Puerto Rico Industrial Development Company (A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and other Supplementary Information as of and for the Year Ended June 30, 2014, Information and Independent Auditors' Report

Table of Contents

	Page
Independent Auditors' Report	2
Required Supplementary Information:	
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	12
Statement of Revenue, Expenses, and Changes in Net Position	13
Statement of Cash Flows	14
Notes to the Financial Statements	15
Other Supplementary Information:	
Schedule of Changes in Cash and Sinking Fund per Trust Indenture	40

HLB PARISSI
Certified Public Accountants, Tax & Business Advisors

Independent Auditors' Report

To the Board of Directors of the
Puerto Rico Industrial Development Company
San Juan, Puerto Rico:

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Puerto Rico Industrial Development Company (PRIDCO) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise PRIDCO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the Puerto Rico Industrial Development Company as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 11 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Puerto Rico Industrial Development Company's basic financial statements. The schedule of changes in cash and sinking fund per trust indenture for the year ended June 30, 2014, included on page 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HLB Rissi, PSC

November 12, 2014

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to the original of this report
License No. 88 expires December 1, 2017

The Puerto Rico Industrial Development Company (PRIDCO) management provides PRIDCO's annual financial report and the discussion and analysis of PRIDCO's financial performance during the fiscal year ended June 30, 2014. These financial statements include the financial position and results of operations of PRIDCO and its blended component units, the Puerto Rico Industrial Investment, Corp. (PRIICO) and the Puerto Rico Industrial Incentives Fund, Inc. (PRIIF). This report includes management's discussion and analysis, the independent auditors' report, the basic financial statements, the notes that explain in more detail the information contained in the financial statements, and a supplemental schedule, which is not a required part of the basic financial statements.

Financial Analysis of PRIDCO and its Components Units

The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position report information about PRIDCO and its blended component units and about its activities in a way that helps financial statements users to understand whether PRIDCO's financial health is improving or deteriorating. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting method used by private sector companies. All revenues and expenses are taken into account, regardless of when cash was received or paid. The statement of net position present the value of PRIDCO's assets and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of changes in PRIDCO's financial position. However, one will need to consider other nonfinancial factors such as changes in economic conditions and new or ammendments to government legislation. The net position information for PRIDCO and its components units is presented as follows (in thousands):

	June 30,		Change	
	2014	2013, as restated	In dollars	Percent
Current assets	$ 77,433	$ 53,359	$ 24,074	45.12%
Capital assets, net	659,891	667,350	(7,459)	(1.12)%
Other noncurrent assets	67,746	67,739	7	0.01%
Total assets	$ 805,070	$ 788,448	$ 16,622	2.11%
Current liabilities	$ 160,726	$ 141,878	$ 18,848	13.28%
Noncurrent liabilities	265,428	291,138	(25,710)	(8.83)%
Total liabilities	426,154	433,016	(6,862)	(1.58)%
Net position:				
Net investment in capital assets	393,732	400,294	(6,562)	(1.64)%
Restricted	19,577	20,810	(1,233)	(5.93)%
Deficit	(34,393)	(65,672)	31,279	(47.63)%
Total net position	378,916	355,432	23,484	6.61%
Total liabilities and net position	$ 805,070	$ 788,448	$ 16,622	2.11%

In addition, the condensed changes in net position information for PRIDCO and its components units are presented below (in thousands):

	Year Ended June 30,		Change	
	2014	2013, as restated	Amount	Percent
Operating revenues:				
Rental income	$ 61,717	$ 62,763	$ (1,046)	(1.67)%
Nonoperating revenues:				
Net gain on sale of properties and insurance recoveries	1,604	4,331	(2,727)	(62.97)%
Net investment, interest and other income	1,340	364	976	268.06%
Total nonoperating revenues	2,944	4,695	(1,751)	(37.29)%
Total revenues	64,661	67,458	(2,797)	(4.15)%
Operating expenses:				
Salaries and wages	18,304	18,124	180	0.99%
Administrative, general, and other expenses	26,115	23,473	2,642	11.26%
Depreciation and amortization	20,613	20,589	24	0.12%
Total operating expenses	65,032	62,186	2,846	4.58%
Nonoperating expenses - interest	20,550	21,937	(1,387)	(6.32)%
Total expenses	85,581	84,123	1,459	1.73%
Loss before capital contributions and special item	(20,921)	(16,665)	(4,255)	25.53%
Capital contributions	44,405	16,136	28,269	175.19%
Special item - early retirement termination benefits	—	(1,399)	1,399	(100.00)%
Change in net position	23,484	(1,928)	25,413	(1318.09)%
Net position, beginning of year	355,432	358,954	(3,522)	(0.98)%
Prior Period Adjustment	—	(1,594)	1,594	(100.00)%
Net position, beginning of year , Restated	355,432	357,360	(1,928)	(0.54)%
Net position, end of year	$ 378,916	$ 355,432	$ 23,484	6.61%

In order to provide a clear explanation for the most significant changes in net position, we have included in the following pages an analysis, on a separate basis, of the most significant changes of PRIDCO and its blended component units, PRIICO and PRIIF.

The net position information for PRIDCO on a stand-alone basis is presented below (in thousands):

	June 30,		Change	
	2014	2013, as restated	In dollars	Percent
Current assets	$ 178,229	$ 140,336	$ 37,893	27.00%
Capital assets, net	645,652	653,216	(7,564)	(1.16)%
Other noncurrent assets	67,746	67,739	7	0.01%
Total assets	$ 891,627	$ 861,291	$ 30,336	3.52%
Current liabilities	$ 258,050	$ 239,757	$ 18,293	7.63%
Noncurrent liabilities	193,800	212,065	(18,265)	(8.61)%
Total liabilities	451,850	451,822	28	0.01%
Net position:				
Net investment in capital assets	454,765	454,220	545	0.12%
Restricted	19,577	20,810	(1,233)	(5.93)%
Deficit	(34,565)	(65,561)	30,996	(47.28)%
Total net position	439,777	409,469	30,308	7.40%
Total liabilities and net position	$ 891,627	$ 861,291	$ 30,336	3.52%

Analysis of Net Position at June 30, 2014 and 2013

As of June 30, 2014, net position of $439.8 million is composed of $454.8 million of net investment in capital assets, $19.6 million restricted and a deficit of $34.6 million. Total net position changed from $409.5 million to $439.8 million, an increase of approximately $30.3 million or 7.40%. Current assets increased by approximately $37.9 million or 27.0%. In addition, PRIDCO invested $13.3 million of excess cash on hand in certificates of deposits. Amounts due from other funds increased approximately $14.2 million as PRIDCO continues to fund the activities of PRIICO.

