

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

Financial Statements and Supplementary Information

June 30, 2013

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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, 2013, and the related notes to the financial statements which collectively comprise the Company's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Puerto Rico Trade and Export Company, as of June 30, 2013, 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.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 the 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 inquires 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.



FPV & Galindez

San Juan, Puerto Rico
February 12, 2014

TRUSTworthy

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

Management's Discussion and Analysis

June 30, 2013

This section of the Puerto Rico Trade and Export Company's (the Company) annual financial report presents management's discussion and analysis of the Company's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Company's basic financial statements, which follow this section.

Financial Highlights

- Net position of the Company decreased from \$106.7 million as of June 30, 2012 to \$105.4 million as of June 30, 2013, mostly driven by \$1 million decrease in net position of the Company's Business-type activities.
- The Company's net position (98%) 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.

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 position and the statement of activities.
- The remaining statements are fund financial statements of the Company's major and non-major governmental funds, for which activities are funded primarily from Commonwealth appropriations and for which the Company follows a modified accrual basis of accounting, and the Company's proprietary fund, which operates similar to business activities and for which the Company follows an accrual basis of accounting.
- The basic financial statements also include the notes to financial statements section that explains some of the information in the government-wide and fund financial statements, and provides more detailed data.

Government-Wide Financial Statements

The government-wide financial statements report information about the Company as a whole using accounting methods similar to those used by private sector companies. The statement of net position 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.

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

Management's Discussion and Analysis

June 30, 2013

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 twelve 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.

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, 2013 and 2012:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012 (Restated)	2013	2012 (Restated)
Assets:						
Current assets	\$ 2,694,775	\$ 1,361,933	\$ 19,243,302	\$ 19,833,906	\$ 21,938,077	\$ 21,195,839
Non-current assets	4,905,479	6,264,141	356,266,182	374,892,515	361,171,661	\$ 381,156,656
Capital assets	4,082,970	4,195,486	110,361,583	112,877,461	114,444,553	117,072,947
Total asset	<u>11,683,224</u>	<u>11,821,560</u>	<u>485,871,067</u>	<u>507,603,882</u>	<u>497,554,291</u>	<u>519,425,442</u>
Liabilities						
Current liabilities	330,328	208,188	10,836,640	10,129,674	11,166,968	10,337,862
Long-term liabilities	2,859,054	2,859,054	378,137,004	397,455,512	380,996,058	400,314,566
Total liabilities	<u>3,189,382</u>	<u>3,067,242</u>	<u>388,973,644</u>	<u>407,585,186</u>	<u>392,163,026</u>	<u>410,652,428</u>
Net position:						
Net invested in capital assets	4,082,970	4,195,486	95,011,295	97,224,812	99,094,265	101,420,298
Restricted	3,265,714	4,555,520	-	-	3,265,714	4,555,520
Unrestricted	1,145,158	3,312	1,886,128	2,793,884	3,031,286	2,797,196
Total net position	<u>\$ 8,493,842</u>	<u>\$ 8,754,318</u>	<u>\$ 96,897,423</u>	<u>\$ 100,018,696</u>	<u>\$ 105,391,265</u>	<u>\$ 108,773,014</u>

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

Management's Discussion and Analysis

June 30, 2013

Financial Analysis of the Company as a Whole – (continued)

In overall, the net position of the Company decreased \$1.3 million from \$106.7 million to \$105.4 million. Key elements for the decrease in net position are as follows:

- Investment in restricted securities notes included in non-current assets decreased by \$18 million as a result of unrealized fair value depreciation for such amount.
- Capital assets decreased by \$1 million due to depreciation expense of \$3 million partially offset by a prior year restatement of \$2 million due to excess of depreciation expenses charges taken during previous fiscal years.
- Long term liabilities decreased by \$18 million mainly as a result of the depreciation of the market value of the collateralized promissory notes.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 38,413	160,610	17,309,090	16,395,428	17,347,503	\$ 16,556,038
General revenue:						
Interest and investment earnings	4,045	5,400	18,070,097	18,607,592	18,074,142	18,612,992
Other income	258,481	174,698	-	291,066	258,481	465,764
Other	-	-	-	2,628,687	-	2,628,687
Total revenues	<u>300,939</u>	<u>340,708</u>	<u>35,379,187</u>	<u>37,922,773</u>	<u>35,680,126</u>	<u>38,263,481</u>
Program expenses						
Administration	183,594	229,970	-	-	183,594	229,970
Employment development incentive	-	5,763	-	-	-	5,763
Economic development incentive	377,821	-	-	-	377,821	-
Tuition services	-	4,980	-	-	-	4,980
Promotion and commercial development	-	1,426,161	-	-	-	1,426,161
Rental activities expenses and other	-	-	20,888,951	20,765,123	20,888,951	20,765,123
Interest expense	-	-	17,611,509	18,118,895	17,611,509	18,118,895
Total expenses	<u>561,415</u>	<u>1,666,874</u>	<u>38,500,460</u>	<u>38,884,018</u>	<u>39,061,875</u>	<u>40,550,892</u>
Increase (decrease) in net position	<u>\$ (260,476)</u>	<u>(1,326,166)</u>	<u>(3,121,273)</u>	<u>(961,245)</u>	<u>(3,381,749)</u>	<u>\$ (2,287,411)</u>

During the year ended June 30, 2013, the Company's total revenues decreased by approximately \$2.6 million, from \$38.3 million for the year ended June 30, 2012 to \$35.7 million for the year ended June 30, 2013. The decrease is mainly due to the effect of a non-operating revenue recorded during fiscal year 2012 related to a reversal of \$2.6 million in legal reserve upon court's dismissal of claim.

