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Iniciales

Presidente

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 2012 MAR 12 PM 8:45

3 de abril de 2012

Hon. Thomas Rivera Schatz
 Presidentes del Senado de Puerto Rico
 Senado-EL Capitolio
 P.O. Box 9023431
 San Juan, PR. 00902-3431

Re: Estado Financiero Auditado - Autoridad del Puerto de las Américas

Estimado Presidente:

En conformidad con el Art. 18 de 171 del 11 de agosto de 2002, conocida como la Ley de la Autoridad del Puerto de Las Américas, se incluye el Estado Financiero Auditado, y un informe completo de los negocios de la Autoridad durante el año fiscal precedente y del estado y progreso de todas sus actividades desde la fecha del último de estos informes.

De haber alguna pregunta o duda con dicho Estado Financiero Auditado o con el informe, favor de comunicarse con la que suscribe.

Cordialmente,

Rhonda M. Castillo Gammill, Esq., P.E.
 Directora Ejecutiva

xc. Hon. Jose R. Perez Riera

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Autoridad del Puerto de las Américas
Informe de los negocios, estado y progreso
Año Fiscal 2010-2011

La Autoridad del Puerto de las Américas (“APA”) se crea bajo la Ley Núm. 171 del 11 de agosto de 2002, según enmendada, (“Ley 171”) con la finalidad de desarrollar un puerto de hondo calado de calibre internacional para atender las necesidades de crecimiento de infraestructura portuaria de Puerto Rico y el Caribe. La misma opera bajo la supervisión de una Junta de Directores del sector público estatal, público municipal y privado. Su misión era el desarrollo del Puerto de las Américas (“PLA”).

La Ley Núm. 409 del 22 de septiembre de 2004 (“Ley 409”) le brindó a la APA las garantías necesarias para utilizar una línea de crédito hasta \$250 millones de dólares para comenzar el desarrollo físico de este puerto de calibre internacional en la zona sur de Puerto Rico.

Mediante un Memorando de Entendimiento (“MDE”) suscrito entre el Municipio Autónomo de Ponce (“MAP”) y la APA el 30 de diciembre de 2003, las partes acordaron que la APA llevaría a cabo el desarrollo del PLA y el MAP transferiría el uso de terrenos y muelles para su uso en el proyecto. La APA recibiría del MAP para uso del PLA, los muelles 1 al 8 en el Puerto de Ponce y unos terrenos colindantes al PLA por un término que acordarían las partes que facilitaría el repago de la deuda adquirida por la APA. Pasado el término acordado, el MAP pasaría a ser titular de todo activo de la APA. El MDE fue renovado con cambios mínimos manteniéndose vigente hasta el 30 de septiembre de 2010.

En el 2010, la Hon. María Melendez Altieri, Alcaldesa del MAP, solicitó al Hon. Luis Fortuño Burset, Gobernador de Puerto Rico, que todos los asuntos relacionados a las operaciones del PLA fuesen transferidos al MAP. El 12 de diciembre de 2011, fue aprobada la Ley Núm. 240 (“Ley 240”) mediante la cual se crea la Autoridad del Puerto de Ponce (“APP”).

La Ley 240 transfiere y delega todas las funciones, objetivos, deberes, derechos, facultades y prerrogativas que tiene la APA, y será la APP y su Junta de Directores quienes tendrán los plenos poderes para determinar la política pública en relación con el desarrollo y operación del PLA, la cual queda bajo la jurisdicción exclusiva de esta nueva Autoridad. La Ley 240 específicamente establece que la APA continuará existiendo para atender las obligaciones incurridas por aquélla, las cuales no serán asumidas por la APP.

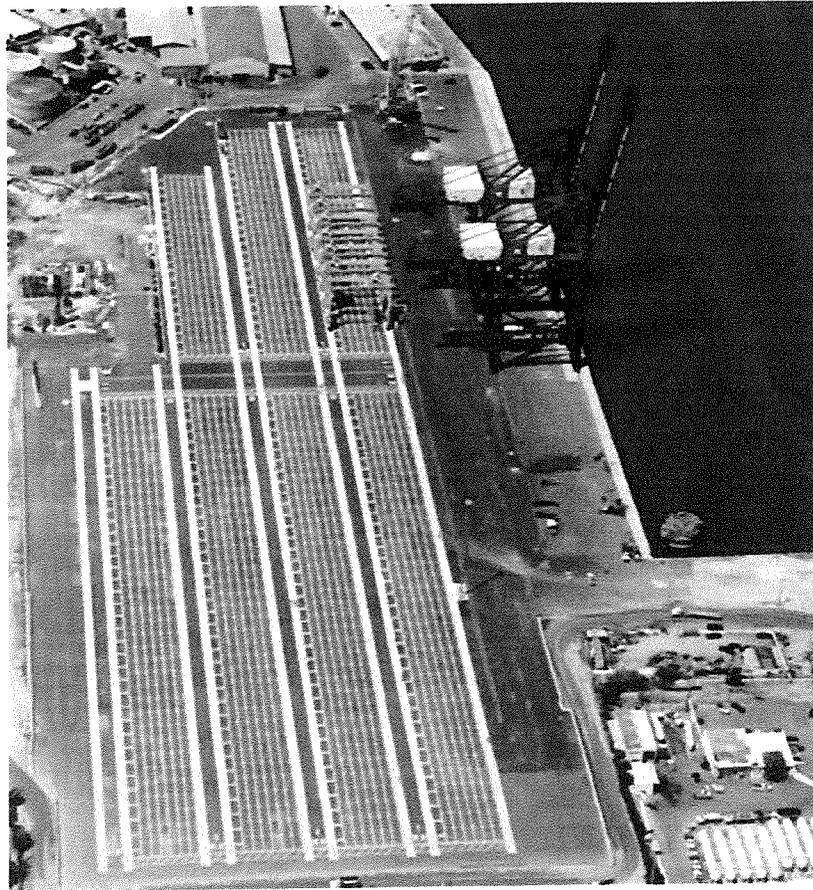
Según requerido por el Art. 18 de la Ley 171, se incluye el Estado Financiero Auditado, y un informe de los negocios de la Autoridad durante el año fiscal precedente y del estado y progreso de todas sus actividades desde la fecha del último de estos informes.

Actividades Operacionales y Administrativas

Durante el año fiscal 2010-2011 se llevaron a cabo las siguientes actividades:

