

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

*Basic Financial Statements and Supplementary  
Information as of and for the Year Ended June 30,  
2009, and Independent Auditors' Report*



**PARISSI P.S.C.**  
Certified Public Accountants, Tax & Business Advisors

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

*Basic Financial Statements and Supplementary  
Information as of and for the Year Ended June 30,  
2009, and Independent Auditors' Report*

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

*Basic Financial Statements and Management's Discussion and Analysis*  
*Year Ended June 30, 2009*

---

**Table of Contents**

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds –	
Balance Sheet	12
Reconciliation of the Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	15
Proprietary Fund –	
Statement of Net Assets	16
Statement of Revenues, Expenses and Changes in Net Assets	17
Statement of Cash Flows	18
Notes to Basic Financial Statements	19
Required Supplemental Information	
Budgetary Comparison Schedule – Administrative Fund	33



**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, 2009, which collectively comprise the Company's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Puerto Rico Trade and Export Company as of June 30, 2009 and the respective changes in financial position and where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule presented on pages 2 through 9 and page 33, respectively, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Parissi, PSC

September 23, 2009  
San Juan, Puerto Rico

Stamp No. 2463637 was affixed  
to the original of this report.  
License Exp. December 1, 2011

2463637



***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Statement of Net Assets*  
*June 30, 2009*

---

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, 2009. Please read it in conjunction with the Company's basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- Net assets of the Company decreased from \$130.9 million as of June 30, 2008 to \$120.2 million as of June 30, 2009, comprise of a decrease in net assets of the Company's governmental activities of \$13.3 million, related to unused expired grants amounting to \$10.2 million due to the Commonwealth, and an increase in net assets of the Company's business-type activities of \$2.6 million.
- The Company continued with an interim loan facility with Banco Popular of Puerto Rico originated during the year 2008 for the construction of new warehousing facilities in the Free Trade Zone. The facility amounts to \$42.9 million bearing interest at a rate of 6.142%.
- The largest portion of the Company's net assets (91%) reflects its investment in capital assets (e.g., buildings, land, machinery, and equipment). The Company uses these capital assets to provide warehouse facilities and services to exporting corporations, as well as for the overall administration of the Company.
- During January and March 2009, \$250 million of the collateralized promissory notes were redeemed with such proceeds used for the payment of the related collateralized notes in the same amount. During April and June 2009, the Company issued additional collateralized promissory notes in the amount of \$137 million. The proceeds from such notes were invested in obligations that qualify as permitted investments. The net effect of such transactions generated interest income in the amount of approximately \$1.8 million.
- Rent revenue by the Company's proprietary fund for the fiscal year 2008 totaled approximately \$16.4 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- The first two statements are government-wide financial statements that provide information about the Company's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the statement of net assets and the statement of activities.
- The remaining statements are fund financial statements of the Company's major and non-major governmental funds, for which activities are funded primarily from Commonwealth appropriations and for which the Company follows a modified accrual basis of accounting, and the Company's proprietary fund, which operates similar to business activities and for which the Company follows an accrual basis of accounting.

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Statement of Net Assets*  
*June 30, 2009*

---

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**FUND FINANCIAL STATEMENTS**

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

- ***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 ten 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.

*This Space Is Intentionally Left In Blank*

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Statement of Net Assets*  
*June 30, 2009*

**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, 2009 and 2008:

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Assets:</b>						
Current assets	\$ 17,052,901	22,461,610	14,291,406	13,828,405	31,344,307	36,290,015
Other assets	79,894	37,682	187,693,607	300,743,397	187,773,501	300,781,079
Capital assets	4,684,059	4,915,061	118,851,891	113,324,251	123,535,950	118,239,312
Total assets	<u>21,816,854</u>	<u>27,414,353</u>	<u>320,836,904</u>	<u>427,896,053</u>	<u>342,653,758</u>	<u>455,310,406</u>
<b>Liabilities:</b>						
Current liabilities	11,816,723	4,033,280	20,266,969	17,019,442	32,083,692	21,052,722
Long-term liabilities	—	—	190,357,249	303,290,040	190,357,249	303,290,040
Total liabilities	<u>11,816,723</u>	<u>4,033,280</u>	<u>210,624,218</u>	<u>320,309,482</u>	<u>222,440,941</u>	<u>324,342,762</u>
<b>Net assets:</b>						
Invested in capital assets	4,684,059	4,915,061	105,281,526	107,092,606	109,965,585	112,007,667
Restricted	993,538	1,041,910	—	—	993,538	1,041,910
Unrestricted	4,322,534	17,424,102	4,931,161	493,965	9,253,695	17,918,067
Total net assets	<u>\$ 10,000,131</u>	<u>23,381,073</u>	<u>110,212,687</u>	<u>107,586,571</u>	<u>120,212,818</u>	<u>130,967,644</u>

In overall, the net assets of the Company decreased \$10.7 million or 8.2% from \$130.9 million to \$120.2 million. Key elements for the decrease in net assets are the decrease in current assets mainly due to the decrease in accrued interest receivable of \$2.1 million, net of an increase in capital assets as described below and the increase in current liabilities due to a payment due to the Commonwealth related to expired unused operating grants.

Capital assets increase is mainly due to an increase of \$7.6 million in construction in progress related to the new warehouse facilities in the Free Trade Zone, net by depreciation expense of \$3.5 million.