Puerto Rico Trade and Export Company
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Management's Discussion and Analysis

June 30, 2013

Governmental Fund Results

The Company's governmental activities are accounted for in twelve 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, 2013. Following is a description of each governmental fund:

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 among other. The fund had no significant activity during the current fiscal year.

Direct Employment for Urban Centers Fund

The fund's operating objective is to provide grants of salary incentives for small and medium size entities located in the urban centers. This program wants to strengthen and revitalize the urban centers. The fund had no significant activity during the current fiscal year.

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. The fund had no significant activity during the current fiscal year. There is grant expired unused balances of \$1.5 million recorded in due to the Commonwealth of Puerto Rico.

Economic Incentive for Roosevelt Roads Fund

This fund is used to account for resources and expenditures related to the grant of economic incentives for new business development for persons within the east coast of Puerto Rico, 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. The fund had no significant activity during the current fiscal year.

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. The fund generated approximately \$39 thousand in fees collected from training and seminars provided as part of the tuition services.

Puerto Rico Trade and Export Company
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Management's Discussion and Analysis

June 30, 2013

Governmental Fund Results – (continued)

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. The fund had no significant activity during the current fiscal year.

Mitigation Fund

This fund was created with the objective of providing flood mitigation. The fund had no significant activity during the current fiscal year. There is a grant expired unused balances of \$1.3 million recorded in due to the Commonwealth of Puerto Rico.

World Trade Center Fund

This fund is used to account for resources and expenditures related to the development of enterprises in Puerto Rico, and the development and maintenance of information systems for the service management of the enterprises in Puerto Rico. The fund had no significant activity during the current fiscal year.

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. No appropriations from the Commonwealth to fund these expenditures was received during the fiscal year 2013. The fund had no significant activity during the current fiscal year.

Merchant's Register Fund

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

Business Women Fund

This fund was created to implement an economic incentive program to assist women that are heads of family and carry out small business operations. During the fiscal year 2013, no new funds have been received from appropriations from the Commonwealth of Puerto Rico. The remaining balances of past year have been used to pay incentives during the current year.

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Management's Discussion and Analysis

June 30, 2013

Governmental Fund Results – (continued)

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 of the Commonwealth of Puerto Rico to obtain authorization for the use of those funds in new programs.

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

During the year ended June 30, 2013, governmental funds net position decreased by approximately \$200 thousands from \$8.7 million as of June 30, 2012 to \$8.5 million as of June 30, 2013. The decrease is mainly related to the disbursement in 2013 of the remaining incentives under previous years Commonwealth Grant.

Federal Grants

The Company obtained State Trade and Export Promotion Grants (STEP or the Program) by the amounts of \$455,559 for the fiscal year 2013 and \$240,630 for the fiscal year 2012. The Program objective is to increase the number of small business that are planning exporting and/or are currently exporting goods and services. During the fiscal year 2013, the Company received reimbursement of expenditures under the two grant awards. The 2012 and 2013 grants expire on September 29, 2012 and September 29, 2013, respectively.

Proprietary Fund Results

Net position of the Company's proprietary fund, decreased during the year ended June 30, 2013 by \$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 \$3.6 million out of which \$3.1 million is related to depreciation of the commercial real estate. The operating loss was partially offset by non-operating net revenues of approximately \$500 thousand during the current fiscal year. The non-operating revenues mostly consist of net interest spread of \$1.3 million on the Company's collateralized notes and investment program. In addition, the Company incurred approximately \$810 thousand in interest cost in its mortgage loan.

Collateralized Promissory Note Administration

At June 30, 2013, the Company had a collateralized promissory note in the amount of \$356 million. The debt is fully collateralized by permitted and qualified investments in the same amount, with an approximated fair value of \$356 million. See note 11 to the basic financial statements for additional information.

Puerto Rico Trade and Export Company
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Management's Discussion and Analysis

June 30, 2013

Capital Assets

The Company's investment in capital assets for its business-type activities as of June 30, 2013 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 asset decreased during the fiscal year 2013 by approximately \$1 million (1%) mainly due to net effect of \$3 million of depreciation expenses partially offset by a prior year restatement of \$2 million due to excess of depreciation expenses charges taken during previous years. See note 6 to the basic financial statements for additional details on capital assets at the end of the year and the activity during the fiscal year.