- Por primera vez, para el año Fiscal 2010-2011, la APA presentó para aprobación un presupuesto por partidas de gastos operacionales y de mejoras permanentes. Hasta el año fiscal 2009-2010, el presupuesto de la APA había sido sometido como una sola partida de gastos, la de mejoras permanentes. El año fiscal finalizó conforme el informe auditado con \$1,052,961 en gastos clasificados como operacionales y un incremento en activos de capital de \$15,471,445. Los ingresos fueron por adelantos del acuerdo de bonos y el reembolso por la Autoridad de Acueductos y Alcantarillados de \$4 millones.
- Durante el 2010-2011 se solicitaron aproximadamente \$56 millones de los fondos federales competitivos del Departamento de Transportación bajo el programa de Tiger Grant II. Los fondos se solicitaron para la rehabilitación y expansión del muelle 8 y la construcción del acceso al mismo y a solares en la zona del valor añadido. También se solicitaron fondos para diseñar el desarrollo de la Zona de Valor Añadido. La APA no fue agraciada en la distribución de estos fondos.
- 3Q2010 - En mayo 2010 se recibieron propuesta de siete (7) compañías de consultores financieros multinacionales en respuesta al requerimiento que hiciera la APA para consultores financieros para un nuevo proceso de requerimiento de propuestas para un operador de calibre internacional. Seis de estas compañías vinieron a Puerto Rico presentando en detalle sus propuestas y recomendaciones en junio de 2010. Las mismas fueron evaluadas posteriormente seleccionando las tres mejores. La adjudicación final quedó en suspenso ante la no renovación de MDE con el MAP.
- El 10 de agosto de 2010, SGR Global inauguró sus facilidades en La Guacha informando que esperan emplear aproximadamente 170 personas. De cumplir con su plan de negocio, este sería la primera compañía establecida en la Región Sur exportando contenedores por Ponce – desgraciadamente no cumplió con las expectativas.
- El 30 de septiembre de 2010 venció el décimo MDE con el MAP, no siendo renovado el mismo a petición de estos últimos ante la intención de asumir la responsabilidad del desarrollo del PLA.
- Diciembre de 2010 – se envió al Cuerpo de Ingenieros del Ejercito de los Estados Unidos solicitud de extensión por cinco años al permiso de desarrollo del PLA que otorgaran, cuya fecha de vencimiento era el 4 de febrero de 2011. El mismo se encuentra aun bajo evaluación. Se provee mas detalles más adelante en este escrito.

- 4Q2010 Aumento en la adquisición por BGF de bonos de la APA hasta un máximo de 230MM\$.
- 1Q2011 Certificación bajo OSHA para operación de las grúas Super Post Panamax
- El 4 de febrero de 2011 se publicó la solicitud de propuestas para el mantenimiento de las grúas. La presubasta se llevó a cabo el 16 de febrero de 2011 con la participación de 5 compañías. Al día siguiente se visitó el Puerto de Ponce, donde tuvieron oportunidad de examinar las grúas los potenciales licitadores. La apertura de la subasta fue el 14 de marzo de 2011. Ante la petición de la Alcaldesa de Ponce, Hon. Maria Melendez Altieri de que el PLA se le transfiriera al MAP y la petición del Puerto de Ponce que se les permitiera proveer dicho mantenimiento la adjudicación quedó en suspenso. Durante el 2012 se resolvió que la APA proveería el mantenimiento y certificación de las grúas para propósitos de transición a la APP.

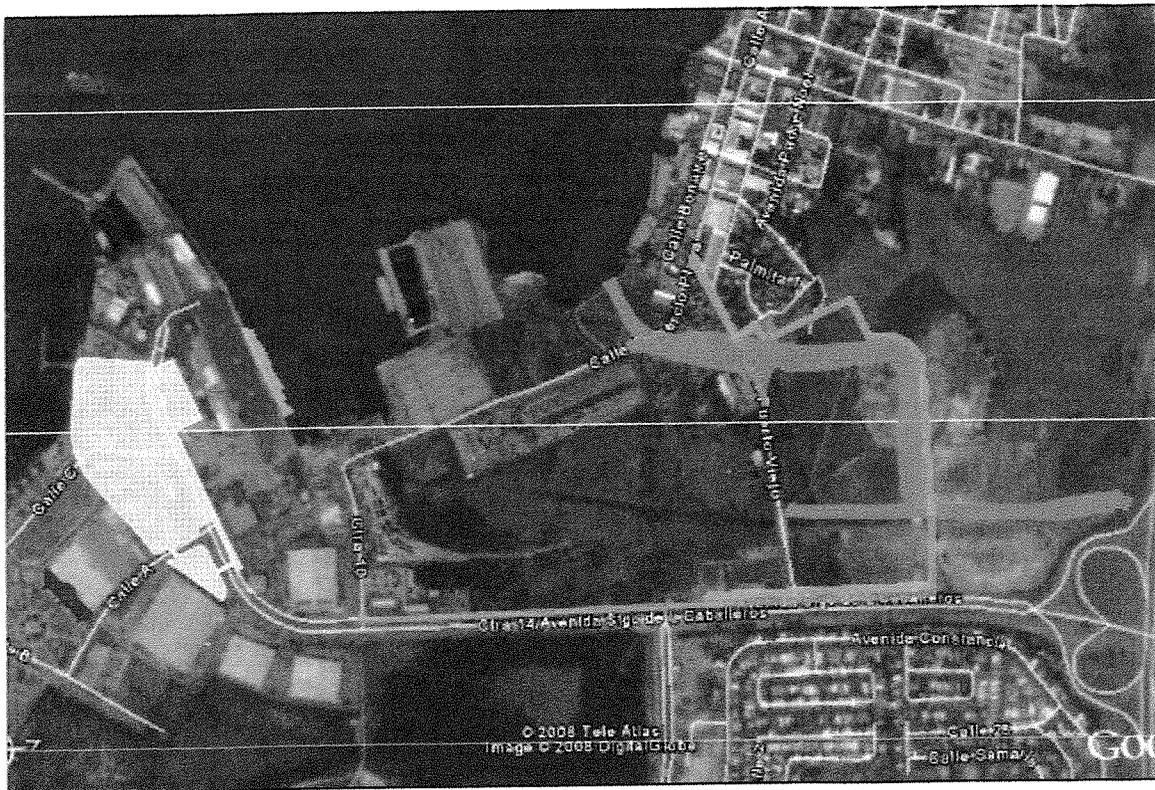


- 14 de marzo de 2011 - Primera utilización de las grúas super Post Panamax para la descarga de contenedores de explosivos.