Current liabilities increased \$11.0 million or 52.4% from \$21.0 million to \$32.1 million. In the governmental activities there was an increase of \$10.2 million related to a payment due to the Commonwealth for expired unused operating grants. In the business-type activities there was an increase in notes payable of \$7.3 million due to the construction of new warehousing facilities, net of a decrease in the accounts payable for \$3.2 million mainly due to the accrual for \$1.9 million related to the early retirement plan. Also, there was a decrease of accrued interest payable of \$1.8 million related to the decrease in the collateralized promissory notes that were redeemed.

At June 30, 2009 the Company had investment securities and note payable debt outstanding of \$187 million, as a result of the collateralized promissory notes redeemed of \$250 million and the issuance of \$137 million during the current year.

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Statement of Net Assets*  
*June 30, 2009*

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 184,885	435,930	16,712,089	17,028,963	16,896,974	17,464,893
Operating grants and contributions	4,179,699	7,411,699	—	—	4,179,699	7,411,699
General revenue:						
Interest and investment earnings	281,253	566,126	15,703,548	15,977,594	15,984,801	16,543,720
Other income	53,366	28,557	2,526,802	12,290	2,580,168	40,847
Total revenues	4,699,203	8,442,312	34,942,439	33,018,847	39,641,642	41,461,159
<b>Program expenses</b>						
Administration	3,061,106	3,663,160	—	—	3,061,106	3,663,160
Employment development incentive	3,377,110	3,761,291	—	—	3,377,110	3,761,291
Economic development incentive	350,975	803,765	—	—	350,975	803,765
Tuition services	274,816	248,480	—	—	274,816	248,480
Promotion and commercial development	799,711	1,760,115	—	—	799,711	1,760,115
Payment due to Commonwealth	10,216,427	—	—	—	10,216,427	—
Rental activities expenses and other	—	—	18,405,567	24,806,754	18,405,567	24,806,754
Interest expense	—	—	13,910,756	13,683,704	13,910,756	13,683,704
Total expenses	18,080,145	10,236,811	32,316,323	38,490,458	50,396,468	48,727,269
Increase (decrease) in net assets	\$ (13,380,942)	(1,794,499)	2,626,116	(5,471,611)	(10,754,826)	(7,266,110)

During the year ended June 30, 2009, the Company's total revenues decreased by approximately \$1.8 million or 4.4%, from \$41.5 million for the year ended June 30, 2008 to \$39.6 million for the year ended June 30, 2009. The decrease is the net effect of a decrease in operating grants approved during the fiscal year by the Legislature of Puerto Rico, included within the governmental funds of approximately \$3.3 million, combined with a decrease in rental revenues for an approximated \$300 thousand net of an increase in other income of approximately \$2.3 million related to the gain on sale of real estate.

Total expenses increased by approximately \$1.7 million or 3.5%. Key elements for this increase are, in the governmental activities, there is a payment due to the Commonwealth for \$10.2 million related to unused expired grants, net of a decrease in the promotional and commercial development expenses related to the Key for Your Business program fund. In the business-type activities, the decrease is related to the voluntary separation costs in effect during the prior fiscal year of approximately \$3.7 million and the transfer of improvements to the Municipality of Ponce for \$2.6 million also during prior year, recorded as commercial development within the business-type activities fund.

**GOVERNMENTAL FUND RESULTS**

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

***Administrative Fund***

The fund's operating objective is to provide funds for administrative functions of the Company not accounted for in other governmental funds such as accounting, personnel, purchases and general services. The fund receives appropriations from the Commonwealth to fund these expenditures.

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Statement of Net Assets***  
***June 30, 2009***

---

In overall, the fund's deficit decreased by approximately \$81 thousand (6.9%) during the fiscal year 2009, mainly caused by significant decrease in the overall administrative expenditures, net of a decrease in funds provided by the Legislature.

***Direct Employment for Urban Centers Fund***

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

During the year ended June 30, 2009, no appropriations were received from the Commonwealth of Puerto Rico. Net assets were used for its intended purpose during the current year with the remaining balance to be used in the upcoming years. This fund also generated approximately \$78 thousand in interest revenue derived from interest-bearing deposits.

***Key for Your Business Fund***

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

During the fiscal year 2009, this fund received appropriations from the Commonwealth of Puerto Rico in the amount of \$1 million, of which a portion was used to pay incentives during the current year with the remaining balance to be used in the upcoming years.

***Economic Incentive for Roosevelt Roads Fund***

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

During the fiscal year 2009, the fund continued to provide incentives for the eligible merchants of the east coast, with the unexpended balance from funds received in previous years to be used in the upcoming years. During the current fiscal year, no additional funds were provided by the Legislature. The fund generated approximately \$182 thousand in interest revenue derived from interest-bearing deposits.

***This Space Is Intentionally Left in Blank***

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Statement of Net Assets***  
***June 30, 2009***

---

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

***Business School Fund***

This fund is used to account for expenditures related to activities for continued training on commercial development to individuals or enterprises engaged in commercial activities through the Business School Division.

During the fiscal year 2009, no funds were provided by the Legislature. The fund generated approximately \$160 thousand in fees collected from training and seminars provided as part of the tuition services.

