PORT OF THE AMERICAS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS

June 30, 2011

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(A Component Unit of the Commonwealth of Puerto Rico)
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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

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.

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:

	2011	2010	Variance
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	$ 294,345,876	$ 263,911,061	$ 30,434,815
Liabilities:			
Current liabilities	18,580,743	13,438,000	5,142,743
Long-term liabitilies:			
Bond purchase agreement and other	214,533,980	204,713,353	9,820,627
Total liabilities	233,114,723	218,151,353	14,963,370
Net assets:			
Invested in capital assets, net	58,597,118	43,148,616	15,448,502
Unrestricted	2,634,035	2,611,092	22,943
Total net assets	61,231,153	45,759,708	15,471,445
Total liabilities and net assets	$ 294,345,876	$ 263,911,061	$ 30,434,815

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.

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:

	2011	2010	Variance
Revenues	$ -	$ 6,848	$ (6,848)
Operating expenses	1,052,961	1,030,613	22,348
Operating loss before non-operating revenues	(1,052,961)	(1,023,765)	(29,196)
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	15,471,445	9,167,590	6,303,855
Total net assets, beginning of year, as restated	45,759,708	36,592,118	9,167,590
Total net assets, end of year	$ 61,231,153	$ 45,759,708	$ 15,471,445

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.

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

		2011
ASSETS		
CASH	$	2,551,749
ACCOUNTS RECEIVABLE		1,549
PREPAID INSURANCE AND OTHER		117,910
CAPITAL ASSETS, net		291,674,668
	$	294,345,876
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		233,114,723
NET ASSETS		
INVESTED IN CAPITAL ASSETS, net of related debt		58,597,118
UNRESTRICTED		2,634,035
		61,231,153
	$	294,345,876

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

	2011
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
	1,052,961
Operating loss before non-operating revenues	(1,052,961)
NON-OPERATING REVENUES:	
Contributions from the Commonwealth of Puerto Rico (restricted funds for debt service)	16,520,000
Interest	4,406
	16,524,406
INCREASE IN NET ASSETS	15,471,445
NET ASSETS, beginning of year	45,759,708
NET ASSETS, end of year	$ 61,231,153

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

		2011
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		(1,331,796)
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 expenditutes		(29,265,989)
Net cash provided by capital and related financing activities		1,065,753
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -		
Interest received		4,406
Net decrease in cash		(261,637)
CASH, beginning of year		2,813,386
CASH, end of year	$	2,551,749
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	$	(1,331,796)

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

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.

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 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 constrains 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 constrains 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.

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:

	June 30, 2010	Additions	Retirements	June 30, 2011
Depreciable assets:				
Office equipment	$ 12,457	$ -	$ -	$ 12,457
Vehicle	22,018	-	-	22,018
	34,475	-	-	34,475
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
	$ 261,094,324	$ 30,580,344	$ -	$ 291,674,668

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 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.

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			
	Beginning Balance	Additions	Principal Repayments	Ending Balance
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
	$ 204,713,353	$ 22,052,690	$ 12,240,948	$ 214,525,095

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

Fiscal Years Ending June 30,	Principal	Interest	Total
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
	$ 214,525,095	$ 55,325,814	$ 269,850,909

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:

		2011
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		(8,276,912)
	$	58,597,118

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.

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 Appellative 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 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.

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.