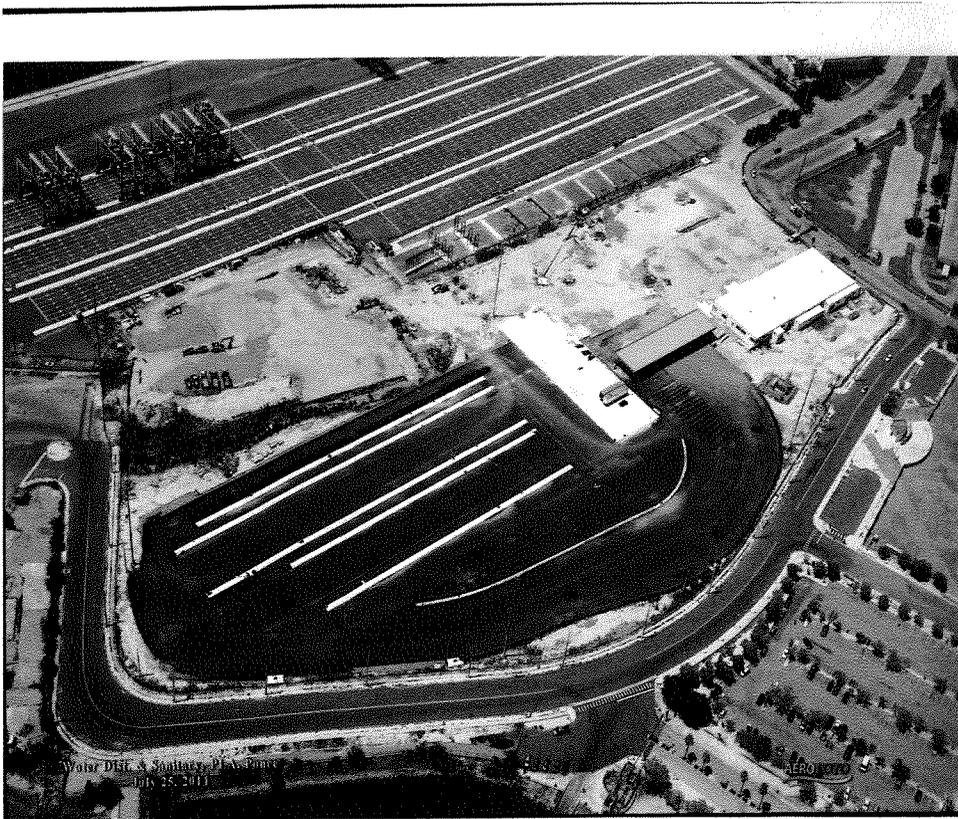
- Abril 2011 recibo del pago de \$4MM de la Autoridad de Acueductos y Alcantarillados en concepto de reembolso de las obras de construcción pagadas por APA que beneficiaron a dicha corporación pública.
- 29 de abril de 2011 – notificación a la gerencia de la APA de la presencia de osamenta en la Finca Percon.
- 2Q2011 – Aumento de la adquisición de bonos de la APA por el BGF hasta un máximo de \$250MM.
- 7 de junio de 2011 El Cuerpo de Ingenieros del Ejército de los Estados Unidos (“COE”) notificó orden de paralización a las obras de construcción bajo el permiso alegando violación a las condiciones del mismo ante actividades arqueológicas requeridas que debieron completarse antes de que en el 2008 se diera la orden de construcción en la Zona del Valor Añadido. Posteriormente, el 20 de julio de 2011, el COE notificó que se podía proceder con la construcción de expansión del área de contenedores en el puerto dirigida a aumentar la capacidad de manejo a 500K TEU’s. Aun no se ha autorizado continuar con la la construcción del canal pluvial.

Construcción

El estado de las actividades de construcción al finalizar el año fiscal 2011 fue el siguiente:



- Durante el 2008 dio inicio la expansión del terminal de contenedores existente, en los predios adyacentes al Puerto de Ponce, pertenecientes a la Compañía de Fomento Industrial. Este proyecto expande la capacidad del PLA facilitando el manejo de aproximadamente 500,000 TEUs al año. Las obras de esta etapa fueron adjudicadas a Del Valle Group, y comenzaron en agosto de 2008 con un costo de construcción de \$38.8 millones.
- Como parte del desarrollo futuro del PLA, durante el 2008 también se subastó la construcción de la relocalización de líneas eléctricas, troncales de agua y sanitarias existentes proveyendo infraestructura necesaria para la primera zona de valor añadido en la Finca Percon, así como el dragado de los muelles 4, 5 y 6, las mejoras a La Guancha y la construcción de un canal pluvial a través del área identificada en el permiso como la zona de valor añadido industrial. Esta última facilitaba la construcción en un futuro del plan maestro del PLA y permite manejar algunas de las aguas de escorrentías en la zona de Puerto Viejo de la Playa de Ponce. Los trabajos fueron adjudicados a Del Valle Group, y comenzaron en agosto del 2008, a un costo de construcción de \$45.6 millones. Al presente la construcción en el canal pluvial continua detenida por la orden del COE.



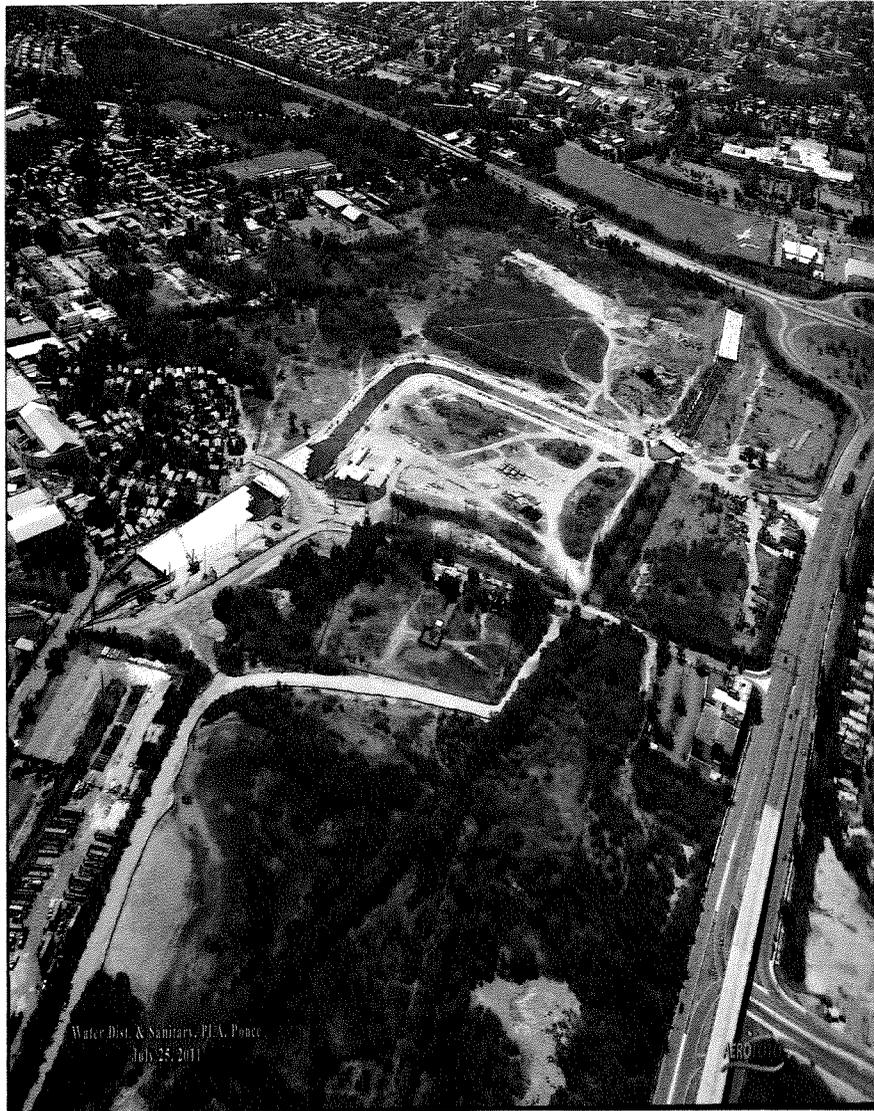
- Al finalizar el año fiscal, el proyecto tenía un 82.25% de labor realizada y se proyectaba

que terminara en enero de 2012, sujeto a la fecha en que se recibiera la autorización del COE de proceder con las obras paralizadas.

- El permiso del COE requería bajo la Condición 11 el que se llevara a cabo un estudio histórico de la Playa de Ponce, una evaluación arqueológica Fase II en la Zona del Valor Añadido Industrial (ZVAI) así identificado en el permiso y el someter para aprobación del COE de un área de amortiguamiento (*buffer zone*) entre la ZVAI y la Playa de Ponce.

En agosto de 2008 se dio la orden de proceder al contratista Del Valle Group para el desarrollo de la Fase III.2.A, lo que incluía la construcción de un canal pluvial en la ZVAI.