***Commercial Impact to Urban Centers Fund***

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

During the fiscal year 2009, this fund did not receive appropriations from the Commonwealth of Puerto Rico. A portion of its net assets were used to pay incentives during the current year with the remaining balance to be used in the upcoming years.

***Mitigation Fund***

This fund was created with the objective of providing financial support in the form of payroll subsidies to small and medium businesses, from funds provided by the Department of Labor.

During the fiscal year 2009, no funds were provided by the Legislature or the Department of Labor. Funds not used during the fiscal year are to be returned to the Department of Labor, which amounted to approximately \$1.5 million. Such amount was recorded as accounts payable.

***World Trade Center Fund***

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

During the fiscal year 2009, this fund provided incentives in accordance with its objective, but did not generate any revenues, as no grants were provided by the Legislature. The fund generated approximately \$4 thousand in interest revenue derived from interest-bearing deposits.

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Statement of Net Assets*  
*June 30, 2009*

---

***Ideal Certification Fund***

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

***Merchant's Register Fund***

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

**PROPRIETARY FUND RESULTS**

Net assets of the Company's proprietary fund, increased during the year ended June 30, 2009 by \$2.5 million. Following is an analysis of the financial position and results of operations of the proprietary fund.

The total net assets for the proprietary fund amount to \$110.1 million, of which \$105.3 million, ninety-six percent (96%) is reflected as invested in capital assets, net of related debt, with an unrestricted fund of \$4.8 million. The proprietary fund total assets as of June 30, 2009 amounted to \$320.8 million, versus \$427.9 million in fiscal year 2008 which represents a decrease of \$107.1 million (25%) as a result of the redemption of collateralized notes for \$250 million and the issuance of additional collateralized notes for \$137 million. The net capital assets for the year then ended amount to \$118.9 million, which represents thirty seven percent (37%) of total assets, while in 2008 capital assets amounted to \$113.3 million, twenty six percent (26%) of total assets. Current assets and non current assets amount to \$14.3 million and \$187.7 million, respectively in fiscal year 2009, while in 2008 such captions amounted to \$13.8 million and \$300.7 million, respectively.

During the fiscal year ended June 30, 2009, the Company decreased their rent-derived operating revenue in the amount of approximately \$326 thousand. Operating expenses decreased by approximately \$6.1 million, including approximate decreases in: voluntary separation costs by \$3.2 million, professional fees expenses by \$489 thousand, and the improvements made to commercial facilities located on the Municipality of Ponce for an approximated \$2.6 million, which were transferred to such entity in prior fiscal year. Net non-operating revenues for the year ended June 30, 2009, increased by approximately \$2.2 million, mainly due to the gain on sale of real estate.

**COLLATERALIZED PROMISSORY NOTE ADMINISTRATION**

At June 30, 2009, the Company had a collateralized promissory note in the amount of \$187 million. The debt is fully collateralized by permitted and qualified investments in the same amount, with an approximated fair value of \$177.7 million. See note 10 to the basic financial statements.

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Statement of Net Assets***  
***June 30, 2009***

---

**CAPITAL ASSETS**

The Company's investment in capital assets for its business-type activities as of June 30, 2009 amounted to approximately \$105.3 million, net of accumulated depreciation, amortization and related debt. Capital assets include rental property, information systems, leasehold improvements, office furniture, equipment, capital leases and vehicles. The increase for fiscal year 2009 of approximately \$5.3 million (4.5%) is the net effect of capital expenditures of approximately \$9 million, net of the accumulated depreciation recorded during fiscal year 2009 of approximately \$3.5 million. See note 7 to the basic financial statements for additional details on capital assets at the end of the year and the activity during the fiscal year.

Major capital asset events during the fiscal year included the construction of two warehouse facilities in the Foreign Trade Zone. The Company expects the completion of the construction of the two warehouse facilities during fiscal year 2010, which would increase its client's base and enhance the Company's contribution to the government's economic development policy.

**ADMINISTRATIVE FUND BUDGETARY HIGHLIGHTS**

During the fiscal year ended June 30, 2009, there was no amendment to the administrative fund original budget. A total positive variance of \$81,094 was noted between budget and actual figures. The main reason for such variance is due to payroll and related expenses been paid through the proprietary fund, as the Company continues to be subject to cut downs on funds assigned by the Legislature, after the integration of personnel from the Commercial Development Administration to the Puerto Rico Trade and Export Company in 2004.