Restricted position is mainly composed of amounts deposited in the sinking fund for payments of bonds payable. Restricted position decreased by approximately $1.2 million or 5.93%, mostly as a net result of a decrease in the current portion of bonds payable of approximately $1.7 million, and an increase of $200 thousand in investments held in the sinking fund, and a decrease in the interest payable on bonds payable of $276 thousand. The deficit decreased to $34.6 million in 2014 from $65.6 million in 2013 as a result of $44.4 million in capital contributions received. As disclosed in Note 16, the net position as of July 1, 2012 was restated for approximately $1.6 million as a result of the adoption of GASB Statement No. 65, which required the write off of debt issue costs.

Change in net position information for PRIDCO on a stand-alone basis is presented below (in thousands):

	Year Ended June 30,		Change	
	2014	2013, as restated	Amount	Percent
Operating revenues:				
Rental income	$ 60,255	$ 61,366	$ (1,111)	(1.81)%
Nonoperating revenues:				
Net gain on sale of properties and insurance recoveries	1,604	4,331	(2,727)	(62.96)%
Net investment and interest income	1,282	361	921	255.12%
Total nonoperating revenues	2,886	4,692	(1,806)	(38.49)%
Total revenues	63,141	66,058	(2,917)	(4.42)%
Operating expenses:				
Salaries and wages	18,304	18,124	180	0.99%
Administrative, general, and other expenses	23,683	21,084	2,599	12.33%
Depreciation and amortization	19,919	19,648	271	1.38%
Total operating expenses	61,906	58,856	3,050	5.18%
Nonoperating expenses - interest and amortization of debt issue cost	15,345	16,129	(784)	(4.86)%
Total expenses	77,251	74,985	2,266	3.02%
Loss before capital contributions and special item	(14,110)	(8,927)	(5,183)	58.06%
Capital contributions	44,405	16,136	28,269	175.19%
Special item - early retirement termination benefits	—	(1,399)	1,399	(100.00)%
Change in net position	30,295	5,810	24,485	421.42%
Net position, beginning of year	409,482	405,266	4,216	1.04%
Prior Period Adjustment	—	(1,594)	1,594	100.00%
Net position, beginning of year, restated	409,482	403,672	5,810	1.44%
Net position, end of year	$ 439,777	$ 409,482	$ 30,295	7.40%

Year Ended June 30, 2014 versus June 30, 2013

Rental income decreased by approximately $1.1 million or 1.8% as PRIDCO continue its efforts to increase occupation in its facilities. Net gain on sale of properties decreased approximately $2.7 million, or 62.9%, as a result of PRIDCO's decision to reduce its program to sell properties. Management has decided to modify this strategy by renting existing available facilities, under different arrangements, rather than selling the facilities.

Administrative, general and other expenses increased by approximately $2.6 million or 12.3%, mostly as a net result of an increase of consulting and professional fees, decrease in provision for environmental matters, increase in repairs and maintenance expenses, increase in the management fees paid to the Department of Economic Development and Commerce of approximately $772 thousand.

Non-operating expenses for the year ended June 30, 2014 amounted to approximately $15.3 million, a decrease of approximately $784 thousand, mostly composed of interest incurred related with the bonds and with the notes payable to the Government Development Bank for Puerto Rico, which amounted to approximately $10.4 million and $900 thousand, respectively.

Capital contributions for the year ended June 30, 2014, amounted to approximately $44.4 million as PRIDCO contributions from the Special Fund for Economic Development and from the Special Incentives Fund for building constructions and improvements. Both of these funds are part of the Commonwealth. Net investment and interest income amounted to approximately $1.3 million, an increase of approximately $921 thousand or 255% from prior year. This increase is directly related with increase in interest income earned from refinanced rent.

Financial analysis of PRIICO on a stand-alone basis (in thousands):

	June 30,		Change	
	2014	2013, as restated	In dollars	Percent
Current assets	$ 105,853	$ 105,505	$ 348	0.33%
Capital assets, net	14,239	14,134	105	0.74%
Total assets	$ 120,092	$ 119,639	$ 453	0.38%
Current liabilities	$ 109,497	$ 94,747	$ 14,750	15.57%
Noncurrent liabilities	71,628	79,114	(7,486)	(9.46)%
Total liabilities	181,125	173,861	7,264	4.18%
Net position:				
Net investment in capital assets	14,239	14,134	105	0.74%
Deficit	(75,272)	(68,356)	(6,916)	10.12%
Total net position	(61,033)	(54,222)	(6,811)	12.56%
Total liabilities and net position	$ 120,092	$ 119,639	$ 453	0.38%

Analysis of Net Position of PRIICO at June 30, 2014 and 2013

PRIICO is the owner of the building that PRIDCO and other related and unrelated entities lease. PRIICO also enters in financial leasing to facilitate the promotion and development of certain industries. Total assets increased by approximately $453 thousand or 0.38% mostly due to an increase in amounts in cash of $333 thousand related to rent charges that were received directly from tenants.

Current liabilities increased by approximately $14.8 million or 15.57% mostly due to an increase in amounts due to PRIDCO of $14.2 million or 16% mostly related to the payments of long-term debt made by PRIDCO on behalf of PRIICO, corresponding to several loan agreements in which PRIDCO serves as guarantor as well as the owner of the property. In addition, amounts due to PRIDCO were affected by approximately $2.5 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO and approximately $1 million of administrative expense charges.