Como parte de las actividades de cumplimiento, esta administración se dio a la tarea de documentar y de no surgir documentación, el ejecutar las actividades de cumplimiento de cada una de las condiciones del permiso. Luego de una inspección de los archivos de la APA, las agencias federales, estatales y municipales pertinentes, y tampoco siendo producido por los consultores quienes habían trabajado los permisos evidencia de las actividades bajo la Condición 11, se llevaron a cabo reuniones con las agencias federales pertinentes para establecer el plan de trabajo para el cumplimiento. En la ejecución del plan de trabajo como parte de la Fase II Arqueológica se identificó la presencia de osamenta en unas fosas excavadas por el contratista. Luego de las notificaciones pertinentes y protección de lo identificado, el 7 de junio de 2011, el COE paralizó la obra de construcción bajo el permiso. Luego de producir documentación y solicitud de que se permitiera continuar con la obra, el 20 de julio de 2011 el COE permitió continuar con la construcción de la expansión del área de almacenaje de contenedores y el edificio de administración. No así el completar el canal pluvial ni las actividades que impactaran la Zona de Valor Añadido Industrial, a pesar de que faltaban solamente 3 meses para completar la obra de construcción. Al presente las obras en la ZVAI continúan paralizadas en espera de la negociación sobre el Acuerdo de Consentimiento (*Consent Decree*) con el COE. A la fecha no se ha recibido el primer borrador de dicho *Consent Decree*.



Expropiación

- La inversión pública consignada en el Tribunal de Primera Instancia para la adquisición de propiedades es de \$22.4MM para 743.9 acres de los cuales 153 acres son para el desarrollo del Puerto de Las Americas o la Zona de Valor Añadido y el remanente para propósitos de mitigación. Los predios incluyen la Finca Percon, Ponce Bayland, Finca La Esperanza y el Solar A en el que se encontraba Flar Medicine of Puerto Rico Inc. y FMC Distributors, Inc.

- El justo valor de estas propiedades se encuentra ante el Tribunal de Primera Instancia por conducto de la Autoridad de Carreteras y la Administración de Terrenos para el beneficio de la APA.

Liquidez

- Ante la aprobación de la Ley 240, es la Autoridad el Puerto de Ponce quien tiene la jurisdicción exclusiva sobre el Puerto de las Americas y la APA responde por las obligaciones de la APA. Ante la imposibilidad de generar ingresos y no existiendo fondos adicionales garantizados para atender las obligaciones contingentes de la APA, conforme surge del Estado Financiero existe un riesgo potencial de liquidez de ser requeridos ordenes de cambios adicionales para finalizar el proyecto en progreso o de surgir decisiones adversas en los casos de expropiación o como resultado del *Consent Decree* que pudiera requerir el COE. Véase la Nota 9 y 10 del Informe Financiero.

Conclusión

El PLA es un proyecto estratégico que viene a sustentar la viabilidad de la economía de Puerto Rico a mediano y largo plazo desde varios aspectos, por lo que debe convertirse en un proyecto de inversión pública para alcanzar estos fines. Brinda una contingencia portuaria para el manejo de la carga marítima de Puerto Rico. Mediante el desarrollo de este proyecto estratégico se protege la entrada y movimiento de mercancía, productos y materia prima para el consumo doméstico e internacional.

Debe considerarse el desarrollo del puerto y las zonas de valor añadido como los instrumentos para lograr su verdadera meta que es el mejoramiento de la economía de Puerto Rico. El desarrollo de PLA permite estimular el crecimiento económico de la zona sur de Puerto Rico para que pueda convertirse en un verdadero eje de aportación económica para el país. Aliviando así la carga que tienen otras zonas de la isla con respecto a su contribución a la economía de Puerto Rico.

El PLA amplía la competitividad de transportación marítima y cadena de valor del país, mediante el aumento de capacidad y calado a unos 50 pies de profundidad. Este factor físico es un elemento de diferenciación en el mercado caribeño, que le brinda tamaño, conocidos como Post-panamax que hoy día no pueden recibirse en la isla. De esta forma puede ampliarse la ventaja competitiva de Puerto Rico para atraer embarcaciones de mayor tamaño, permitiendo así beneficios de los volúmenes de escala en el manejo de carga marítima. Al poner en contexto el desarrollo del canal de Panamá que debe estar completado para el 2014, se hace aún más atractivo para el mercado latinoamericano el proveer la infraestructura portuaria necesaria para

servir embarcaciones de gran tamaño que estarán cruzando el canal luego de finalizada su expansión.

El proyecto se encuentra en su tercera fase de desarrollo, la cual proyecta la expansión del terminal de contenedores para 500,000 TEU's para mediados del 2012, con una inversión pública al finalizar el año fiscal 2010-2011 había alcanzado sobre \$294 millones, con una obligación de repago de \$233 millones. Este terminal cuenta con la más moderna tecnología para el manejo de contenedores al contar con dos grúas Super Post-Panamax.

En resumen, el objetivo principal es que esta inversión gubernamental interagencial, integrada bajo el Puerto de las Américas ahora bajo la Autoridad del Puerto de Ponce, proveerá el escenario para el desarrollo de un paradigma de desarrollo y crecimiento económico sostenido en la Región Sur de Puerto Rico. Permitiendo a su vez: (1) el establecimiento de un puerto de calibre internacional con oportunidades en los mercados de trasbordo puro, transbordo con valor añadido y carga domestica como instrumento para el desarrollo socioeconómico regional, (2) una contingencia portuaria para salvaguardar el futuro crecimiento comercial de Puerto Rico, con el potencial de expandir la capacidad conforme la política pública que determine la nueva entidad y (3) contribuir con sus posicionamiento positivo ante los mercados globales, (4) fortalecer la cadena de valor de las empresas locales nuestra propia cadena de distribución y (5) la diferenciación de nuestras facilidades portuarias del resto en el Caribe, complementando los mercados internacionales, integrando las rutas latinoamericanas, europeas y asiáticas.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS

June 30, 2011



PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Port of the Americas Authority:

We have audited the accompanying statement of net assets of Port of the Americas Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Authority'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011, and the results of its operations and cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 12 to the financial statements, there are various uncertainties that may adversely affect the Authority's financial condition. These financial statements do not include adjustments, if any, that may result from the outcome of these uncertainties.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Scherrer Hernández & Co.

San Juan, Puerto Rico

December 14, 2011

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2619519 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report



**PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

INTRODUCTION

The Port of the Americas Authority (the Authority), a public corporation and a component unit of the Commonwealth of Puerto Rico, was created by Act No. 171 enacted on August 11, 2002. The main purpose of the Authority is to develop a deep draft port in the Southern Region of Puerto Rico. This development is part of the Commonwealth's efforts to create a world-class public marine terminal and to stimulate large-scale industrial zone in the Southern Region of Puerto Rico.

The following Management's Discussion and Analysis (MD&A) of the Authority's activities and financial performance provides an introduction to the financial statements of the Authority for the Fiscal Year ended June 30, 2011, with selected comparative information to the Fiscal Year ended June 30, 2011. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting policy, practice and procedures fall under auspices of the Government Accounting Standards Board ("GASB"). The Authority's financial transactions and financial statements are prepared according to the GASB Statement 34 reporting model, as mandated by the GASB. The purpose of the GASB 34 reporting model is to consolidate two basic forms of governmental accounting (governmental and proprietary - those entities which generate their own revenues and, therefore, are similar to a private business such as the Authority) into statements that give the reader a clearer picture of the financial position of the government as a whole. The Authority reports its financial position and results of operations as a Proprietary Fund.