**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 Assets***  
***June 30, 2009***

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash	\$ 5,136,120	8,090,076	13,226,196
Funds held by Commonwealth of Puerto Rico	169,445	—	169,445
Interest bearing deposits (including \$993,538 restricted)	11,527,833	3,606,742	15,134,575
Rent receivable, net of allowance for uncollectibles of \$796,885	—	1,040,675	1,040,675
Accrued interest receivable	36,500	1,658,907	1,695,407
Prepaid expenses	8,227	69,782	78,009
Internal balances	174,776	(174,776)	—
Investment securities - restricted	—	187,000,000	187,000,000
Other assets	79,894	146,504	226,398
Property held for sale	—	547,103	547,103
<b>Capital assets:</b>			
Non-depreciable assets	578,720	75,627,258	76,205,978
Depreciable assets, net	4,105,339	43,224,633	47,329,972
Total assets	<u>21,816,854</u>	<u>320,836,904</u>	<u>342,653,758</u>
<b>Liabilities:</b>			
Notes payable	—	13,570,365	13,570,365
Accounts payable	407,190	1,555,462	1,962,652
Payment due to Commonwealth of Puerto Rico	10,216,427	—	10,216,427
Accrued interest payable	—	1,573,769	1,573,769
Accrued liabilities	1,193,106	3,567,373	4,760,479
Current portion obligations under capital leases	—	62,659	62,659
<b>Liabilities - Due over one year:</b>			
Obligations under capital leases	—	75,119	75,119
Deposits from tenants	—	2,755,106	2,755,106
Borrowed funds payable from restricted assets	—	187,000,000	187,000,000
Accrual for legal claims	—	464,365	464,365
Total liabilities	<u>11,816,723</u>	<u>210,624,218</u>	<u>222,440,941</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	4,684,059	105,281,526	109,965,585
Restricted	993,538	—	993,538
Unrestricted	4,322,534	4,931,161	9,253,695
Total net assets	<u>\$ 10,000,131</u>	<u>110,212,687</u>	<u>120,212,818</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 Activities**  
**Year Ended June 30, 2009**

Functions/Programs	Program Revenue			Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
Administration	\$ 3,061,106	—	3,016,000	(45,106)	—	(45,106)
Employment development incentive	3,377,110	—	163,699	(3,213,411)	—	(3,213,411)
Economic development incentive	350,975	—	—	(350,975)	—	(350,975)
Tuition services	274,816	160,363	—	(114,453)	—	(114,453)
Promotion and commercial development	799,711	24,522	1,000,000	224,811	—	224,811
Payment due to Commonwealth	10,216,427	—	—	(10,216,427)	—	(10,216,427)
Total governmental activities	18,080,145	184,885	4,179,699	(13,715,561)	—	(13,715,561)
Business-type activities:						
Rental activities	32,316,323	32,415,637	—	—	99,314	99,314
Total	\$ 50,396,468	32,600,522	4,179,699	(13,715,561)	99,314	(13,616,247)
	<b>General revenue:</b>					
	Interest and investment earnings			281,253	—	281,253
	Gain on sale of real estate			—	2,272,728	2,272,728
	Other income			53,366	254,074	307,440
	Total general revenue			334,619	2,526,802	2,861,421
	Change in net assets			(13,380,942)	2,626,116	(10,754,826)
	Net assets - beginning of year			23,381,073	107,586,571	130,967,644
	Net assets - end of year			\$ 10,000,131	110,212,687	120,212,818

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, 2009

	Administrative	Direct Employment for Urban Centers	Key for Your Business	Economic Incentive for Roosevelt Roads	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash	\$ 56,663	996,536	1,627,278	104,419	2,351,224	5,136,120
Funds held by Commonwealth of Puerto Rico	—	—	—	—	169,445	169,445
Interest bearing deposits	—	2,123,338	993,538	8,229,576	181,381	11,527,833
Due from other funds	4,151	—	—	—	236,495	240,646
Other receivables - net	3,890	48,781	878	27,260	35,585	116,394
Prepaid expenses	—	—	—	—	8,227	8,227
<b>Total</b>	<b>\$ 64,704</b>	<b>3,168,655</b>	<b>2,621,694</b>	<b>8,361,255</b>	<b>2,982,357</b>	<b>17,198,665</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 3,131	234,375	31,821	28,153	109,710	407,190
Payments due to Commonwealth of Puerto Rico	—	1,343,442	—	8,229,576	643,409	10,216,427
Accrued liabilities	1,159,996	266	528	189	32,127	1,193,106
Due to other funds	—	—	—	—	65,870	65,870
<b>Total liabilities</b>	<b>1,163,127</b>	<b>1,578,083</b>	<b>32,349</b>	<b>8,257,918</b>	<b>851,116</b>	<b>11,882,593</b>
<b>Fund Balances (Deficit):</b>						
Unreserved	(1,098,423)	—	—	—	—	(1,098,423)
Reserved for:						
Economic development incentive	—	—	—	103,337	347,779	451,116
Employment development incentive	—	1,590,572	—	—	—	1,590,572
Tuition services	—	—	—	—	764,597	764,597
Promotion and commercial development	—	—	1,595,807	—	1,018,865	2,614,672
Loan guarantee	—	—	993,538	—	—	993,538
<b>Total</b>	<b>\$ (1,098,423)</b>	<b>1,590,572</b>	<b>2,589,345</b>	<b>103,337</b>	<b>2,131,241</b>	<b>5,316,072</b>
	<b>64,704</b>	<b>3,168,655</b>	<b>2,621,694</b>	<b>8,361,255</b>	<b>2,982,357</b>	<b>17,198,665</b>

See accompanying notes to basic financial statements.