Net investment in capital assets represents the capital assets less the incurred debt and amounted to $14.2 million as of June 30, 2014, an increase of approximately $105 thousand or 0.74%. The increase is mostly related to additions of capital assets of $799 thousand and the effect of depreciation and amortization expense for the year ended June 30, 2014 of approximately $694 thousand.

Changes in net position information for PRIICO are presented below (in thousands):

	Year Ended June 30,		Change	
	2014	2013	Amount	Percent
Operating revenues:				
Rental income	$ 2,122	$ 1,966	$ 156	7.93%
Nonoperating revenues:				
Net investment and interest income	—	3	(3)	(100.00)%
Other income	58	—	58	—
Total revenues	2,180	1,969	211	10.72%
Operating expenses:				
Administrative, general, and other expenses	2,598	2,550	48	1.88%
Depreciation and amortization	694	685	9	1.31%
Maintenance and repairs	494	408	86	21.08%
Total operating expenses	3,786	3,643	143	3.93%
Nonoperating expenses - interest expense	5,205	5,552	(347)	(6.25)%
Total expenses	8,991	9,195	(204)	(2.22)%
Change in net position	(6,811)	(7,226)	415	(5.74)%
Net position, beginning of year	(54,222)	(46,996)	(7,226)	15.38%
Net position, end of year	$ (61,033)	$ (54,222)	$ (6,811)	12.56%

Year Ended June 30, 2014 versus June 30, 2013

In overall, PRIICO's total revenues increased by approximately $211 thousand or 10.72%, mostly as a result of increase in tenants during the year ended June 30, 2014. Tenants include PRIDCO, the Rums of Puerto Rico, the Department of Economic Development and Commerce, and the Occupational Development Council, among others.

Operating expenses increased by approximately $143 thousand or 3.93%, as a result of the increase in general and administrative expenses of approximately $48 thousand increase in depreciation and amortization expenses of approximately $9 thousand, and an increase in repairs and maintenance expenses of approximately $86 thousand. The increase in general and administrative expenses is mostly related to an increase in utilities expenses of approximately $20 thousand, increase in administrative expenses charged from PRIDCO of approximately $84 thousand and increase in supplies expenses of approximately $5 thousand.

Non-operating expenses decreased by approximately $347 thousand, mostly due to the overall decrease of the interest portions of notes and loans payable made during the year ended June 30, 2014.

Financial Analysis of PRIIF on a stand-alone basis (in thousands):

	June 30,	
	2014	**2013**
Current assets	$ 172	$ 172
Unrestricted net position	$ 172	$ 172

Analysis of Net Position of PRIIF at June 30, 2014 and 2013

PRIIF is a fund through which PRIDCO used to grant industrial incentives. PRIIF was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment and maintenance of existing employment within the industrial and service sectors of Puerto Rico's economy. There was no economic activity within this fund during the years ended June 30, 2014, and 2013.

Capital Assets:

PRIDCO's investment in capital assets as of June 30, 2014 and 2013 amounted to approximately $659.9 million and $667.3 million, respectively, net of accumulated depreciation. Capital assets include land, land held for improvement, construction in progress, industrial development buildings and improvements, administration buildings and improvements, machinery, equipment, furniture, and vehicles.

During the years ended June 30, 2014 and 2013, PRIDCO invested approximately $12.7 million and $9.6 million, respectively, mainly related to addition of building and construction of buildings that will be leased to private organizations, as part of the industrial development activities. This construction activity was mainly financed through lines of credit and special financing from commercial banks which are later refinanced on a long-term basis. Rent from the buildings is pledged for the payment of long term debt (See Debt Administration below).

See Note 7 to the basic financial statements for additional details on capital assets at year end and activity during the fiscal year.

Debt Administration:

At June 30, 2014 and 2013, PRIDCO had approximately $189.4 million and $197.4 million, respectively, in outstanding bonds payable, including the current portion of $10 million and $8.3 million at June 30, 2014 and 2013, respectively.

The credit rating of PRIDCO's public debt is "BB-", as determined by Standards & Poor's in June 2014 and "Ba3", as determined by Moody's Investor Services in July 2014. Detailed information regarding long-term debt activity is included in Note 10 to the basic financial statements.

Contacting PRIDCO's Financial Management:

This financial report is designed to provide our customers and creditors with a general overview of the PRIDCO's finances and to demonstrate PRIDCO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial Development Company, P.O. Box 362530, San Juan, Puerto Rico, 00936-2530.

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Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (In thousands)

June 30, 2014

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
ASSETS					
Current assets:					
Cash and cash equivalents	$ 20,477	$ 363	$ 24	$ —	$ 20,864
Investment in certificates of deposit	22,342	—	—	—	22,342
Sinking fund, restricted	9,718	—	—	—	9,718
Rent and accounts receivable, net	22,146	17	148	—	22,311
Notes receivables, current portion	29	—	—	—	29
Prepaid expenses and other assets	1,982	187	—	—	2,169
Due from other funds	101,535	105,286	—	(206,821)	—
Total current assets	178,229	105,853	172	(206,821)	77,433
Noncurrent assets:					
Sinking fund reserve accounts, at accreted cost, restricted	22,000	—	—	—	22,000
Investment in equity securities, at cost	4,093	—	—	—	4,093
Due from the Commonwealth of Puerto Rico	41,653	—	—	—	41,653
Land and construction in progress	249,405	830	—	—	250,235
Buildings, improvements, machinery	396,247	13,409	—	—	409,656
Total noncurrent assets	713,398	14,239	—	—	727,637
TOTAL	$ 891,627	$ 120,092	$ 172	$ (206,821)	$ 805,070
LIABILITIES AND NET POSITION					
Current liabilities:					
Current portion of:					
Loans and notes payable to commercial banks	$ —	$ 7,554	$ —	$ —	$ 7,554
Due to Puerto Rico Land Administration	1,306	—	—	—	1,306
Bonds payable	10,020	—	—	—	10,020
Obligations under capital leases	76	—	—	—	76
Notes payable to Government Development Bank	87,325	—	—	—	87,325
Contract retentions	2,121	73	—	—	2,194
Accrued interest	3,405	—	—	—	3,405
Accounts payable and other accrued liabilities	38,974	335	—	—	39,309
Termination benefits accrual, current portion	939	—	—	—	939
Due to the Commonwealth of Puerto Rico	7,825	—	—	—	7,825
Deposits	773	—	—	—	773
Due to other funds	105,286	101,535	—	(206,821)	—
Total current liabilities	258,050	109,497	—	(206,821)	160,726
Noncurrent liabilities:					
Bonds payable	179,339	—	—	—	179,339
Obligations under capital leases	146	—	—	—	146
Termination benefits accrual, noncurrent portion	8,015	—	—	—	8,015
Loans and notes payable to commercial banks	—	71,628	—	—	71,628
Rent and other deposits	6,300	—	—	—	6,300
Total noncurrent liabilities	193,800	71,628	—	—	265,428
Total liabilities	451,850	181,125	—	(206,821)	426,154
Net position :					
Net investment in capital assets	454,765	14,239	—	(75,272)	393,732
Restricted	19,577	—	—	—	19,577
Unrestricted/(deficit)	(34,565)	(75,272)	172	75,272	(34,393)
Total net position	439,777	(61,033)	172	—	378,916
TOTAL	$ 891,627	$ 120,092	$ 172	$ (206,821)	$ 805,070