Requests for Information

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

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

Statement of Net Position

June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash	\$ 1,107,003	8,762,729	\$ 9,869,732
Funds held by the Commonwealth of Puerto Rico	7,246	-	7,246
Interest bearing deposits	-	3,708,598	3,708,598
Rent receivable, net of allowance for uncollectibles of \$1,591,883	-	937,246	937,246
Account receivable-other, net of allowance for uncollectibles of \$4,245,506	262,200	484,844	747,044
Accrued interest receivable	832	5,291,442	5,292,274
Prepaid expenses	40,464	64,467	104,931
Internal balances	6,024	(6,024)	-
Cash - restricted	4,905,479		4,905,479
Interest bearing deposit - restricted	1,271,006		1,271,006
Investment securities - restricted	-	356,266,182	356,266,182
Capital assets:			
Non-depreciable assets	578,720	59,696,219	60,274,939
Depreciable assets, net	3,504,250	50,665,364	54,169,614
Total assets	11,683,224	485,871,067	497,554,291
Liabilities:			
Accounts payable	217,753	2,908,605	3,126,358
Accrued interest payable	-	4,932,332	7,791,386
Accrued liabilities	112,575	1,665,055	1,777,630
Termination benefit obligation- current portion	-	231,276	231,276
Compensated absences- current portion	-	525,042	525,042
Obligations under capital leases- current portion	-	54,644	54,644
Mortgage note- current portion	-	519,686	519,686
Liabilities - Due over one year:			
Due to Commonwealth of PR	2,859,054	-	-
Termination benefit obligation- long term portion	-	2,703,756	2,703,756
Compensated absences- long term portion	-	1,377,774	1,377,774
Obligations under capital leases- long term portion	-	150,054	150,054
Deposits from tenants	-	2,813,334	2,813,334
Collateralized notes payable	-	356,266,182	356,266,182
Mortgage note- long term portion	-	14,625,904	14,625,904
Accrual for legal claims	-	200,000	200,000
Total liabilities	3,189,382	388,973,644	392,163,026
Net position:			
Net invested in capital assets	4,082,970	95,011,295	99,094,265
Restricted	3,265,714	-	3,265,714
Unrestricted	1,145,158	1,886,128	3,031,286
Total net position	\$ 8,493,842	96,897,423	\$ 105,391,265

See accompanying notes to basic financial statements.

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

Statement of Activities

June 30, 2013

Functions/Programs	Program Revenue		Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Governmental Activities	Business-Type Activities	Total
Governmental activities:					
Administration	\$ 183,594	-	(183,594)	-	\$ (183,594)
Economic development incentive	377,821	-	(377,821)	-	(377,821)
Tuition services	-	38,413	38,413	-	38,413
Total governmental activities	561,415	38,413	(523,002)	-	(523,002)
Business-type activities-					
Rental activities	20,888,951	17,309,090	-	(3,579,861)	(3,579,861)
Total	21,450,366	17,347,503	(523,002)	(3,579,861)	(4,102,863)
General revenue (expenses):					
Interest income on investment held as collateral earnings			4,045	18,070,097	18,074,142
Interest expenses on collateralized notes			-	(16,793,300)	(16,793,300)
Interest on mortgage notes			-	(810,391)	(810,391)
Interest on capital leases				(7,818)	(7,818)
Other income			258,481	-	258,481
Total general revenue			262,526	458,588	721,114
Change in net position			(260,476)	(3,121,273)	(3,381,749)
Net position - beginning of year, as restated			8,754,318	100,018,696	108,773,014
Net position - end of year			\$ 8,493,842	\$ 96,897,423	\$ 105,391,265

See accompanying notes to basic financial statements

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

Balance Sheet – Governmental Funds

June 30, 2013

Assets	<u>Total Governmental Funds</u>
Cash	\$ 1,107,003
Funds held by the Commonwealth of Puerto Rico	7,246
Interest bearing deposits - restricted	1,271,006
Restricted cash	4,905,479
Accrued interest receivable	832
Due from other funds	236,652
Other receivables - net	262,200
Prepaid expenses	<u>40,464</u>
 Total	 <u>\$ 7,830,882</u>
 Liabilities and Fund Balances	
Liabilities:	
Accounts payable	217,753
Due to Commonwealth of Puerto Rico	2,859,054
Accrued liabilities	112,575
Due to other funds	<u>230,628</u>
 Total liabilities	 <u>3,420,010</u>
Fund Balances:	
Restricted for:	
Economic development incentive	2,206,899
Employment development incentive	1,058,815
Unassigned	<u>1,145,158</u>
Total fund balances	<u>4,410,872</u>
Total	<u>\$ 7,830,882</u>

See accompanying notes to basic financial statements.

Puerto Rico Trade and Export Company
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Reconciliation of the Balance Sheet to the
Statement of Net Position – Governmental Funds

June 30, 2013

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

Total fund balance of governmental funds	\$ 4,410,872
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds, net accumulated depreciation of \$1,541,850	<u>4,082,970</u>
Net position of governmental activities	<u>\$ 8,493,842</u>

See accompanying notes to basic financial statements

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

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

Year Ended June 30, 2013

	Total Governmental Funds
Revenues:	
Tuition	\$ 38,413
Interest	4,045
Others	<u>258,481</u>
Total revenues	<u>300,939</u>
Expenditures:	
Administration	71,078
Economic development incentives	<u>377,821</u>
Total expenditures	<u>448,899</u>
Expenditures in excess of revenues	(147,960)
Fund balances - beginning of year	<u>4,558,832</u>
Fund balances - end of year	<u>\$ 4,410,872</u>

See accompanying notes to basic financial statements

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

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

Year Ended June 30, 2013

Net change in fund balance - total governmental funds \$ (147,960)

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 is
allocated over their estimated useful lives as depreciation
expense. The amount by which capital outlays (\$3,949) exceed
depreciation (\$116,465) for the year.