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds***  
***June 30, 2009***

---

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

Total fund balance of governmental funds	\$ 5,316,072
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds, net accumulated depreciation of \$949,141	<u>4,684,059</u>
Net assets of governmental activities	<u>\$ 10,000,131</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, 2009**

	Administrative	Direct Employment for Urban Centers	Key for Your Business	Economic Incentive for Roosevelt Roads	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Appropriations from PR Commonwealth	\$ 3,016,000	—	1,000,000	—	163,699	4,179,699
Tuition	—	—	—	—	160,363	160,363
Interest	—	77,686	17,920	182,132	3,515	281,253
Others	1,140	36,643	—	—	40,105	77,888
Total revenues	<u>3,017,140</u>	<u>114,329</u>	<u>1,017,920</u>	<u>182,132</u>	<u>367,682</u>	<u>4,699,203</u>
<b>Expenditures:</b>						
Current:						
Administration	2,936,046	—	—	—	—	2,936,046
Employment development incentive	—	3,375,828	—	—	—	3,375,828
Economic development incentive	—	—	—	95,318	246,262	341,580
Tuition services	—	—	—	—	269,262	269,262
Promotion and commercial development	—	—	401,946	—	308,054	710,000
Payment due to Commonwealth	—	1,343,442	—	8,229,576	643,409	10,216,427
Total expenditures	<u>2,936,046</u>	<u>4,719,270</u>	<u>401,946</u>	<u>8,324,894</u>	<u>1,466,987</u>	<u>17,849,143</u>
Excess (deficiency) of revenue over (under) expenditures	81,094	(4,604,941)	615,974	(8,142,762)	(1,099,305)	(13,149,940)
Fund balances (deficit) - beginning of year	(1,179,517)	6,195,513	1,973,371	8,246,099	3,230,546	18,466,012
Fund balances (deficit) - end of year	<u>(1,098,423)</u>	<u>1,590,572</u>	<u>2,589,345</u>	<u>103,337</u>	<u>2,131,241</u>	<u>5,316,072</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, 2009*

---

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

Net change in fund balance - total governmental funds	\$ (13,149,940)
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.	<u>(231,002)</u>
Net change in net assets of governmental activities	<u>\$ (13,380,942)</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 Net Assets – Proprietary Fund***  
***June 30, 2009***

Assets	
Current Assets:	
Cash	\$ 8,090,076
Interest bearing deposits	3,606,742
Rent receivable, net of allowance for uncollectibles of \$796,885	1,040,675
Accrued interest receivable	1,658,907
Prepaid expenses	69,782
Due from other funds	60,783
	<u>14,526,965</u>
Total current assets	
Noncurrent Assets:	
Investment securities - restricted	187,000,000
Other assets	146,505
Property available for sale	547,103
Capital assets:	
Non-depreciable assets	75,627,258
Depreciable assets, net	<u>43,224,633</u>
	118,851,891
Total capital assets, net	
Total noncurrent assets	<u>306,545,499</u>
Total	<u>\$ 321,072,464</u>
Liabilities and Net Assets	
Current Liabilities:	
Notes payable	\$ 13,570,365
Accounts payable	1,555,462
Accrued interest payable	1,573,769
Accrued expenses	3,567,373
Current portion of obligations under capital leases	62,659
Due to other funds	235,559
	<u>20,565,187</u>
Total current liabilities	
Noncurrent Liabilities:	
Obligations under capital leases	75,119
Deposits from tenants	2,755,106
Borrowed funds -Due over one year, payable from restricted assets	187,000,000
Accrual for legal claims	464,365
	<u>190,294,590</u>
Total noncurrent liabilities	
Total liabilities	<u>210,859,777</u>
Net Assets:	
Invested in capital assets	105,281,526
Unrestricted	4,931,161
	<u>110,212,687</u>
Total net assets	<u>110,212,687</u>
Total	<u>\$ 321,072,464</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 Net Assets – Proprietary Fund*

*Year Ended June 30, 2009*

---

Operating revenue:	
Rent revenue	\$ 16,463,123
Other	<u>248,966</u>
Total operating revenue	<u>16,712,089</u>
Operating expenses:	
Salaries and employees benefits	7,154,815
Voluntary separation costs	481,106
Occupancy and related expenses	3,814,591
Depreciation and amortization	3,531,574
Professional fees	874,034
Advertising	663,440
Insurance	918,880
Security services	567,664
Commercial development	48,220
Travel expenses	58,167
Office supplies	162,827
Other	<u>130,249</u>
Total operating expenses	<u>18,405,567</u>
Operating loss	<u>(1,693,478)</u>
Non operating revenue (expenses):	
Gain on sale of real estate	2,272,728
Other income	254,074
Interest income and other	15,703,548
Interest expense	<u>(13,910,756)</u>
Total non operating revenue, net	<u>4,319,594</u>
Change in net assets	2,626,116
Net assets - beginning of year	107,586,571
Net assets - end of year	<u>\$ 110,212,687</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, 2009***