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

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenue, Expenses, and Changes in Net Position (In thousands)
Year Ended June 30, 2014

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
Operating revenue -					
Rental income, substantially from industrial properties, net	$ 60,255	$ 2,122	$ —	$ (660)	$ 61,717
Operating expenses:					
Salaries and wages	18,304	—	—	—	18,304
Administrative and general	16,978	2,598	—	(660)	18,916
Depreciation and amortization	19,919	694	—	—	20,613
Maintenance and repairs, net	6,705	494	—	—	7,199
Total operating expenses	61,906	3,786	—	(660)	65,032
Operating loss	(1,651)	(1,664)	—	—	(3,315)
Nonoperating revenues/(expenses):					
Net gain on sale of properties	1,604	—	—	—	1,604
Net investment income	253	—	—	—	253
Interest income on loans	1,029	—	—	—	1,029
Other income	—	58	—	—	58
Interest expense	(15,345)	(5,205)	—	—	(20,550)
Total nonoperating expenses, net	(12,459)	(5,147)	—	—	(17,606)
Loss before contributions	(14,110)	(6,811)	—	—	(20,921)
Capital contribution - Special Incentives Fund	27	—	—	—	27
Capital contribution - Special Fund for Economic Development	44,378	—	—	—	44,378
Change in net position	30,295	(6,811)	—	—	23,484
Net position, beginning of year	411,076	(54,222)	172	—	357,026
Prior Period Adjustment	(1,594)	—	—	—	(1,594)
Net position, beginning of year , as restated	409,482	(54,222)	172	—	355,432
Net position, end of year,	$ 439,777	$ (61,033)	$ 172	$ —	$ 378,916

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

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (In thousands)
Year Ended June 30, 2014

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash collected from rental income	$ 60,700	$ 2,122	$ —	$ 62,822
Cash paid for salaries and benefits	(18,991)	—	—	(18,991)
Cash paid for supplies and services	(13,732)	(3,089)	—	(16,821)
Net cash provided by/(used in) operating activities	27,977	(967)	—	27,010
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sale of properties	1,994	—	—	1,994
Collection of capital contributions	44,405	—	—	44,405
Payments for capital assets	(12,353)	(799)	—	(13,152)
Payments of obligations under capital leases	(190)	(6,909)	—	(7,099)
Payments of bonds payable	(8,305)	—	—	(8,305)
Interest paid	(15,531)	(5,159)	—	(20,690)
Net cash provided by (used in) capital and related financing activities	10,020	(12,867)	—	(2,847)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:				
Net payments from Commonwealth of Puerto Rico	88	—	—	88
Net payments from/(to) other funds	(14,167)	14,167	—	—
Net cash (used in)/provided by noncapital and related financing activities	(14,079)	14,167	—	88
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net change in sinking fund - redemption and bond service accounts	(207)	—	—	(207)
Investment in certificates of deposit	(13,368)	—	—	(13,368)
Interest collected on investments, loans and other nonoperating revenue	1,282	—	—	1,282
Collections from notes receivables	48	—	16	64
Net cash (used in) provided by investing activities	(12,245)	—	16	(12,229)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,673	333	16	12,022
CASH AND CASH EQUIVALENTS, beginning of year	8,804	30	8	8,842
CASH AND CASH EQUIVALENTS, end of year	$ 20,477	$ 363	$ 24	$ 20,864
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:				
Operating income/(loss)	$ (1,651)	$ (1,664)	$ —	$ (3,315)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used in) operating activities:				
Depreciation and amortization expense	19,919	694	—	20,613
(Increase)/Decrease in accounts receivable and deposits	1,245	(12)	—	1,233
(Increase)/Decrease in prepaid expenses and other assets	222	(3)	—	219
Decrease in termination benefits accrual	(687)	—	—	(687)
Decrease in rent deposits and other assets	(1,616)	—	—	(1,616)
Decrease in deferred credits		—	—	—
Increase in accounts payable and accrued liabilities	10,545	18	—	10,563
Net cash provided by/(used in) operating activities	$ 27,977	$ (967)	$ —	$ 27,010
SUPPLEMENTAL CASH FLOW INFORMATION:				
Accretion of bonds payable	$ 481	$ —	$ —	$ 481
Amortization of bond discount	12	—	—	12
Capital contributions - Special Incentives Fund	3	—	—	3
Capital contributions - Special Fund for Economic Development	31,600	—	—	31,600
Capital additions through obligations under capital leases	92	—	—	92
Decrease in line of credit with GDB and decrease in due from Commonwealth of Puerto Rico	88	—	—	88