The financial statements are prepared on the accrual basis of accounting, therefore, revenues are recognized when earned and expenses are recognized when incurred. The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project. Please refer to Note 2 in the accompanying financial statements for a summary of the Authority's significant accounting policies. The financial statements along with the MD&A are designed to provide readers with a comprehensive understanding of the Authority's finances.

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The report includes the following three basic statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL POSITION SUMMARY

Statement of Net Assets

The Statement of Net Assets presents the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net Assets, the difference between total assets and total liabilities, are an indicator of the current fiscal health of the organization and the Authority's financial position over time. A summarized comparison of the Authority's assets/ liabilities, and net assets at June 30, 2011, and 2010 is as follows:

| | <u>2011</u> | <u>2010</u> | <u>Variance</u> |
|-----------------------------------|-----------------------|-----------------------|----------------------|
| Assets: | | | |
| Current and other assets | \$ 2,671,208 | \$ 2,816,737 | \$ (145,529) |
| Capital assets, net | 291,674,668 | 261,094,324 | 30,580,344 |
| Total assets | <u>\$ 294,345,876</u> | <u>\$ 263,911,061</u> | <u>\$ 30,434,815</u> |
| Liabilities: | | | |
| Current liabilities | 18,580,743 | 13,438,000 | 5,142,743 |
| Long-term liabilities: | | | |
| Bond purchase agreement and other | <u>214,533,980</u> | <u>204,713,353</u> | <u>9,820,627</u> |
| Total liabilities | <u>233,114,723</u> | <u>218,151,353</u> | <u>14,963,370</u> |
| Net assets: | | | |
| Invested in capital assets, net | 58,597,118 | 43,148,616 | 15,448,502 |
| Unrestricted | <u>2,634,035</u> | <u>2,611,092</u> | <u>22,943</u> |
| Total net assets | <u>61,231,153</u> | <u>45,759,708</u> | <u>15,471,445</u> |
| Total liabilities and net assets | <u>\$ 294,345,876</u> | <u>\$ 263,911,061</u> | <u>\$ 30,434,815</u> |

At June 30, 2011, the Authority's capital assets increased by \$30.6 million due to the development of additional 19 acres of land to increase the total container handling capacity to 500 thousand twenty-foot equivalent units ("TEU") per year under Phase III A-3; and the construction of basic infrastructure, which includes relocating the water distribution lines for the *Ponce Playa* and port facilities as well as the power distribution grid for all the adjacent areas of the future value-added zone ("VAZ"). Total liabilities increased by \$14.9 million principally for the use of the credit facility to continue funding the project's development, net from principal repayment of approximately \$12.2 million. For the Fiscal Year ended June 30, 2011, the largest portion of the Authority's net assets represents its investment in capital assets, less the related debts outstanding used to acquire those capital assets.



**PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets are an indicator of the overall fiscal condition of the Authority that improved during the Fiscal Year 2011. Following is a summary of the Statements of Revenues, Expenses, and Changes in net Assets:

| | <u>2011</u> | <u>2010</u> | <u>Variance</u> |
|--|----------------------|----------------------|----------------------|
| Revenues | \$ - | \$ 6,848 | \$ (6,848) |
| Operating expenses | 1,052,961 | 1,030,613 | 22,348 |
| Operating loss before non-operating revenues | <u>(1,052,961)</u> | <u>(1,023,765)</u> | <u>(29,196)</u> |
| Non-operating revenues: | | | |
| Contributions from the Commonwealth of Puerto Rico | 16,520,000 | 10,186,818 | 6,333,182 |
| Interest | 4,406 | 4,537 | (131) |
| Changes in net assets | <u>15,471,445</u> | <u>9,167,590</u> | <u>6,303,855</u> |
| Total net assets, beginning of year, as restated | <u>45,759,708</u> | <u>36,592,118</u> | <u>9,167,590</u> |
| Total net assets, end of year | <u>\$ 61,231,153</u> | <u>\$ 45,759,708</u> | <u>\$ 15,471,445</u> |

The highlights for the Statements of Revenues, Expenses and Changes in Net Assets are as follow:

- Overall increase in net assets for Fiscal Year 2011 was around \$15.5 million compared to an increase of \$9.2 million in Fiscal Year 2010. The increase was mainly due to the funds received from the Commonwealth that are restricted for principal and interest payments of the Authority's credit facilities.
- Operating expenses during the Fiscal Year 2011 remained in line with operating expenses for the Fiscal Year 2010, with a slight increase of \$22 thousand.

CAPITAL ASSETS

The Authority's capital assets consist mainly of construction in progress. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related projects.

At the end of Fiscal Year 2011, the Authority had invested \$291.7 million in a broad range of capital assets. This amount represents an increase of approximately \$30.6 million when compared to Fiscal Year 2010.

DEBT ADMINISTRATION

As of June 30, 2011, the principal balance outstanding on the Authority's credit facilities amounted to \$214.5 million, which is composed by Series A Bond amounting to \$57.8 million, Series B Bond amounting to \$40 million, and Series C Bond amounting to \$116.8 million.

**PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

REQUEST FOR INFORMATION

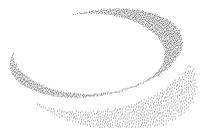
This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning this report or request for additional information should be addressed to Eng. Rhonda M. Castillo Gammill, J.D., Executive Director, Port of the Americas Authority, P.O. Box 195534, San Juan, Puerto Rico 00919-5534.



PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET ASSETS
JUNE 30, 2011

| | <u>2011</u> |
|---|-----------------------|
| ASSETS | |
| CASH | \$ 2,551,749 |
| ACCOUNTS RECEIVABLE | 1,549 |
| PREPAID INSURANCE AND OTHER | 117,910 |
| CAPITAL ASSETS, net | 291,674,668 |
| | <u>\$ 294,345,876</u> |
| LIABILITIES | |
| ACCOUNTS PAYABLE: | |
| Trade and contractors | \$ 2,121,007 |
| Contractors retainage | 6,155,905 |
| COMPENSATED ABSENCES: | |
| Due within one year | 25,643 |
| Due over one year | 8,885 |
| ACCRUED EXPENSES | 2,645 |
| ACCRUED INTEREST PAYABLE | 10,275,543 |
| BOND PURCHASE AGREEMENTS | 214,525,095 |
| Total liabilities | <u>233,114,723</u> |
| NET ASSETS | |
| INVESTED IN CAPITAL ASSETS, net of related debt | 58,597,118 |
| UNRESTRICTED | 2,634,035 |
| | <u>61,231,153</u> |
| | <u>\$ 294,345,876</u> |

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



PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | <u>2011</u> |
|---|----------------------|
| OPERATING EXPENSES: | |
| Professional services | \$ 609,965 |
| Salaries | 208,137 |
| Insurance | 157,274 |
| Payroll taxes and fringe benefits | 34,745 |
| Depreciation | 5,744 |
| Other | 37,096 |
| | <u>1,052,961</u> |
| Operating loss before non-operating revenues | <u>(1,052,961)</u> |
| NON-OPERATING REVENUES: | |
| Contributions from the Commonwealth of Puerto Rico (restricted funds for debt service) | 16,520,000 |
| Interest | 4,406 |
| | <u>16,524,406</u> |
| INCREASE IN NET ASSETS | 15,471,445 |
| NET ASSETS, beginning of year | 45,759,708 |
| NET ASSETS, end of year | <u>\$ 61,231,153</u> |