Cash flows operating activities:	
Collection of rent	\$ 17,201,327
Payments to employees	(7,733,215)
Payments to suppliers	(9,472,776)
Other operating revenues	302,757
	<u>298,093</u>
Net cash provided by operating activities	
Cash flows from non capital financing activities:	
Proceeds from issuance of borrowed funds	137,000,000
Principal paid on collateralized notes	(250,000,000)
Interest paid on borrowed funds	(15,684,312)
Net advances to and from other funds	2,442,071
	<u>(126,242,241)</u>
Net cash used in non-capital financing activities	
Cash flows used in capital and related financing activities:	
Acquisitions of capital assets	(9,632,486)
Acquisitions of obligations under capital leases	135,966
Payments of obligations under capital leases	(64,807)
Proceeds from sale of real estate	2,846,000
	<u>(6,715,327)</u>
Net cash used in capital and related financing activities	
Cash flows from investing activities:	
Interest collected on interest-bearing deposits and restricted investments	17,867,708
Proceeds from non-operating activities	254,074
Proceeds from issuance of notes payable	7,338,720
Purchase of investment securities	(137,000,000)
Investment securities redeemed	250,000,000
Net increase in interest-bearing deposits	(1,268,049)
	<u>137,192,453</u>
Net cash provided by investing activities	
Net change in cash and cash equivalents	4,532,978
Cash, beginning of year	3,557,098
Cash, end of year	\$ <u><u>8,090,076</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,693,478)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation and amortization	3,531,574
Changes in assets and liabilities:	
Decrease in rent receivable	673,749
Decrease in prepaid expenses	58,046
Decrease in other assets	49,789
Decrease in accounts payable	(1,222,626)
Decrease in accrued expenses	(1,082,417)
Increase in deposits from tenants	64,456
Decrease in accrual for legal claims	(81,000)
	<u>1,991,571</u>
Total adjustments	
Net cash provided by operating activities	\$ <u><u>298,093</u></u>

See accompanying notes to basic financial statements.

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

**1. REPORTING ENTITY**

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

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

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

***Government-Wide and Fund Financial Statements***

***Government-Wide Financial Statements*** – The statement of net assets and the statement of activities report information on all activities of the Company. The effect of interfund balances has been removed from the government-wide statement of net assets. The Company's activities are distinguished between governmental and business-type activities. Governmental activities generally

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Notes to Basic Financial Statement***  
***Year Ended June 30, 2009***

---

are financed through intergovernmental revenues, and other non exchange revenues. Business-type activities are financed through rental activities in connection with the proprietary fund's principal ongoing operations. Following is a description of the Company's government-wide financial statements.

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

- Invested in capital assets, consists of capital assets, net of accumulated depreciation and amortization and any related debt.
- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

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

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

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

***Measurement Focus, Basis of Accounting, and Financial Statements Presentation***

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

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Notes to Basic Financial Statement***  
***Year Ended June 30, 2009***

---

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

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

- ***Administrative Fund*** – This fund is used to account for resources and expenditures related to administrative functions not accounted for in other funds such as accounting, personnel, purchases and general services. These functions are constituted by several departments independent from each other which are responsible for the supervision and coordination of all administrative matters of the Company.
- ***Direct Employment for Urban Centers Fund*** – This fund is used to account for resources and expenditures related to the grant of salary incentives for the small and medium size entities located in the urban centers. This program wants to strengthen and revitalize the urban centers.
- ***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.

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

- ***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 financial support in the form of payroll subsidies to small and medium businesses, from funds provided by the Department of Labor.

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

- ***World Trade Center Fund Project*** – This fund is used to account the resources and expenditures related to the development and maintenance of information systems for the service management of the enterprises in Puerto Rico, a sponsorship of a council of exportations among others activities related to the development of services and programs in accordance with the development plan of the Company.
- ***Ideal Certification*** – This fund was created with the objective of providing businessmen interested in establishing, operating or expanding their business, certifications from the government agencies in order to expedite such process.
- ***Merchant's Register Fund*** – This fund was created with the objective of preparing a Merchant's Register for the preparation of statistical and economic studies.

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

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

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

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

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

***Property held for Sale*** – Capital assets that have been identified to be for sale are presented net of accumulated depreciation.

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

The amount shown as property held for sale of \$547,103 is recorded at cost or net book value. No cost to disposal has been estimated as these properties consist of real estate and the Company believes that the net realizable amount will exceed the current book value of the property held for sale.

***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, 2009, 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. The proprietary fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability. There are no employees paid by governmental funds.

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

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

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

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

**3. ADMINISTRATIVE FUND DEFICIT AND MANAGEMENT PLANS**

As of June 30, 2009, the Administrative fund has a deficit of approximately \$1.1 million. Such deficit is mainly due to the payroll and administrative expenses related to personnel from the Commercial Development Administration, as its operations were merged into the Company during March 2004.

During the current fiscal year, the deficit was reduced by approximately \$81,000 as a result of the Company’s overall fund management and cost-reduction efforts. Management plans for reducing such deficit include a continued cost-reduction approach, as evident by the early retirement alternatives presented to qualified employees in an effort to reduce its payroll and related expenses. Also, funding from the business-type activities will be available for the Administrative fund, as additional resources are only expected from the Legislature through 2010.

**4. CASH AND INTEREST BEARING DEPOSITS**

The information presented below discloses the level of custodial credit risk assumed by the Company at June 30, 2009. Custodial credit risk is the risk that in the event of a financial institution failure, the Company’s deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. Funds deposited with the Government Development Bank (GDB) or the Economic Development Bank for Puerto Rico (EDB), component units of the Commonwealth, are not covered by this Commonwealth requirement.

As of June 30, 2009, the Company had \$886 thousand deposited with GDB. The Company has certificates of deposit with EDB amounting to approximately \$3.9 million as of June 30, 2009. The remaining balances of approximately \$24.4 million are maintained in commercial banks. The interest bearing deposits include a certificate of deposit of \$993,538 maintained with EDB as collateral for loans granted by EDB under the Program “Llave Para tu Negocio” to qualified companies. When the loans are fully collected, the certificate of deposit plus the interest generated will be returned to the Company.