(112,516)

Net change in net position of governmental activities

\$ (260,476)

See accompanying notes to basic financial statements

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

Statement of Net Position – Proprietary Fund

June 30, 2013

Assets

Current Assets:

Cash	\$ 8,762,729
Interest bearing deposits	3,708,598
Rent receivable, net of allowance for uncollectibles of \$1,591,883	937,246
Other receivable, net of allowance for uncollectibles of \$4,245,506	484,844
Accrued interest receivable	5,291,442
Prepaid expenses	64,467
Due from other funds	<u>229,828</u>
Total current assets	<u>19,479,154</u>

Noncurrent Assets:

Investment securities - restricted	356,266,182
Capital assets:	
Non-depreciable assets	59,696,219
Depreciable assets, net	<u>50,665,364</u>
Total capital assets, net	<u>110,361,583</u>
Total noncurrent assets	<u>466,627,765</u>
Total	<u>\$ 486,106,919</u>

Liabilities and Net Position

Current Liabilities:

Accounts payable	\$ 2,908,605
Accrued interest payable	4,932,332
Accrued expenses	1,665,055
Termination benefits obligation - current portion	231,276
Compensated absences - current portion	525,042
Current portion on mortgage loan	519,686
Current portion of obligations under capital leases	54,644
Due to other funds	<u>235,852</u>
Total current liabilities	<u>11,072,492</u>

Noncurrent Liabilities:

Obligations under capital leases	150,054
Termination benefits obligation - long term portion	2,703,756
Compensated absences - long term portion	1,377,774
Deposits from tenants	2,813,334
Collateralized notes payable	356,266,182
Mortgage loan- long term portion	14,625,904
Accrual for legal claims	<u>200,000</u>
Total noncurrent liabilities	<u>378,137,004</u>
Total liabilities	<u>389,209,496</u>

Net Position:

Net invested in capital assets	95,011,295
Unrestricted	<u>1,886,128</u>
Total net position	<u>96,897,423</u>
Total	<u>\$ 486,106,919</u>

See accompanying notes to basic financial statements

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

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

Year Ended June 30, 2013

Operating revenue:	
Rent revenue	\$ 17,274,606
Other	<u>34,484</u>
Total operating revenue	<u>17,309,090</u>
Operating expenses:	
Salaries and employees benefits	9,273,799
Employees and termination benefits	409,524
Provision for uncollectible accounts	448,106
Depreciation and amortization	3,158,189
Occupancy and related expenses	3,380,724
Insurance	643,178
Administrative and management services	492,636
Security services	626,298
Professional services	1,323,630
Advertising	647,173
Office supplies	120,283
Travel expenses	69,752
Commercial development	38,220
Other	<u>257,439</u>
Total operating expenses	<u>20,888,951</u>
Operating loss	<u>(3,579,861)</u>
Non operating revenue (expenses):	
Interest income and other	18,070,097
Interest expense on capital leases	(7,818)
Interest expense on mortgage loan	(810,391)
Interest expense on collateralized notes	<u>(16,793,300)</u>
Total non operating expenses, net	<u>458,588</u>
Change in net assets	(3,121,273)
Net position - beginning of year, as restated	<u>100,018,696</u>
Net position - end of year	<u>\$ 96,897,423</u>

See accompanying notes to basic financial statements

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

Statement of Cash Flows – Proprietary Fund

Year Ended June 30, 2013

Cash flows from operating activities:	
Collection of rent	\$ 17,352,208
Payments to employees	(7,013,158)
Payments to suppliers	(9,986,809)
Other operating revenues	<u>34,484</u>
Net cash provided by operating activities	<u>386,725</u>
Cash flows used in non-capital financing activities:	
Interest paid on collateralized notes	<u>(16,793,300)</u>
Net cash used in non-capital financing activities	<u>(16,793,300)</u>
Cash flows used in capital and related financing activities:	
Acquisitions of capital assets	(392,342)
Payments on capital leases interest	(7,818)
Payments of obligations under capital leases	<u>(58,966)</u>
Net cash used in capital and related financing activities	<u>(459,126)</u>
Cash flows from investing activities:	
Interest collected on interest-bearing deposits and restricted investments	18,070,097
Repayment on mortgage loan	(493,364)
Payment on mortgage notes interest	(810,391)
Other interest	(401)
Increase in interest-bearing deposits	<u>(12,923)</u>
Net cash provided by investing activities	<u>16,753,018</u>
Net change in cash and cash equivalents	(112,683)
Cash, beginning of year	<u>8,875,412</u>
Cash, end of year	<u>\$ 8,762,729</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (3,579,861)</u>
Adjustments to reconcile change in net position to cash provided by operating activities:	
Depreciation and amortization	3,158,189
Provision for uncollectible accounts receivable	448,106
Changes in assets and liabilities:	
Decrease in rent receivable	62,770
Decrease in prepaid expenses	45,278
Increase in due from other fund	(65,220)
Increase in due to other fund	311
Increase in accounts payable	612,149
Increase in accrued expenses	108,984
Increase in compensated absences	33,341
Decrease in termination benefits accrual	(336,827)
Increase in deposits from tenants	14,832
Decrease in accrual for legal claims	<u>(115,327)</u>
Total adjustments	<u>3,966,586</u>
Net cash provided by operating activities	<u>\$ 386,725</u>