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



PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | <u>2011</u> |
|---|-----------------------|
| CASH FLOWS USED IN OPERATING ACTIVITIES: | |
| Cash paid to suppliers and other | \$ (1,101,322) |
| Cash paid to employees and other | (230,474) |
| Net cash used in operating activities | <u>(1,331,796)</u> |
| CASH FLOWS PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Contributions from the Commonwealth of Puerto Rico | 16,520,000 |
| Principal payments on bond purchase agreements | (12,240,948) |
| Advances from bond purchase agreements | 22,052,690 |
| Contribution from the Puerto Rico Acueducts and Sewer Authority | 4,000,000 |
| Payments for capital expenditures | (29,265,989) |
| Net cash provided by capital and related financing activities | <u>1,065,753</u> |
| CASH FLOWS PROVIDED BY INVESTING ACTIVITIES - | |
| Interest received | <u>4,406</u> |
| Net decrease in cash | (261,637) |
| CASH, beginning of year | 2,813,386 |
| CASH, end of year | <u>\$ 2,551,749</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES: | |
| Operating loss before non-operating revenues | (1,052,961) |
| Adjustments to reconcile operating income to net cash used in operating activities: | |
| Depreciation | 5,744 |
| Changes in assets and liabilities: | |
| Increase in prepaid expenses and other assets | (116,108) |
| Decrease in accrued expenses | (168,471) |
| Net cash used in operating activities | <u>\$ (1,331,796)</u> |

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



PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

1. NATURE OF THE AUTHORITY

Port of the Americas Authority (the “Authority”) is a component unit of the Commonwealth of Puerto Rico created by Law No. 171 of August 11, 2002, as amended. On June 28, 2004 the law that created the Authority was amended by Law No. 166 to change the name of the port to “Puerto de Las Américas Rafael “Churumba” Cordero Santiago”. Also, on September 22, 2004, the Puerto Rico Legislature enacted Law No. 409 to provide a \$250 million financing for the development of the project. The main purpose of the Authority is the planning, development and construction of a large scale container terminal in the city of Ponce, Puerto Rico. By law, the Puerto Rico Infrastructure Financing Authority (PRIFA) provides administrative and other assistance to the Authority, until the Board of Directors of the Port of the Americas Authority determines, through the adoption of a resolution, that the Authority is prepared to continue operations on its own. Refer to Note 12 for additional disclosures regarding the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Authority has established its financial activities as business-type. Business-type activities are used to account for operations that are financed and operated in a manner similar to private business enterprises on which the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The business-type activities account for resources devoted to finance the general services that the Authority provides. Contributions from the Legislature of Puerto Rico, and other sources of revenues, used to finance the operations of the Authority, are also included.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting – Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The Authority utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current, financial or non-financial) associated with their activities are reported. The difference between assets and liabilities is classified as net assets of the business-type activities.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

The accrual basis of accounting is used by the Authority. Under the accrual basis, revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash collections. Grants and similar resources are recognized as revenue as soon as all eligibility requirements have been met.

Based on Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Enterprises that Use Proprietary Fund Accounting", as amended by GASB No. 34, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Concentration of Credit Risk – The Authority maintains its cash deposits with the Government Development Bank for Puerto Rico ("GDB"). Deposits with the GDB are exempt from collateralization requirements imposed to private banking entities in Puerto Rico. Deposits with the GDB carry a custodial credit risk, since in case of bankruptcy of the GDB, the entity would not recover its deposits.

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

Capital Assets – Capital assets are stated at cost when purchased or at estimated fair market value when donated. Costs of repairs and maintenance, which do not increase or extend the life of the respective assets, are expensed as incurred. Assets whose cost or estimated fair value is stated over \$750, are capitalized when purchased or received as a donation. Upon retirement or other disposal of properties, the related cost and accumulated depreciation are removed from the accounts. Gains or losses on sale or retirement of properties are reflected in earnings.

The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project.

Estimated useful lives of office equipment and vehicle are three and five years, respectively.

Impairment of Long-lived Assets – The Authority evaluates for impairment its long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the Authority should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Refer to Notes 4, 9 and 11 to the financial statements for potential

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

impairment conditions that may arise from the future resolution of certain uncertainties therein described.

Compensated Absences - It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The excess over 60 days of vacations and over 90 days of sick leave benefits are paid to the employee. A liability is reported only for the amount due, for example, as a result of employee resignation or retirement.

Net Assets - Net assets represent the difference between assets and liabilities and are presented in three components, when applicable, as follows:

Invested in capital assets, net of related debts - This is the component of net assets that reports, the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds that are directly attributable to the acquisition, construction or improvement of those assets. At June 30, 2011, the Authority's net assets invested in capital assets, net of related debt amounted to \$58,597,118.

Restricted net assets - This is the component of net assets that discloses the constraints placed on the use of net assets by externally imposed conditions, by grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions and/or enabling legislation. At June 30, 2011, the Authority did not have restricted net assets.

Unrestricted net assets - This is the difference between the assets and liabilities that are not reported as invested in capital assets, net of related debt and as restricted net assets. Consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified. At June 30, 2011, unrestricted net assets amounted to \$2,634,035.

Revenues and Expenses - Operating revenues and expenses for business-type activities are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing or investing activities. Non-exchange revenues, including contributions received for purposes other than capital assets acquisitions, are reported as non-operating revenues.

Governmental Contributions - Governmental contributions are recorded in the year in which funds are available to the Authority. When their use is restricted for the acquisition of construction of capital assets and related activities, they are recorded as capital contributions. Funds not used at the end of the year are reported as restricted net assets and restricted cash, when applicable.

Risk Management - The Authority is exposed to various risks of loss from torts, theft, damages, destruction of assets, employee injuries and illnesses, natural disasters, and other losses, which may arise during the normal course of business. Commercial insurance coverage is maintained to protect the Authority from claims arising if such matters occur.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

The commercial insurance coverage and premiums are negotiated by the Authority and the Department of Treasury of the Commonwealth of Puerto Rico. The cost is paid by the Department of Treasury, and reimbursed by the Authority.

Subsequent Events – For purposes of these financial statements, subsequent events have been evaluated through December 14, 2011, which is the date the financial statements were available to be issued. There are no material subsequent events that require further disclosures in the Authority’s financial statements.

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

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, the Authority’s deposits might not be recovered. The Authority maintains all cash deposits with the GDB. The Commonwealth of Puerto Rico 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. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits maintained in GDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB’s failure, the Authority may not be able to recover these deposits. The bank balance of the Authority’s deposits with GDB amounted to approximately \$2,580,000 as of June 30, 2011.

4. CAPITAL ASSETS

The Authority’s capital assets at June 30, 2011 were as follows:

| | <u>June 30,</u> <u>2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30,</u> <u>2011</u> |
|--------------------------------|--------------------------------|----------------------|--------------------|--------------------------------|
| Depreciable assets: | | | | |
| Office equipment | \$ 12,457 | \$ - | \$ - | \$ 12,457 |
| Vehicle | 22,018 | - | - | 22,018 |
| | <u>34,475</u> | <u>-</u> | <u>-</u> | <u>34,475</u> |
| Less: Accumulated depreciation | (22,156) | (5,744) | - | (27,900) |
| Net depreciable assets | 12,319 | (5,744) | - | 6,575 |
| Non-depreciable- | | | | |
| Construction in progress | 261,082,005 | 30,586,088 | - | 291,668,093 |
| | <u>\$ 261,094,324</u> | <u>\$ 30,580,344</u> | <u>\$ -</u> | <u>\$ 291,674,668</u> |

The Authority capitalized interest in the amount of \$14,554,594 during the year ended June 30, 2011, as part of its construction projects.