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Puerto Rico Industrial Development Company (PRIDCO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Law No. 188, as amended. PRIDCO is engaged in promoting the development of new local enterprises and encouraging U.S. and foreign investors to establish and expand business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

a. ***Reporting Entity*** – The basic financial statements include PRIDCO as well as its component units. The decision to include a component unit in PRIDCO's financial statements is based on several criteria, including legal standing, fiscal dependency and financial accountability. Based on the application of this criteria, the following is a description of the blended component units included in these basic financial statements:

i. The Puerto Rico Industrial Investment Corp. (PRIICO) owns the building where PRIDCO offices are located in San Juan. These premises are leased to PRIDCO and other related and unrelated entities. It also enters in financial leasing to facilitate promotion of certain industries.

ii. The Puerto Rico Industrial Incentives Fund, Inc. (PRIIF) was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the retention of existing employment in the industrial and service sectors of the Puerto Rico economy. However, the activities and operations of PRIIF has substantially decreased to a point that during 2014 there were no activities to be reported.

b. ***Measurement Focus, Basis of Accounting and Financial Statement Presentation*** – The accompanying basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when incurred, regardless of when cash is received or paid.

Effective for the year ended June 30, 2014, PRIDCO implemented the requirements of GASB Statement No. 65, *Items previously reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those

instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

c. ***Use of Estimates*** – 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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

d. ***Concentration of Credit Risk*** – PRIDCO maintains cash on deposit with high rated financial institutions and with the Government Development Bank in Puerto Rico, another component unit of the Commonwealth. The laws of the Commonwealth require from commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth. Deposits with the Governmental Development Bank for Puerto Rico (GDB) and Economic Development Bank for Puerto Rico (EDB), are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the bank, PRIDCO would not recover its deposits. At June 30, 2014, there were no concentrations of credit risk.

e. ***Cash Equivalents*** – PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents. As of June 30, 2014, cash equivalents amounted to $6.5 million.

f. ***Investments*** – PRIDCO is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments, its agencies or instrumentalities, including mortgage loans secured or guaranteed under federal housing laws. The investment in certificates of deposit is restricted for the payment of construction works performed on one of the PRIDCO's industrial facilities located in Juana Díaz. Investments in equity securities are stated at amortized cost and are mostly composed of common and preferred stock shares in private entities. During the year ended June 30, 2014, PRIDCO evaluated these investments for impairment and did not consider investments in equity securities to be impaired.

g. ***Rent Receivable, Notes and Lease Financing Receivable and Allowance for Doubtful Accounts*** – PRIDCO's rent receivable arises from the leasing of industrial facilities to its customers. Rent is calculated based on agreed rates on executed contracts. The allowance for doubtful accounts is established through provisions recorded as an offset of rental income. PRIDCO provides for an allowance for doubtful accounts, notes receivable and lease financing receivable upon an evaluation of the risks characteristics of those accounts, loss experience, economic conditions and other pertinent factors. Charge-offs is recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Notwithstanding this, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions.

Notes and lease financing receivables are presented at the outstanding unpaid principal balance reduced by the allowance for losses. These are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. No impairment was deemed necessary for the year ended June 30, 2014.

h. ***Interfund Balances and Transactions*** – Interfund receivables and payables balances and transactions have been eliminated from the basic financial statements.

i. ***Restricted Assets*** – Restricted assets at June 30, 2014, consist of sinking fund to be used for the payment of debt service and sinking fund requirements, and investments in certificate of deposit restricted for the construction in Juana Díaz, and are composed of the following (in thousands):

Debt service and sinking funds	$	31,718
Liabilities payable from restricted assets consist of the following:		
Bonds payable within one year		10,020
Interest payable		2,121
Total liabilities payable from restricted assets		12,141
Net restricted assets	$	19,577

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j. ***Capital Assets*** – Capital assets are stated at cost, net of accumulated depreciation. Cost of construction includes, among other things, interest costs, indirect costs consisting of payroll taxes, and other fringe benefits. Depreciation is computed on the straight-line method at rates considered adequate to allocate the cost of the various type of property over their estimated useful lives. Expenditures for maintenance and repair costs that do not improve or extend the life of the respective assets are charged to operations as incurred. Additions, renewals, and betterments, unless of relatively minor amounts, are capitalized. Estimated useful lives and capitalization thresholds are as follows:

	Years	Capitalization Threshold (in thousands)
Buildings and buildings improvements	50	$ 1
Machinery and equipment	15	$ 1
Furniture and vehicles	5-15	$ 1

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. Impaired capital assets that will no longer be used by PRIDCO should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by PRIDCO 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.

k. ***Operating Revenue and Expenses*** – PRIDCO distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

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l. ***Revenue Recognition*** – Revenue from rental activities related to industrial properties is reported as revenue on the accrual basis over the term of the leases based on the monthly rental fees established by each lease agreement. Most of the leases in effect are cancelable, subject to penalty in case of early termination. Revenue from non-exchange transactions consists of intergovernmental grants, including contributions in aid for construction, mainly from two funds of the Commonwealth. These are recorded as revenue as soon as all eligibility requirements are met. Contributions received by PRIDCO for construction and improvements of capital assets during the years ended June 30, 2014, amounted to as follows (in thousands):

Capital contributions:	
Special Fund for Economic Development	$ 44,378
Special Incentives Fund	27
Total capital contributions	$ 44,405

m. ***Compensated Absences*** – The employees of PRIDCO are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated at a maximum of 60 days and 90 days, respectively. The excess of 60 days in vacation and of 90 days of sick leave, until December 31st of each year, should be paid to the employee before March 31st of the following year. For employees under collective bargaining agreement, the excess of 60 days in vacation and of 90 days of sick leave, until June 30 of each year, should be paid to the employee before July 31st of the following year.

n. ***Termination Benefits*** – PRIDCO recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated.

2. SINKING FUND

As of June 30, 2014, PRIDCO held a sinking fund with U.S. Bank (the Trustee), to be used for the payment of bonds payable debt service and sinking fund requirements. At June 30, 2014, investments held by said sinking fund are all due within one year and consist of $31.7 million of money market funds held at U.S. Bank Trust National Association.

Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

The credit ratings for the investments held in sinking fund as of June 30, 2014, were BB- by Standards & Poors, and Ba3 by Moody's Investor Services.