(continues)

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

Statement of Cash Flows – Proprietary Fund (Continued)

Year Ended June 30, 2013

Supplemental information of non-cash transactions:

From investing and financing activities:

Decrease in investment securities and collateralized notes payable	<u>\$ 18,626,331</u>
Increase in obligation under capital leases	<u>\$ 249,967</u>

See accompanying notes to basic financial statements

(concluded)

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

Notes to Basic Financial Statements

Year Ended June 30, 2013

Note 1 - Reporting entity

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

In accordance with Article 18 of Law No. 323, the balances and other funds available through other laws and special funds of the Puerto Rico Export Development Corporation and the Commerce Development Administration, which are under the custody of the Puerto Rico Department of Treasury, were transferred to the Company to allow it perform the functions, faculties and powers commended by this Law. A transition period of six years is expressly established to let the Company become financially independent. 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 2013.

Note 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.

Effective July 1, 2012 the Company adopted Governmental Accounting Standards Board (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) Financial Accounting Standards Board Statements and Interpretation; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The statement of net position 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 position. 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 position presents the Company's assets deferred inflows/deferred outflows and liabilities, with the difference reported as net position. Net position components are reported in three categories:

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

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Government-Wide and Fund Financial Statements – (continued)

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. During the fiscal year ended as of June 30, 2013, 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 modified 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 significant when compared to the proprietary funds operations. The following funds are part of the governmental funds of the Company:

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation – (continued)

- *Administrative Fund* – This fund is used to account for resources and expenditures related to administrative function not accounted for in other funds such as accounting, personnel purchase 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.
- *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 aids to strengthen and revitalize the urban centers.
- *Key for Your Business Fund* – This fund was created with the objective of providing incentives for the creation and strengthening of small and medium businesses.
- *Economic Incentive for Roosevelt Roads Fund* – This fund is used to account for resources and expenditures related to the grant of economic incentives for new business development for persons within the east coast, which were affected by the closing of the naval base of Roosevelt Roads. The objective is to improve the probabilities of success of the new merchant, increasing its working capital providing technical advice to them.
- *Business School Fund* – The Company provides continuous training and commercial development to individuals or enterprises engaged in commercial activities through the Business School Division.
- *Commercial Impact to Urban Centers Fund* – This fund is used to account for resources and expenditures related to activities conducted to revitalize the commerce on the traditional urban centers through the performance of activities designed to attract the flow of clients to the urban centers.
- *Mitigation Fund* – This fund was created with the objective of providing flood mitigation subsidies to small and medium businesses.
- *World Trade Center Fund Project* – This fund is used to account the resources and expenditures related to the development and maintenance of information systems for the service management of the enterprises in Puerto Rico, a sponsorship of a council of exportations among others activities related to the development of services and programs in accordance with the development plan of the Company.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation – (continued)

- *Ideal Certification* – This fund was created with the objective of providing businessmen interested in establishing, operating or expanding their business, certifications from the government agencies in order to expedite such process.
- *Merchant's Register Fund* – This fund was created with the objective of preparing a Merchant's Register for the preparation of statistical and economic studies.
- *Business Women Fund* – This fund was created to implement an economic incentive program to develop women that are family heads in small business.
- *Small Trade and Export Program Grant*– This fund is a federal program which objective is to increase the number of small business that are planning exporting and/or are currently exporting goods and services.

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 position.

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 follow:

- Non-spendable fund balances- amounts that cannot be spend because they are either: (a) not in spendable or (b) legally or contractually required to be maintained intact.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation – (continued)

Fund Balances - The Company implemented GASB Statement No. 54, *Fund Balance Reporting and*

- Restricted fund balance- amounts that are restricted for specific purposes externally imposed by creditors or imposed by law. The Company's restricted fund balance consist of the Direct Employment for Urban Center fund, Key for Your Business fund, Economic Centers fund, Mitigation fund, World Trade Center Fund Project, Ideal Certification, Merchant's Register Fund, and Business Woman fund. These fund balances 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 can not be used for any other purpose unless that Board removes or changes the specific use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast, the fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for others 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 the Administrative Fund, assigned amounts represent intended uses established by the Board of 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 purposes and management may determine how to spent it.

The Company uses the 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.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation – (continued)

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

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation – (continued)

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

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

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

Accounting for the Impairment or Disposal of Long-lived Assets – The Company follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2013, 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.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation – (continued)

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

Property, 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 Cost - The Company accounts for pension cost 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 reposting 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 government 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 Benefit - The Company accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognized a liability and expenses 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 recognize 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.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

New Accounting Standards Adopted

The following new accounting standards were adopted by the Company effective July 1, 2012:

In December 2010, the GASB issued 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 Interpretation; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. There was no impact on the Company's financial statement as a result of the implementation of GASB Statement No. 62.