The Authority is developing a deep draft port (the “Project”) in the southern coast of Puerto Rico (Municipality of Ponce) with a terminal at Ponce Harbor. The Project required federal



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JUNE 30, 2011

authorizations under Section 10 of the Rivers and Harbors Act as well as under Section 404 of the Clean Water Act (Section 10 and Section 404 Permits). An additional permit under Section 103 of the Marine Protection, Research and Sanctuaries Act (Section 103 Permit) was also required for the Ponce Harbor navigation channel for dredging and ocean disposal of the dredged material. During 2005, the United States Army Corps of Engineers (“USACE”) issued a Department of the Army Permit (“DA Permit”) for the construction of the Project, pursuant to certain conditions including conducting archaeological studies in the Value Added Industrial Area (“VAIA”) and the designation and submittal of a buffer zone adjacent to the Ponce Historical District for the USACE’s and the State Historic Preservation Office’s (“SHPO”) approval.

The Authority evaluates for impairment its long- lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As disclosed in Note 9, during 2011 USACE issued an order for initial corrective measures to the Authority, and an order to discontinue any further work under the DA Permit until further notice, alleging that certain violations to federal statutes had occurred. In a letter dated July 20, 2011, and further to the Authority’s request, USACE confirmed that APA could continue to work in certain areas of the Project. Nonetheless, areas not specifically addressed by USACE in the July 20, 2011 letter remained subjected to the no-further-work requirement. As of the date of issuance of these financial statements, and in light of the procedural status of the proceedings before USACE, it is uncertain if the final outcome of this matter may require further evaluation as to impairment of the Authority’s capital assets.

5. LAND FACILITIES

The Port of Ponce is owned by the Autonomous Municipality of Ponce. The Authority had an agreement with the Municipality for the use and exploitation of the facilities and some of the Municipality's adjacent properties under certain terms and conditions. On September 30, 2010, the agreement expired and the Municipality of Ponce commenced negotiations with the Central Government to continue directly with the development and operation of the port facilities. As disclosed in Note 11, on December 12, 2011, the Puerto Rico Governor signed the *Law of the Ponce Ports Authority* (the “Act”) . The Act creates the Ponce Ports Authority, and requires the resources of the Authority and of the Municipality to be eventually merged. Refer to Note 11 for additional disclosures.

6. BOND PURCHASE AGREEMENTS

On April 20, 2005 the Authority entered into a bond purchase agreement with the Government Development Bank for Puerto Rico (GDB), whereby GDB agreed to disburse the Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of \$70 million (Port of the Americas Authority 2005 Series A Bond). The proceeds of the bonds were used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015. The principal amount may be paid with any of the following: (1) a long-term bond issuance once the project is completed, (2) other revenue of the Port of the Americas Authority, or (3) legislative appropriations as established in Act No 409 of September 22, 2004 (Act No. 409). Principal and interest payments are guaranteed by the Commonwealth of Puerto Rico by Act No. 409. As of June 30, 2011, the principal outstanding under this bond purchase agreement amounted to \$57,759,052.

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(A Component Unit of the Commonwealth of Puerto Rico)
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On August 31, 2005 and November 10, 2005, the Authority entered into additional bond purchase agreements with GDB whereby GDB agreed to disburse the Authority from time-to-time certain bond principal advances up to a maximum aggregate principal amount of \$40 million (Port of the Americas Authority 2005 Series B Bond) and \$140 million (Port of the Americas Authority 2005 Series C Bond), respectively, under the following terms:

The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable on January 15, 2015.

The principal amount should be paid with any of the following: (1) a long-term bond issue once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Act No. 409.

As of June 30, 2011, the principal balance outstanding under Series B Bond and Series C Bond amounted to \$40,000,000 and \$116,766,043, respectively.

Interest rate for each of the three bond purchase agreements is determined annually by GDB based on a spread ranging between 150 – 175 basis points over the interest rate of underlying commercial paper issued by the GDB in connection with these credit facilities. The interest rate as of June 30, 2011 was 7.00%.

The following summarizes the activity in bond purchase agreements for the fiscal year ended June 30, 2011:

| | 2011 | | | |
|--------------------|------------------------------|----------------------|---------------------------------|-----------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Principal Repayments</u> | <u>Ending Balance</u> |
| 2005 Series A Bond | \$ 70,000,000 | \$ - | \$ 12,240,948 | \$ 57,759,052 |
| 2005 Series B Bond | 40,000,000 | - | - | 40,000,000 |
| 2005 Series C Bond | 94,713,353 | 22,052,690 | - | 116,766,043 |
| | <u>\$ 204,713,353</u> | <u>\$ 22,052,690</u> | <u>\$ 12,240,948</u> | <u>\$ 214,525,095</u> |

Scheduled principal maturities and interest payments on the Authority's bond purchase agreements are as follow:

| <u>Fiscal Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|-----------------------|----------------------|-----------------------|
| 2012 | \$ - | \$ 10,275,543 | \$ 10,275,543 |
| 2013 | - | 15,016,757 | 15,016,757 |
| 2014 | - | 15,016,757 | 15,016,757 |
| 2015 | 214,525,095 | 15,016,757 | 229,541,852 |
| | <u>\$ 214,525,095</u> | <u>\$ 55,325,814</u> | <u>\$ 269,850,909</u> |



PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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JUNE 30, 2011

7. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBTS

At June 30, 2011, the Authority's net assets invested in capital assets, net of related debt is as follows:

| | <u>2011</u> |
|--|----------------------|
| Capital assets, net of accumulated depreciation | \$ 291,674,668 |
| Bond purchase agreements attributable to the acquisition, construction and improvements of capital assets | (214,525,095) |
| Interest payable on bond purchase agreements | (10,275,543) |
| Contractors payable and retainage | <u>(8,276,912)</u> |
| | <u>\$ 58,597,118</u> |

8. CONSTRUCTION COMMITMENTS

The Authority has entered into various construction agreements to develop the Port. The total contracted amount, payments during the year and commitment balance on major commitments as of June 30, 2011 were as follows:

Construction of Phase II - On April 20, 2006, the Authority contracted the services of Del Valle Group, S.P. ("Del Valle") to build Phase II, rehabilitation of a container yard adjacent to Piers 4, 5 and 6. The contract amount, including amendments through March 23, 2009, is \$43,455,254. The project is substantially completed. Construction costs totaling \$128,855 were paid to Del Valle during the year ended June 30, 2011. The balance of the contract is \$183 as of June 30, 2011.

Construction of Phase III - On March 12, 2007, the Authority contracted the services of Del Valle, to build Phase III, an improvement to the entrance of the Port. The contract amount, as amended through November 30, 2008, is \$4,670,021. The balance of the contract is a retainage payable of \$15,000 as of June 30, 2011.

Construction of Phase III A.2 - On July 2, 2008 the Authority contracted the services of Del Valle, to construct a storm sewer channel, relocate the sewer, potable water and power distribution system. The contract amount, including amendments through September 1, 2011, is \$83,476,464. Construction costs totaling \$24,098,786 were paid during the year ended June 30, 2011. The balance of the contract is \$18,864,729, including a retainage payable of \$4,732,670, as of June 30, 2011.