3. INVESTMENT IN AND ADVANCES TO PUERTO RICO SOUTHERN INDUSTRIAL DEVELOPMENT COMPANY

Puerto Rico Southern Industrial Development Company (SIDCO) is a related organization engaged in promoting the development of the economy of Puerto Rico, with its sole facility in Guayama, Puerto Rico that is currently leased to a pharmaceutical company. The agreement calls for an annual rent equal to the amounts due and payable by SIDCO under various notes payable agreements and any other expenses incurred by SIDCO related to the facility's construction. During the term of the lease, the pharmaceutical company may exercise, at any time, an option to purchase the plant at a price equal to the outstanding amount of the notes and other plant-related obligations plus $750 thousands. Pursuant to the terms of the agreement, the pharmaceutical company exercised the right to extend the initial term of the lease for two successive renewal periods, the first renewal for a time ending 20 years (2017) after the date of commencement of operations of the pharmaceutical company's tax-exemption grant, whichever date is later and the second renewal for an additional period of 7 years commencing upon the expiration of the first renewal period.

At June 30, 2014, summarized information regarding SIDCO's assets follows (in thousands):

Current assets	$ 678
Land and plant	90,118
Total assets	90,796
Contribution by pharmaceutical company	(89,911)
Other liabilities	(444)
Investment in SIDCO, net	$ 441

SIDCO's only activity is the leasing of this facility. During 2001, SIDCO acquired a land facility by entering into a promissory note in the amount of $1.6 million. Pursuant to the terms of the promissory note, the parties agreed upon as follows:

- SIDCO shall not be obligated to pay the unpaid balance of principal hereunder, and this obligation shall become null and void, in the event the pharmaceutical company terminates early the lease and option agreement entered within.

- In the event the pharmaceutical company or the successor lessor under the lease exercises the option to purchase the plant pursuant to the lease, then the unpaid principal balance due on the promissory note shall be automatically accelerated and become due and payable in accordance with the lease agreement.

It is management's opinion that the pharmaceutical company will exercise its purchase option in the future. Accordingly, the assets of SIDCO have not been blended within PRIDCO's financial statements.

4. RENT AND ACCOUNTS RECEIVABLE

Rent and accounts receivable as of June 30, 2014, consist of the following (in thousands):

Rent receivable	$	23,111
Loans receivable		7,935
Others		9,606
Total		40,652
Less: Allowance for doubtful accounts		(18,341)
Rent and accounts receivable, net	$	22,311

Changes in the allowance for doubtful accounts during the year ended June 30, 2014 is as follows (in thousands):

Allowance for doubtful accounts, beginning of year	$	29,583
Plus: Provision of doubtful accounts		3,296
Less: Accounts written-off		(14,538)
Allowance for doubtful accounts, end of year	$	18,341

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5. NOTES RECEIVABLE

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIDCO and PRIIF to qualifying exempt businesses and to one Municipality of Puerto Rico for the purpose of partially financing the acquisition of machinery and land premises and working capital needs. Notes receivable as of June 30, 2014 consist of the following (in thousands):

PRIDCO	
Non-revolving note receivable from third party in the original amount of $766 thousand, payable in semiannual installments of $112 thousand beginning on November 1, 2009 through 2012, bearing interest at 3.22%.	$ 29
PRIIF	
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 4.25% during the term of the loan. This note is due in monthly installments of $5 thousand commencing on March 1, 2010 to September 1, 2023 and a final monthly payment of $4 thousand due on October 1, 2023, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	439
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments of $2 thousand commencing on December 1, 2004 over a 20-year period, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	452
	891
Total	920
Less allowance for doubtful accounts	(891)
Less current maturities	(29)
Total, net of allowance for doubful accounts	$ —

Under these credit facilities, the outstanding principal balance may be prepaid without penalty.

6. INTERFUND BALANCES AND TRANSACTIONS

Following is a summary of the interfund balances as of June 30, 2014 (in thousands):

Receivable by	Payable by	Purpose	Amount
PRIDCO	PRIICO	Administrative and operating expenses	$ 101,535
PRIICO	PRIDCO	Rent receivable	40,875
PRIICO	PRIDCO	Other tenant rent receivable	64,411
			$ 206,821

7. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2014 consists of the following (in thousands):

	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	$ 162,484	$ —	$ —	$ 162,484
Land on leased projects	68,521	1,380	(75)	69,826
Construction in progress	10,316	10,554	(3,775)	17,095
Total capital assets not being depreciated	241,321	11,934	(3,850)	249,405
Capital assets being depreciated:				
Buildings and improvements	747,325	4,394	(706)	751,013
Machinery and equipment	64,432	121	(146)	64,407
Furniture and vehicles	13,830	134	(289)	13,675
Total capital assets being depreciated	825,587	4,649	(1,141)	829,095
Less accumulated depreciation for:				
Buildings and improvements	(351,968)	(16,983)	447	(368,504)
Machinery and equipment	(50,639)	(2,552)	107	(53,084)
Furniture and vehicles	(11,085)	(371)	196	(11,260)
Total accumulated depreciation	(413,692)	(19,906)	750	(432,848)
Total capital assets being depreciated, net	411,895	(15,257)	(391)	396,247
Total capital assets, net	$ 653,216	$ (3,323)	$ (4,241)	$ 645,652

PRIDCO evaluated its capital assets for impairment and no impairment charges were recorded during the year ended June 30, 2014.