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 these financial statement elements, which are distinct from assets and liabilities. There was no impact on the Company's financial statement as a result of the implementation of GASB Statement No. 63.

Recently Issued Accounting Guidance

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2013:

In March 2012 the GASB issued Statement No. 65, *Items Previously 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 government 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 Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Recently Issued Accounting Guidance – (continued)

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, 2012.

In 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 replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefits 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 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 Plans as 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 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.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Recently Issued Accounting Guidance – (continued)

of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Recently Issued Accounting Guidance – (continued)

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

Note 3 - Cash and Interest Bearing Deposits

The information presented below discloses the level of custodial credit risk assumed by the Company at June 30, 2013. 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 (GDB) or the Economic Development Bank for Puerto Rico (EDB), component units of the Commonwealth, are not covered by this Commonwealth requirement.

As of June 30, 2013, the Company had \$4.7 million deposited with GDB. The Company has certificates of deposit with EDB amounting to approximately \$705 thousand as of June 30, 2013. The remaining balances of approximately \$14.3 million are maintained in commercial banks from which \$4.3 million are certificate of deposits.

Note 4 - Receivables and Allowances for Uncollectible Accounts

As of June 30, 2013, rent and other receivables of the business-type activities were as follows:

	<u>Rent</u>	<u>Other</u>
Rent and land leases	\$ 2,529,129	\$ -
Rent under repayment plan and other	<u>-</u>	<u>4,730,350</u>
	2,529,129	4,730,350
Less: Allowance for uncollectible accounts	<u>1,591,883</u>	<u>4,245,506</u>
	<u>\$ 937,246</u>	<u>\$ 484,844</u>

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 4 - Receivables and Allowances for Uncollectible Accounts – (continued)

Changes in the allowances for uncollectible accounts during the fiscal year ended June 30, 2013 are as follow:

	Rent	Other
Allowances for uncollectible accounts, beginning of year	\$ 1,591,883	\$ 3,797,400
Provision for doubtful accounts	-	448,106
Allowance for uncollectible accounts, end of year	\$ 1,591,883	\$ 4,245,506

Note 5 - Investments Securities

As of June 30, 2013, the Company had the following investments:

Investment Type	Coupon Rate	Rating	Maturity Date	Cost	Fair Market Value	Unrealized Gain
New York State Dorm Authority Bonds	5.00%	AAA	3/15/2024	\$ 49,000,000	\$ 54,404,700	\$ 5,404,700
Tacoma, Washington Electric System Revenues Bonds	5.79%	AA	1/1/2032	33,500,000	38,692,500	5,192,500
Pennsylvania State Bonds	5.35%	AA	5/1/2030	33,200,000	35,713,240	2,513,240
Kansas Development Finance Authority Bonds	5.50%	AA	5/1/2034	17,305,000	18,585,570	1,280,570
Florida State Build America Bond	5.90%	AAA	6/1/2035	43,915,000	48,912,526	4,997,526
Illinois State General Obligations Bonds	5.95%	AA-	4/1/2022	17,005,000	18,271,873	1,266,873
Illinois State General Obligations Bonds	6.88%	AA-	7/1/2025	48,000,000	56,577,600	8,577,600
NY City, Transitional Fin, Auth, Future Tax Secure, Build America Bond	5.40%	AAA	2/1/2027	10,195,000	11,576,423	1,381,423
NY City, Transitional Fin, Auth, Future Tax Secure, Build America Bond	5.51%	AAA	8/1/2037	4,400,000	4,868,600	468,600
NY City, Transitional Fin, Auth, Future Tax Secure, Build America Bond	5.77%	AAA	8/1/2036	3,000,000	3,480,900	480,900
Dorm Authority of NY, Series 2010 D	5.50%	AAA	3/15/2030	20,000,000	23,098,000	3,098,000
Dorm Authority of NY, Series 2010 H	5.29%	AAA	3/15/2033	5,000,000	5,386,000	386,000
Dist of Columbia Income Tax Rev Bond	4.91%	AAA	12/1/2023	7,500,000	8,423,250	923,250
Dist of Columbia Income Tax Rev Bond	5.28%	AAA	12/1/2026	25,000,000	28,275,000	3,275,000
				\$ 317,020,000	\$ 356,266,182	\$ 39,246,182

The investments relate to the collateralized notes payable program, which involves matched transactions that generate a fixed spread of income to the Company. These investments are pledged as collaterals to the notes issued during the fiscal year for the same amount (refer to Note 11).

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 5 - Investments Securities – (continued)

The investments are classified as restricted and recorded at fair value.

