 3/15/2030	5.10%	AAA	3/15/2030	20,000,000	3,836,000	23,836,000
NY State Dorm Authority Bond Due 3/15/2033	4.69%	AAA	3/15/2033	5,000,000	1,020,000	6,020,000
Dist of Columbia Income Tax Rev Bond Due 12/01/2023	4.51%	AAA	12/1/2023	7,500,000	1,125,000	8,625,000
Dist of Columbia Income Tax Rev Bond Due 12/01/2026	4.88%	AAA	12/1/2026	25,000,000	6,105,000	31,105,000
				<u>\$ 317,020,000</u>	<u>\$ 57,872,513</u>	<u>\$ 374,892,513</u>

As described in Note 11, 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 and as such are classified as restricted.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, consists of the following:

	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012
Governmental activities:				
Propiedades 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	4,088	(21,627)	739,284
Less accumulated depreciation	(1,333,519)	(117,582)	21,627	(1,429,474)
Total capital assets, being depreciated	3,730,260	(113,494)	-	3,616,766
Total governmental activities capital assets, net	\$ 4,308,980	\$ (113,494)	\$ -	\$ 4,195,486
Business-type activities:				
Rental properties not being depreciated:				
Land and land improvements	59,696,219	-	-	59,696,219
Construction in progress	4,501	-	-	4,501
Total capital assets, not being depreciated	59,700,720	-	-	59,700,720
Rental properties being depreciated:				
Building and building improvements	103,288,844	56,570	-	103,345,414
Furniture and equipment	2,883,973	-	-	2,883,973
Subtotal	106,172,817	56,570	-	106,229,387
Other properties not for rent, being depreciated:				
Building and building improvements	6,255,129	249,977	-	6,505,106
Furniture and equipment	4,388,635	92,323	(1,739)	4,479,219
Capital leases	206,090	-	-	206,090
Vehicles	370,112	-	-	370,112
Sub-total	11,219,966	342,300	(1,739)	11,560,527
Total cost of depreciable assets	117,392,783	398,870	(1,739)	117,789,914
Less accumulated depreciation:				
Rental properties	(54,473,511)	(3,639,880)	-	(58,113,391)
Other properties not for rent	(8,002,546)	(580,670)	1,739	(8,581,477)
Total accumulated depreciation	(62,476,057)	(4,220,550)	1,739	(66,694,868)
Total capital assets, being depreciated	54,916,726	(3,821,680)	-	51,095,046
Total business-type capital assets, net	\$ 114,617,446	\$ (3,821,680)	\$ -	\$ 110,795,766



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

7. RESTRICTED ASSETS

The Company's restricted assets as of June 30, 2012, 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, 2012

Type of Asset	Program Description	Amount
GOVERNMENTAL ACTIVITIES		
Restricted Cash	Economic Development	\$ 4,656,848
	Business Women Fund	340,299
	Total restricted cash	<u>\$ 4,997,147</u>
Restricted Interest - earning deposits	Economic Development	<u>\$ 1,266,994</u>
BUSINESS TYPE ACTIVITIES		
Restricted Investment Securities	Pledged for Collateralized Notes Payable Program	<u>\$ 374,892,513</u>
	Total Restricted Assets	<u>\$ 381,156,654</u>

Restricted assets for economic development were granted through funds assigned in prior years by executive orders and Commonwealth of Puerto Rico Appropriations. Those grants have time restrictions as to the use of the funds which elapsed, during the fiscal year 2012. Management is currently in negotiations with the Office of Management and Budget to re-assign those funds to a new incentive programs.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

8. INTERNAL BALANCES

Internal balances as of June 30, 2012 are comprised of amounts due to and from the business-type fund and governmental funds, as shown below:

	Businesses Type Activities (PRTEC)	Others	Total
Puerto Rico Trade and Export Company ("PRTEC")	\$ 164,608	\$ (235,541)	\$ (70,933)
OTHERS	236,231	(165,298)	70,933
	<u>\$ 400,839</u>	<u>\$ (400,839)</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.

9. TRANSACTION WITH THE DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE

The Department of Economic Development and Commerce ("DEDC") provides certain services to the Company and charges a management and administrative fee under a management contract. During the year ended June 30, 2012, the Authority paid \$476,000 to the DEDC. For the fiscal year to be ended on June 30, 2013 the DEDC will charge the company \$464,000 for management and administrative fee.

10. 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 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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Pursuant to the provisions under the credit agreement, the Company must comply with some specific financial ratios and covenants which, in the event of non-compliance, provide the bank with the right to declare the outstanding balance as due and payable and to terminate the loan agreement. As of June 30, 2012 the Company was not in compliance of some of these covenants. The financial institutions waived such compliance requirements for an additional one year period.

The following summarizes the activity related to the mortgage note for the fiscal year ended June 30, 2012.