	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land on leased projects	$ 830	$ —	$ —	$ 830
Capital assets being depreciated:				
Buildings and improvements	23,456	799	—	24,255
Machinery and equipment	8,349	—	—	8,349
Total capital assets being depreciated	31,805	799	—	32,604
Less accumulated depreciation for:				
Buildings and improvements	(13,268)	(685)	—	(13,953)
Machinery and equipment	(5,233)	(9)	—	(5,242)
Total accumulated depreciation	(18,501)	(694)	—	(19,195)
Total capital assets being depreciated, net	13,304	105	—	13,409
Total capital assets, net	$ 14,134	$ 105	$ —	$ 14,239

8. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2014 consist of the following (in thousands):

	PRIDCO	PRIICO	TOTAL
Accounts payable	$ 12,642	$ 335	$ 12,977
Compensated absences	5,634	—	5,634
Accrued payroll related expenses	6,223	—	6,223
Legal liabilities	5,630	—	5,630
Environmental liabilities	4,313	—	4,313
Other accrued liabilities	4,532	—	4,532
Total	$ 38,974	$ 335	$ 39,309

9. DUE TO AND FROM THE COMMONWEALTH OF PUERTO RICO

Amounts due from the Commonwealth as of June 30, 2014 consist of funds provided for granting industrial incentives to the Special Incentives fund, for $41.6 million with maturity date June 30, 2040.

Amounts due to the Commonwealth as of June 30, 2014 consist of the following (in thousands):

Payable to	Purpose	Amount
Rums of Puerto Rico Fund	Operating advances	$ 7,525
Special Fund for Economic Development	Advance for acquisition of investment securities	300
		$ 7,825

Rums of Puerto Rico Fund, Special Incentives Fund, and Special Fund for Economic Development are administered by PRIDCO on behalf of the Commonwealth but do not constitute funds of PRIDCO. Accordingly, they are not presented in the accompanying basic financial statements.

10. LINES OF CREDIT AND LONG-TERM DEBT ACTIVITY

Lines of credit and long-term debt activity for the year ended June 30, 2014 were as follows (in thousands):

	PRIDCO					
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 197,466	$ —	$ 482	$ (8,305)	$ 189,643	$ 10,007
Less: Bond discount	(297)	—	—	13	(284)	13
Subtotal	197,169	—	482	(8,292)	189,359	10,020
Notes payable to GDB	87,325	—	—	—	87,325	87,325
Obligations under capital leases	225	187	—	(190)	222	76
Total	$ 284,719	$ 187	$ 482	$ (8,482)	$ 276,906	$ 97,421

Loans and notes payable to commercial banks are composed of the following (in thousands):

	PRIICO				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans and notes payable	$ 86,158	$ 7,636	$ (14,612)	$ 79,182	$ 7,554

Loans and notes payable to commercial banks consist of the following (in thousands):

Term loan payable in 180 monthly installments of $268 thousand including interest with a balloon payment for the remainder balance including interest due in June 2022. The loan bears interest at 6.06% and is jointly and severally guaranteed by PRIDCO.	$	20,603
Term loan payable in 138 monthly installments of $208 thousand including interest with a balloon payment for the remainder balance including interest due in June 2022. The loan bears interest at 5.38% and is jointly and severally guaranteed by PRIDCO.		16,319
Term loan payable in 180 monthly installments of $137 thousand including interest and is due in March 2018. The loan bears interest at 6.98% and is jointly and severally guaranteed by PRIDCO.		13,195
Non-revolving line of credit with 24 interest only payments then converted into a term loan payable in 216 monthly installments of $110 thousand including interest and is due in December 2024. The loan bears interest at 6.06% and is jointly and severally guaranteed by PRIDCO.		10,313
Term loan payable in 179 monthly installments of $118 thousand including interest, bearing interest at 5.46% and a final balloon payment due in October 2019. The loan is jointly and severally guaranteed by PRIDCO.		6,720
Non-revolving line of credit with 24 interest only payments then converted into a term loan payable in 216 monthly installments of $72 thousand including interest and is due in December 2024. The loan bears interest at 6.061% and is jointly and severally guaranteed by PRIDCO.		6,655
Term loan payable in 119 monthly installments of $38 thousand including interest and a last balloon payment due in February 2020. The loan bears interest at 8.45% and is jointly and severally guaranteed by PRIDCO.		3,987
Term loan payable in monthly installments of $56 thousand including interest and is due in August 2016. The loan bears interest at 5.26% and is jointly and severally guaranteed by PRIDCO.		1,390
Total debt		79,182
Less current maturities		(7,554)
Loans and notes payable to commercial banks, noncurrent portion	$	71,628

Notes payable to the Government Development Bank for Puerto Rico (GDB) are comprised as follows (in thousands):

Non-revolving line of credit up to $75 million with GDB to provide for payment of expenses related to the voluntary separation and early retirement plans, bearing interest at 150 basis points over 90 day LIBOR with a floor rate of 6%. PRIDCO is currently negotiating with GDB to renew the credit facility. Meanwhile, PRIDCO has agreed with GDB to continue making monthly installments of principal and interest according to original terms. PRIDCO identified several properties to be disposed of for repayment of this debt and placed as collateral several other non-trusted properties.	$ 45,672
Notes payable that were used to grant industrial incentives under the Special Incentives Fund, a fund of the Commonwealth, which is administered by PRIDCO. Repayments for these notes are provided by the Puerto Rico Sales Tax Financing Corporation (COFINA) and Commonwealth under legislative appropriation. The notes are due on June 30, 2040 and bear interest at 7%. Since these lines of credit are payable only from resources to be provided by COFINA and Commonwealth appropriations, PRIDCO has recorded an amount due from Commonwealth for the same amount.	41,653
Total notes payable to Government Development Bank	$ 87,325

Amounts due to the Puerto Rico Land Administration as of June 30, 2014 of $1.3 million consist of a note in the original amount of approximately $6.5 million payable in annual installments of $1.3 million, plus accrued interest at 5.25%. The note was due in December 2009. PRIDCO is currently negotiating with the Puerto Rico Land Administration to complete the payment of the amounts due.

Debt service requirements for the loans and notes payable to commercial banks and obligations under capital leases are as follows (in thousands):

Year Ending	Due to Commercial Banks			Obligations under capital leases		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2015	$ 7,554	$ 4,782	$ 12,336	$ 77	$ 9	$ 86
2016	7,715	4,201	11,916	52	7	59
2017	7,772	3,791	11,563	41	5	46
2018	17,920	3,138	21,058	23	3	26
2019	7,621	2,153	9,774	29	—	29
2020 to 2025	30,600	3,627	34,227	—	—	—
Totals	$ 79,182	$ 21,692	$ 100,874	$ 222	$ 24	$ 246

PRIICO is subject to compliance with certain covenants on its loans and notes payable with commercial banks. During the years ended June 30, 2014, PRIICO did not comply with some of those covenants and the financial institution waived the non-compliance as of 2014.