Note 6 - Capital Assets

Capital assets activity for the year ended June 30, 2013, consists of the following:

	Balance July 1, 2012 (Restated)	Additions	Retirements	Balance June 30, 2013
Governmental Activities:				
Properties not being depreciated				
Land	\$ 578,720	-	-	\$ 578,720
Total capital assets, not being depreciated	<u>578,720</u>	-	-	<u>578,720</u>
Properties being depreciated				
Building and building improvements	4,306,956	-	-	4,306,956
Furniture and equipment	739,284	3,949	-	743,233
Less accumulated depreciation	<u>(1,429,474)</u>	<u>(116,465)</u>	-	<u>(1,545,939)</u>
Total capital assets, being depreciated	<u>3,616,766</u>	<u>(112,516)</u>	-	<u>3,504,250</u>
Total governmental activities capital assets, net	<u>\$ 4,195,486</u>	<u>(112,516)</u>	-	<u>\$ 4,082,970</u>
Business-type Activities:				
Rental Properties not being depreciated				
Land and land improvements	\$ 59,696,219	-	-	\$ 59,696,219
Construction in progress	<u>4,501</u>	-	<u>(4,501)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>59,700,720</u>	-	<u>(4,501)</u>	<u>59,696,219</u>
Rental Properties being depreciated				
Building and building improvements	103,345,412	37,323	-	103,382,733
Furniture and equipment	<u>2,883,973</u>	-	-	<u>2,883,973</u>
Sub-total	<u>106,229,385</u>	<u>37,323</u>	-	<u>106,266,706</u>
Other Properties Not For Rent being depreciated				
Building and building improvements	6,500,623	200,827	-	6,696,967
Furniture and equipment	4,479,219	158,693	-	4,637,912
Capital leases	206,090	249,969	-	456,059
Vehicles	<u>370,112</u>	-	-	<u>370,112</u>
Sub-total	<u>11,556,044</u>	<u>609,489</u>	-	<u>12,161,050</u>
Total cost of depreciable assets	<u>117,785,429</u>	<u>646,812</u>	-	<u>118,432,241</u>
Less accumulated depreciation				
Rental properties	(55,957,245)	(2,548,691)	-	(58,505,936)
Other properties not for rent	<u>(8,651,443)</u>	<u>(609,498)</u>	-	<u>(9,260,941)</u>
Total accumulated depreciation	<u>(64,608,688)</u>	<u>(3,158,189)</u>	-	<u>(67,766,877)</u>
Total capital assets, being depreciated	<u>53,176,741</u>	<u>(2,511,377)</u>	-	<u>50,665,364</u>
Total business-type capital assets, net	<u>\$ 112,877,461</u>	<u>(2,511,377)</u>	<u>(4,501)</u>	<u>\$ 110,361,583</u>

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 6 - Capital Assets – (continued)

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

Year Ending June 30,	Amount
2014	\$ 16,836,431
2015	13,266,823
2016	9,922,095
2017	7,624,781
2018	4,557,376
2019-2023	774,016
Total	\$ 52,981,522

Note 7 - Restricted Assets

The Company's restricted assets as of June 30, 2013, consist of cash and interest bearing deposits related to the operations of the governmental programs granted by the Commonwealth and restricted investment securities that are pledged to secure collateralized notes, as follows:

Restricted Assets as of June 30, 2013		
Type of Asset	Program Description	Amount
Governmental Activities:		
Restricted cash	Economic Development	\$ 4,687,349
	Business Women fund	218,130
	Total restricted cash	\$ 4,905,479
Restricted interest-bearing deposits	Economic Development	\$ 1,271,066
Business-type Activities:		
Restricted investment securities	Pledged for Collateralized Notes Payable	\$ 356,266,182

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 7 - Restricted Assets – (continued)

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. On December 18, 2013, the Legislature of Puerto Rico approved the Joint Resolution number 113-2013 allowing the re-assignment of such funds to programs related to employment and economic development.

Note 8 - Internal Balances

Internal balances as of June 30, 2013 are comprised of amounts due to and from the business-type fund and governmental funds, as shown below:

	Business Type Activities (PRTEC)	Others	Total
Puerto Rico Trade and Export Company (PRTEC)	\$ 229,828	(235,852)	\$ (6,024)
Others	236,652	(230,628)	6,024
	\$ 466,480	(466,480)	\$ -

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

Note 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, 2013, the Company paid \$464,000 to the DEDC.

Note 10 - Mortgage Loan

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

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 10 - Mortgage Loan- (continued)

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.

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, 2013 the Company was not in compliance with the reporting requirements set for in sections 5.01(f)(i), 5.01(f) and (ii), and 5.01(f)(vii) of the Credit Agreement. On February 7, 2014, 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, 2013.

Beginning Balance	Additions	Payments	Ending Balance	Current Portion
\$ 15,638,954	-	(493,364)	\$ 15,145,590	\$ 519,686

At June 30, 2013, the future minimum principal payments on the mortgage notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 519,686	\$ 784,068	\$ 1,303,754
2015	541,234	762,520	1,303,754
2016	<u>14,084,670</u>	<u>717,510</u>	<u>14,802,180</u>
	<u>\$ 15,145,590</u>	<u>\$ 2,264,098</u>	<u>\$ 17,409,688</u>

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 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. 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.

These promissory notes are collateralized with investment securities with an aggregate fair value of \$356,266,182, as disclosed on note 5. At June 30, 2013, the principal balance of the promissory notes outstanding under this program amounted to \$317,020,000, with interest rates ranging from 4.91% to 6.88% and maturity dates from April 1, 2022 through August 1, 2037. The collateralized notes are matched to their respective investment, and as such are presented at the same fair value of the underlying collateral. The unrealized depreciation for the fiscal year ended on June 30, 2013 amounted to approximately (\$18,626,331).