*This Space Is Intentionally Left In Blank*

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

**5. RENT AND TUITION RECEIVABLES**

As of June 30, 2009, rent and tuition receivables were as follows:

	<u>Rent</u>	<u>Tuition</u>
Rent and land leases (including rent from government entities for approximately \$264,162)	\$ 1,837,560	—
Tuition fees receivables	—	82,000
	<u>1,837,560</u>	<u>82,000</u>
Less: Allowance for uncollectible accounts	796,885	82,000
	<u>\$ 1,040,675</u>	<u>—</u>

**6. INVESTMENTS**

As of June 30, 2009, the Company had the following investments:

<u>Investment Type</u>	<u>Coupon Rate</u>	<u>Rating</u>	<u>Maturity Date</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Loss</u>
FHLMC	4.75%	AAA	4/9/2024	\$ 137,000,000	129,465,000	7,535,000
International Bank for Reconstruction and Development	6.50%	AAA	6/9/2028	50,000,000	48,256,500	1,743,500
				<u>\$ 187,000,000</u>	<u>177,721,500</u>	<u>9,278,500</u>

The investments relate to the notes payable program, which involve matched transactions that generate a fixed spread of income to the Company. These investments are pledged as collaterals to the notes issued during the fiscal year for the same amount (refer to Note 10).

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

*This Space Is Intentionally Left In Blank*

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

**7. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2009, consists of the following:

	<u>Balance July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
<b>Governmental Activities:</b>				
Properties not being depreciated				
Land	\$ 578,720	—	—	578,720
Total capital assets, not being depreciated	<u>578,720</u>	<u>—</u>	<u>—</u>	<u>578,720</u>
Properties being depreciated				
Building and building improvements	4,306,270	686	—	4,306,956
Furniture and equipment	730,179	7,517	—	737,696
Less accumulated depreciation	<u>(700,108)</u>	<u>(239,205)</u>	<u>—</u>	<u>(939,313)</u>
Total capital assets, being depreciated	<u>4,336,341</u>	<u>(231,002)</u>	<u>—</u>	<u>4,105,339</u>
Total governmental activities capital assets, net	<u>\$ 4,915,061</u>	<u>(231,002)</u>	<u>—</u>	<u>4,684,059</u>
<b>Business-type Activities:</b>				
Rental Properties not being depreciated				
Land and land improvements	\$ 60,134,747	53,678	(533,280)	59,655,145
Construction in progress	<u>7,975,469</u>	<u>7,996,644</u>	<u>—</u>	<u>15,972,113</u>
Total capital assets, not being depreciated	<u>68,110,216</u>	<u>8,050,322</u>	<u>(533,280)</u>	<u>75,627,258</u>
Rental Properties being depreciated				
Building and building improvements	84,637,200	760,960	(591,550)	84,806,610
Furniture and equipment	<u>2,883,973</u>	<u>—</u>	<u>—</u>	<u>2,883,973</u>
Sub-total	<u>87,521,173</u>	<u>760,960</u>	<u>(591,550)</u>	<u>87,690,583</u>
Other Properties Not For Rent being depreciated				
Building and building improvements	4,758,292	497,258	—	5,255,550
Furniture and equipment	3,946,426	184,475	—	4,130,901
Capital leases	66,619	139,471	—	206,090
Vehicles	<u>370,112</u>	<u>—</u>	<u>—</u>	<u>370,112</u>
Sub-total	<u>9,141,449</u>	<u>821,204</u>	<u>—</u>	<u>9,962,653</u>
Total cost of depreciable assets	<u>96,662,622</u>	<u>1,582,164</u>	<u>(591,550)</u>	<u>97,653,236</u>
Less accumulated depreciation				
Rental properties	(46,176,547)	(2,478,226)	551,558	(48,103,215)
Other properties not for rent	<u>(5,272,040)</u>	<u>(1,053,348)</u>	<u>—</u>	<u>(6,325,388)</u>
Total accumulated depreciation	<u>(51,448,587)</u>	<u>(3,531,574)</u>	<u>551,558</u>	<u>(54,428,603)</u>
Total capital assets, being depreciated	<u>45,214,035</u>	<u>(1,949,410)</u>	<u>(39,992)</u>	<u>43,224,633</u>
Total business-type capital assets, net	<u>\$ 113,324,251</u>	<u>6,100,912</u>	<u>(573,272)</u>	<u>118,851,891</u>

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

Total aggregate interest costs capitalized as of June 30, 2009 amounts to \$803,341, of which \$592,123 were capitalized during current fiscal year 2009.

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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 15,092,919
2011	9,273,065
2012	6,564,411
2013	5,655,445
2014	4,061,588
2015-2019	<u>6,937,377</u>
Total	<u>\$ 47,584,805</u>

**8. INTERNAL BALANCES**

Internal balances as of June 30, 2009 are comprised of amounts due to and from the business-type fund and governmental funds, as shown below:

	<u>Governmental Activities</u>			
	Business			
	Type Activities (PRTEC)	Administration (ADM)	OTHERS	Total
PRTEC	\$ —	—	(174,776)	(174,776)
ADM	—	—	4,151	4,151
OTHERS	<u>174,776</u>	<u>(4,151)</u>	<u>—</u>	<u>170,625</u>
	<u>\$ 174,776</u>	<u>(4,151)</u>	<u>(170,625)</u>	<u>—</u>

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.