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Notes payable	\$ 16,098,056	\$ -	\$ (459,102)	\$ 15,638,954	\$ 493,363

At June 30, 2012, the future minimum principal payments on the mortgage notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
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	14,084,671	717,510	14,802,181
	<u>\$ 15,638,954</u>	<u>\$ 3,074,489</u>	<u>\$ 18,713,443</u>

11. 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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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.

During May 2012, certain investment securities amounting to \$10 million were redeemed by the issuer and accordingly, the corresponding collateralized notes were paid off.

These promissory notes are collateralized with investment securities with an aggregate fair value of \$374,892,513, as disclosed in Note 5. At June 30, 2012, the principal balance of the promissory notes outstanding under this program amounted to \$317,020,000, with interest rates ranging from 4.51% through 6.48% and maturity dates from April 1, 2022 through August 2, 2037. 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 for the fiscal year ended on June 30, 2012 amounted to approximately \$40,605,087.

The following summarizes the collateralized notes' activity for the year ended June 30, 2012:

	Beginning Balance	Increases	Unrealized Appreciation	Decreases	Ending Balance	Due in One Year
Promissory Notes	\$344,287,426	\$ -	\$ 40,605,087	\$ (10,000,000)	\$ 374,892,513	\$ -

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

Year ending June 30,	Principal	Interest	Total
2013	\$ -	\$ 16,793,000	\$ 16,793,000
2014	-	16,793,000	16,793,000
2015	-	16,793,000	16,793,000
2016	-	16,793,000	16,793,000
2017	-	16,793,000	16,793,000
2018-2022	18,972,479	83,730,683	102,703,162
2023-2027	170,369,146	62,107,757	232,476,903
2028-2032	100,945,720	31,978,952	132,924,672
2033-2037	84,605,168	3,215,587	87,820,755
	<u>\$ 374,892,513</u>	<u>\$ 264,997,979</u>	<u>\$ 639,890,492</u>



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

12. CAPITAL LEASES

The Company has non-cancelable capital lease obligations for office equipment expiring through 2013. The future commitments under these leases are \$13,697.

13. 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. Funds received by the Company from the Commonwealth prior year's appropriations were not used by the Company and as a result the programs expired. Funds not used by the Company are presented as restricted fund balance in the governmental funds.

Management is currently in negotiations with the Office of Management and Budget to obtain authorization for the use of those funds in new programs.

14. RENTAL INCOME

The Company's principal rental 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
2013	\$ 8,132,651
2014	7,752,920
2015	5,975,949
2016	3,443,123
2017 and thereafter	5,308,777
	<u>\$ 30,613,420</u>

15. 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).



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 of 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 \$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 10.275% of gross salary. Total payroll subjected to retirement contribution amounted to \$5,984,784 for the year ended June 30, 2012. Those amounts are the compensation paid by the Corporation to active employees covered by the System, which is the basis for the contribution.

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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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.

Defined Contribution Plan

The Legislature of Puerto Rico 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 10.275% 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, 2012, amounted to \$317,159.

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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

16. TERMINATION BENEFITS

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 and certain other retirement windows approved thereafter. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows:

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 under the plan 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.



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 would 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, 2012, the present value of future incentive payments reported as a liability in the statement of net assets was \$3,271,859. During the year ended June 30, 2012, a total of 4, 2 and 1 employees, respectively, opted for the early retirement incentives under option 4(a), 4(b) and 4(c) respectively. Total expense recorded for the selected options were \$869,102. The Company's termination benefit liability as of June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Termination Benefits	\$2,605,615	\$869,102	\$(202,858)	\$ 3,271,859	\$ 339,457

17. COMMITMENTS

The Company leases land and office space under operating leases expiring in various years through 2018. Rental expense for the operating leases for the year ended June 30, 2012 amounted to approximately \$827,122. Minimum future rental payments under non-cancelable operating leases as of June 30, 2012, are as follow:

Year Ending June 30,	Amount
2013	\$ 497,480
2014	74,997
2015	59,797
2016	59,797
2017	59,797
2018	4,760
	<u>\$ 756,628</u>



PUERTO RICO TRADE AND EXPORT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

18. CONTINGENCIES

At June 30, 2012, 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. As of June 30, 2012, the Company has a legal claims reserve in the amount of \$315,327. 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.

During the fiscal year ended on June 30, 2012, the Company received a favorable court judgment on a legal claim for which at June 30, 2011 the Company had a reserve amounting to approximately \$2.8 million. As part of the settlement the Company reversed prior year reserves amounting to \$2.6 million.

The summarized legal claims reserve activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Legal claims reserve	\$ 3,114,014	\$ -	\$(2,798,687)	\$ 315,327

19. 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.

20. SUBSEQUENT EVENTS

During the month of January 2013 a new Executive Director was appointed.

For purposes of these financial statements, subsequent events have been evaluated through February 22, 2013, which is the date the financial statements were available to be issued. There are no other material subsequent events that require further disclosures in the Company's financial statements.