The long-term debt activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Promissory notes	\$ 374,892,513	-	(18,626,331)	356,266,182	\$ -
Accrual for legal claims	315,327	136,014	(251,341)	200,000	-
Deposits from tenants	2,798,502	147,868	(133,036)	2,813,334	-
Obligation under capital leases	13,697	249,967	(58,966)	204,698	54,644
	<u>\$ 378,020,039</u>	<u>533,849</u>	<u>(19,069,674)</u>	<u>359,484,214</u>	<u>\$ 54,644</u>

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 11 - Collateralized Notes Payable – (continued)

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

Year Ending June 30,	Principal	Interest	Total
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	-	16,793,000	16,793,000
2019-2023	18,271,873	19,387,285	37,659,158
2024-2028	159,256,973	22,423,023	181,679,996
2029-2033	151,802,266	15,690,228	167,492,494
2034-2038	26,935,070	1,561,306	28,496,376
	<u>\$ 356,266,182</u>	<u>\$ 143,026,842</u>	<u>\$ 499,293,024</u>

Note 12 - Capital Leases

The Company has a non-cancelable capital lease obligation for office equipment. The term of the lease is for five years, beginning 2012 through 2018. The future commitments under this lease are as follows:

Year Ending June 30,	Amount
2014	\$ 54,644
2015	53,366
2016	47,485
2017	35,689
2018	13,514
Total	<u>\$ 204,698</u>

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 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.

Note 14 - Retirement System

Defined Benefit Pension Plan

The Employees' Retirement System ("Retirement System" or "ERS") of the Commonwealth of Puerto Rico 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 of 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 government retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The ERS consist of different benefit structures pursuant to Act No. 447 of May 15, 1951, as amended, including a cost-sharing, multiple-employer defined benefit program and 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.

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

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 14 - Retirement System – (continued)

Defined Benefit Pension Plan – (continued)

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 monthly 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 \$5,561,389 for the year ended June 30, 2013. 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.

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.

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 14 - Retirement System – (continued)

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 11.275% 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, 2013, amounted to \$628,881.

Furthermore, on April 4, 2013 the Governor of Puerto Rico signed into law Act No. 3 of 2013 which represents a comprehensive reform of the Employee Retirement System (ERS). Act No. 3 became effective on July 1, 2013 and amends the provisions of the different structures under the ERS, including, but not limited to the following:

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 14 - Retirement System – (continued)

Defined Contribution Plan – (continued)

- For active participants of the contributory defined benefits program under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the “merit annuity” available to participants who joined the ERS prior to April, 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

The financial statements and required supplementary information for the pension plan are available at the administration office of the Employees’ Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42003 Minillas, San Juan, PR 00940.

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 15 - 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 the three options as follows:

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

<u>Years of Service 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 year 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 that they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower 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 of 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 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
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 15 - Termination Benefits – (continued)

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 dispose on article 4(a) but not entitled to the incentive provided on article 4(b). Employees that have the required retirement age but have not achieved the year of credited service 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 the years of service not credited.

At June 30, 2013, the present value of future incentive payments reported as a liability in the statement of net position was \$2,935,032. During the year ended June 30, 2013, no employees opted for the early retirement incentives under option 4(a), 4(b) and 4(c). The Company's termination benefit liability as of June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Termination benefits	\$ 3,271,859	-	(336,827)	2,935,032	\$ 231,276

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Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 16 - Commitments and Contingencies

Commitments

The Company leases office spaces under operating leases expiring in various years through 2018. Rental expense for the operating leases for the year ended June 30, 2013 amounted to approximately \$973,851. Minimum future rental payments under non-cancelable operating leases as of June 30, 2013 are as follow:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 74,997
2015	59,797
2016	59,797
2017	59,797
2018	<u>59,797</u>
Total	<u>\$ 314,185</u>

Contingencies

At June 30, 2013, the Company is a defendant in various lawsuits, claims, legal proceedings and investigations resulting from the normal course of business covering a wide range of matters including but not limited to labor and breach of contracts. Management, after consultation with legal counsel, has established an accrual, which amounts to approximately \$200 thousand as of June 30, 2013, to cover its estimate of the ultimate liability that may result from such legal claims.

Note 17 - Significant Group Concentrations of Credit Risk

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

Note 18 - Subsequent Events

The Company evaluated subsequent events through February 12, 2014 which is the date the financial statements were available to be issued. No events have occurred subsequent to the statement of net position date and to the financial statements were available to be issued, that would require additional adjustment to, or disclosure in the financial statements except for, on September 30, 2013 collateralized promissory notes for \$95 million were called.

Puerto Rico Trade and Export Company
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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Note 19 - Restatement

During the year ended June 30, 2013, the Company identified certain accounting errors belonging to the prior years. The effect of these restatement adjustments on the Company's net position as of July 1, 2012 is as follows:

	<u>Proprietary Fund</u>
Net position, as previously reported	\$ 97,936,999
Restatement adjustments:	
Rental properties accumulated depreciation	2,156,146
Other properties not for rent accumulated depreciation	(69,966)
Building and building improvements cost	<u>(4,483)</u>
Net position, as restated	<u>\$ 100,018,696</u>