**9. NOTES PAYABLE**

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

The non-revolving loan facility bears an interest rate of 6.142%, is due on demand and is collateralized by real estate and construction of industrial facility. As of June 30, 2009 the outstanding balance amounted to \$13,570,365.

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Notes payable	\$ 6,231,645	7,338,720	—	13,570,365

**10. BORROWED FUNDS**

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

On January 31, 2009 and on March 31, 2009, collateralized promissory notes amounting to \$50 million and \$200 million, respectively, were redeemed. On April 9, 2009, the Company issued additional collateralized promissory notes in the amount of \$137 million. These notes pay interest semi-annually at a rate of 4.75 %, and mature on April 9, 2024.

These promissory notes are collateralized with investment securities with an aggregate fair value of \$177,721,500. At June 30, 2009, the principal balance of the promissory notes outstanding under this program amounted to \$187,000,000, of which \$137 million have an interest rate of 4.75% and its maturity date is on April 9, 2024 and the other \$50 million have an interest rate of 6.50% and its maturity date is on June 9, 2028.

The long-term debt activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Promissory notes	\$ 300,000,000	137,000,000	(250,000,000)	187,000,000
Accrual for legal claims	545,365	—	(81,000)	464,365
Deposits from tenants	2,687,996	67,110	—	2,755,106
	<u>\$ 303,233,361</u>	<u>137,067,110</u>	<u>(250,081,000)</u>	<u>190,219,471</u>

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ —	9,757,500
2011	—	9,757,500
2012	—	9,757,500
2013	—	9,757,500
2014	—	9,757,500
2015-2019	—	48,787,500
2020-2024	137,000,000	48,787,500
2025-2029	50,000,000	48,787,500
	<u>\$ 187,000,000</u>	<u>195,150,000</u>

## 11. RETIREMENT SYSTEM

### *Defined Benefit Pension Plan*

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

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

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

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

***Puerto Rico Trade and Export Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Company is required by the same statute to contribute 9.275% of the participant's gross salary. Total payroll covered for fiscal year 2008 was approximately \$6,347,000. Total employee and employer contributions for the year ended June 30, 2009 were approximately \$272,000 and \$313,000, respectively.

***Defined Contribution Plan***

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

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

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

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to any beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability. The total employee and employer contributions for the year ended June 30, 2009 were estimated to approximately \$223,000 and \$248,000, respectively.

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

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

**12. VOLUNTARY SEPARATION BENEFITS**

The Company entered in a voluntary separation plan as part of management plans to restructure the Company. The effective dates of the plan were from October 1, 2007 to April 1, 2008. All employees with at least twenty-four years of credited services were eligible. The plan consisted of, for each eligible employee applicant, pension benefit of 75% of average compensation, death benefit of \$1,000, Christmas bonus of \$600, summer bonus of \$100, medicine bonus of \$100, health plan of \$100 per month and cost of living increase of 3% every third year starting with the first increase on January 1, 2013. Twenty-eight employees participated in the voluntary separation plan.

During fiscal year 2009, the amount of \$481,106 on voluntary separation benefits were expensed in the statement of revenues, expenses and changes in net assets – proprietary fund and there is no termination benefit liabilities included in accrued expenses in the statement of net assets – proprietary fund at June 30, 2009.

**13. COMMITMENTS AND CONTINGENCIES**

***Commitments***

The Company leases office spaces under operating leases expiring in various years through 2013. Rental expense for the operating leases for the year ended June 30, 2008 amounted to approximately \$435,000. As of June 30, 2009, the Company has entered into various construction agreements which have already been certified and paid, or accrued. Future construction commitments amount to approximately \$956 thousand.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one (1) year as of June 30, 2009 are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 129,044
2011	69,276
2012	60,800
2013	60,800
2014	15,200
Total	<u>\$ 335,120</u>

*This Space Is Intentionally Left In Blank*

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Notes to Basic Financial Statement*  
*Year Ended June 30, 2009*

---

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 62,659
2011	42,165
2012	17,774
2013	<u>15,180</u>
Total	<u>\$ 137,778</u>

***Contingencies***

At June 30, 2009, 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 \$464,000 as of June 30, 2009, to cover its estimate of the ultimate liability that may result from such legal claims. Legal counsels for the Company have advised that at this stage in the proceedings, they cannot offer an opinion as to the probable outcome.

**14. 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.

\* \* \* \* \*

***Puerto Rico Trade and Export Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Budgetary Comparison Schedule – Administrative Fund*  
*Year Ended June 30, 2009*

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue:			
Appropriations from PR Legislature	\$ 3,016,000	3,016,000	—
Other revenues	—	1,140	1,140
Total revenues	<u>3,016,000</u>	<u>3,017,140</u>	<u>1,140</u>
Expenditures-			
Administration	<u>3,016,000</u>	<u>2,936,046</u>	<u>(79,954)</u>
Excess of revenues over expenditures	—	81,094	81,094
Fund deficit - beginning of year	<u>(1,179,517)</u>	<u>(1,179,517)</u>	—
Fund deficit - end of year	<u>\$ (1,179,517)</u>	<u>(1,098,423)</u>	<u>81,094</u>

Notes to Schedule:

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

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

\* \* \* \* \*