Dredging Project - On June 19, 2005, the Authority contracted the services of Weeks de Puerto Rico, Inc. for the dredging project of the Ponce Bay. The contract amount, including amendments through November 25, 2006, is \$13,287,333. The balance of the contract is a retainage payable of \$132,923 as of June 30, 2011.

Construction Management - On May 9, 2005, the Authority contracted the services of Iglesias Vazquez & Associates, P.S.C. ("Iglesias") to perform the designing of the Port, and corresponding inspections, evaluation, experiments, analyses and others.

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JUNE 30, 2011

The contract amount, including amendments through June 30, 2010, is \$11,225,277. Construction costs totaling \$485,414 were paid to Iglesias during the year ended June 30, 2011. The balance of the contract is \$258,229 as of June 30, 2011.

Inter-Agency Agreement - On August 29, 2007 the Authority signed an agreement with the Puerto Rico Aqueduct and Sewer Authority (AAA, for its Spanish acronym) in which the latter agreed to reimburse the Authority up to \$4 million for the relocation of the sewer and potable water distribution system to support the Port of the Americas. The cost of this construction is estimated at approximately \$10.4 million. During April 2011 the AAA reimbursed the Authority for the agreed amount of \$4 million. Such amount was recorded as a reduction to the capitalized construction in progress. Upon completion of the relocation project the resulting infrastructure will be held and maintained by AAA. Once the project is completed and accepted by AAA, the total amount invested in the project, net of AAA's reimbursement will be deducted from the Authority's construction-in-progress and transferred as a contribution to AAA.

9. CONTINGENCIES

Expropriation Proceedings:

The Authority is a party in several expropriation proceedings before the San Juan Superior Court (the "Court") represented by the Puerto Rico Department of Justice and outside legal counselors. The Puerto Rico Highway and Transportation Authority ("PRHTA") and the Puerto Rico Land Administration ("LA") served as conduit for the Authority in such diligences. The Authority funded the acquisitions and owns the expropriated parcels. The major expropriation proceedings are as follows:

PRHTA Claim - The Department of Justice of the Commonwealth of Puerto Rico is defending the Authority in a claim seeking additional purchase price on certain parcels of land located at the municipality of Ponce, Puerto Rico. The total aggregate amount paid to the party with interest was approximately \$15,084,000 for just compensation as the value of the land. As of the date of issuing these financial statements, the case has a final judgment by the San Juan First Instance Court of Puerto Rico requiring an additional payment of \$13,553,500, plus interest since the year 2005 through the date of final compensation. The sentence was appealed by the Authority and also a request for reconsideration was filed by the party with interest asking land to be appraised at \$35,695,000. The case is pending a decision by the Appellate Court of Puerto Rico. It is the opinion of the Authority's legal counsel that the likelihood of an unfavorable outcome for the Authority can be described as 50%/50%.

LA Claims - The Authority has an agreement for services with the LA for preparing, filing and defending expropriations of land before the Court. As of June 30, 2011, there are other pending expropriation cases. The Authority paid an aggregate amount of \$7,283,000 for certain parcels based on independent appraisals as of the expropriation date. The expropriations have been contested by the interested parties over the years, claiming an aggregate appraised value of \$27,407,200 as just compensation for said properties. As of the date of issuing

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these financial statements, the cases are in the discovery stage and no final determinations have been made by the Court. The Authority and its legal counselors intend to vigorously contest these expropriation cases.

USACE Proceedings:

As disclosed in Note 4 to the financial statements, during 2011 USACE issued an order for initial corrective measures to the Authority, and an order to discontinue any further work under the DA Permit until further notice, alleging that certain violations to federal statutes had occurred. Based on the opinion of the Authority's legal counsel, in light of the procedural status of the proceedings before USACE, it is not possible to evaluate the likelihood of an unfavorable outcome or the potential exposure to the Authority.

As a result of the Project's suspension under the USACE orders explained above and in Note 4, the Project's Contractor initiated a change order, asking for a time extension and an increase in the Project's cost for approximately \$1,256,000 at October 12, 2011. In the opinion of the Authority's legal counsel, it is not possible to evaluate the likelihood of an unfavorable outcome or determine potential exposure to the Authority regarding their change order request as of the date of issuing these financial statements. The Authority and its legal counselors intend to vigorously contest the Contractor's change order request.

Other Potential Claim:

On July 12, 2008, the Authority purchased two ship-to-shore gantry cranes from Shanghai Zhenhua Port Machinery Co, Ltd. ("ZPMC"), a company organized under the laws of the Peoples Republic of China. Subsequent to the delivery of the cranes to the Authority's facilities in Ponce, Puerto Rico, a question arose under the terms and conditions of the contract of sale as to which party is responsible for payment of the discharging cost to off load the two cranes from the carrying vessel. The Authority deducted \$411,950, alleging that such costs should be borne by ZPMC. It is uncertain if ZPMC will file a legal proceeding against the Authority for recovery of the withheld amount. Capital assets related to the cranes are disclosed in the accompanying statement of net assets and in Note 4, net from the deducted amount.

10. LIQUIDITY UNCERTAINTY

Pursuant to the provisions of Law No. 409 of September of 2004, the Puerto Rico Commonwealth has pledged to secure the payment of up to \$250 Million bond purchase agreements between the Authority and GDB for financing the construction of the Port. As of June 30, 2011, the Authority has approximately \$23.2 million available for further drawing under the Series C credit facility disclosed in Note 6. Based on management's evaluation, such amount covers the total outstanding contractual commitments as of June 30, 2011.

The Authority bears a potential liquidity risk if a significant change order is required in any of the projects in progress or in the event that any of the proceedings disclosed in Note 9 result in an unfavorable monetary outcome to the Authority.

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11. SUBSEQUENT EVENTS

Pursuant to the provisions of the legislative Joint Resolution No. 54 of June 10, 2011, the Commonwealth approved a budgetary appropriation for the fiscal year 2011-2012, amounting to \$17,315,000, for the payment of principal and interest of the Series A Bond and the payment of interest only of the Series B and C Bonds of the Authority under the bond purchase agreements with the GDB. Such funds were made available for transfer through the GDB during August 2011.

On December 12, 2011, the Puerto Rico Governor signed the Act No. 240 of 2011, known as the *Law of the Ponce Ports Authority* (the "Act"), which establishes general guidance for the further development of the Port of the Americas and its integration to certain development strategies proposed by the Municipality of Ponce. The Act created the Ponce Ports Authority ("PPA") for continuing the development of the port and for managing the Port's future operations. The Board of Directors of the PPA shall consist of members from the Authority and representatives from the Municipality of Ponce. All of the rights and duties of the Port of the Americas Authority shall be transferred to the PPA.

Pursuant to the provisions of the Act, the Port of the America's Authority shall continue to handle the obligations, liabilities and commitments incurred prior to the enactment of the Act. The impact, if any, that the implementation of the Act may have in the Authority's financial condition, cannot be determined as of the date of issuing these financial statements.

12. FINANCIAL CONDITION

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. The final outcome of the events and proceedings disclosed in Notes 9, 10 and 11 may adversely affect the Authority's financial condition. These financial statements do not include adjustments, if any, that may result from the outcome of these uncertainties.