Bonds Payable

As required by the Trust Indenture dated July 1, 1964, as amended, between PRIDCO and Trustee, PRIDCO has pledged and assigned to the Trustee the gross revenue from certain properties (known as trusteed properties) for the payment of the Refunding and General Purpose Revenue Bonds, Series 1991 to 1997. In the event that the gross revenue from trusteed properties and the amounts deposited with the Trustee are not sufficient, PRIDCO shall deposit with the Trustee such amounts as necessary to meet the debt service requirements.

During fiscal year 1998, PRIDCO issued approximately $150 million in refunding bonds and general purpose revenue bonds. The proceeds of the fiscal year 1998 bond issuance destined to refund the previous outstanding bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, all the Series prior to 1997, except for the Series 1991 serial and capital appreciation bonds were considered defeased and the liability for those bonds was considered extinguished and has been removed from the accompanying basic financial statements.

Revenue refunding and general purpose revenue bonds outstanding at June 30, 2014 are as follows (in thousands):

Revenue Refunding Bonds and General Purpose Revenue Bonds:		
Series A 1997:		
Term bonds, 6.70%, due on July 1, 2015	$	7,295
Term bonds, 6.75%, due on July 1, 2021		25,540
Series B 1997, 5.375%, due on July 1, 2016		16,910
Series 2003 General Purpose Revenue Bonds:		
Serial bonds, 5.10% to 5.15% due July 1, 2017 and 2018		2,395
Capital appreciation bonds, implicit interest rates of 5.15% to 5.20%, due on July 1, 2017 and July 1, 2018.		9,384
Term bonds, 5.20%, due on July 1, 2023		48,925
Term bonds, 5.25%, due on July 1, 2028		78,910
		189,359
Less current maturities		(10,020)
Bonds payable - noncurrent	$	179,339

Series 2003 of the capital appreciation bonds will accrete to a maximum of $11.6 million, through their corresponding maturity dates. The annual debt service requirements to maturity, including principal and interest, for bonds payable as of June 30, 2014 are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
2015	$ 10,020	$ 9,665	$ 19,685
2016	12,865	9,119	21,984
2017	10,065	8,280	18,345
2018	7,333	10,783	18,116
2019	11,007	10,657	21,664
2020 to 2024	62,350	28,394	90,744
2025 to 2028	71,870	9,758	81,628
	185,510	$ 86,656	$ 272,166
Plus: Accreted discount	4,133		
Less: Unamortized bond discount	(284)		
Total	$ 189,359		

Obligations Under Capital Leases

PRIDCO finances the acquisition of certain office equipment through capital leases from various financial institutions. Capital leases outstanding as of June 30, 2014, are payable in monthly installments of principal and interest ranging from $189 to $1,737 in 2014, through the year 2018. The obligations under capital leases are secured by the corresponding office equipment and bear interest rates ranging from 4.00% to 5.22% in 2014.

11. RETIREMENT PLAN

Employees of PRIDCO participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the System). The System is a defined benefit, cost-sharing, multi-employer plan sponsored by the Commonwealth under the terms of Act No. 447 of 1951, as amended. Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited services. Benefits vest after ten years of plan participation. Members who have attained at least 55 years of age and have completed at least 30 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be 1.5% of the average compensation multiplied by the number-of-years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month. For those participant employees after March 31, 1990, the amount of the annuity is 1.5% of the compensation multiplied by the number of years for credited services. The annuity should not be less than $2,400 in any case.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average compensation or if they have attained 55 years of age will receive up to a maximum of 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average compensation. However, for non-occupational disability, a member must have at least 10 years of creditable service.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average compensation for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average compensation, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. Commencing on July 1, 2012, PRIDCO is required to contribute 10.275%, with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016. Effective July 1, 2016, PRIDCO's contribution will increase by 1.25% annually until reaching 20.525%.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of System 2000.

System 2000 is a hybrid-defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employees' contributions (9.275% of the employees' salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the System, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increased the minimum pension for current retirees from $400 to $500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.

5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.

6. Eliminated the "merit annuity" available to participants who joined the System prior to April 1, 1990.

7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

8. The employee contribution rate was increased from 8.275% to 10%.

9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated.

11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits were modified.

Funding Policy

Contribution requirements are established by law and are as follows:

PRIDCO:	10.275% of gross salary with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016 Commencing on July 1, 2016, contribution increase by 1.25% anually until reaching 20.525%
Employees:	7.0% of gross salary up to $6,600 plus 10% of gross salary over $6,600

PRIDCO's contractually required contributions for the year ended June 30, 2014, amounted to approximately $1.7 million. The percentage of PRIDCO's required contributions were equal to the ones actually made to the System for the years ended June 30, 2013 and 2012.

The amount of the total pension benefits obligation is based on a standardized measurement established by accounting principles generally accepted in the United States of America that, with some exceptions, must be used by a public employee retirement system. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases.

The most recent actuarial valuation is as of June 30, 2013. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

- Investments rate of return — 6.4% a year
- Payroll growth — 3.0% per year

• Defined Cont. Hybrid Account	Member contributions to the Defined Contribution Account are assumed to be 10% of the compensation. Defined Contribution Hybrid are assumed to grow using the 5.12% annual investment Return (80% of the net investment return assumption).
• Pre- retirement mortality	RP-2000 Employee Mortality Rates
• Post-retirement disabled mortality	Gender specific mortality rates developed based on a study of plan's experience from 2007 to 2012.
• Post-retirement healthy mortality	Gender-specific mortality rates developed based on a study of plan's experience from 2003 to 2007.
• Termination	Withdrawals rates vary by employment category, age and service.
• Disability	Six month elimination period rates in The 1987 Adjusted Commissioners Group Disability Table.
• Retirement age	Rates varies by employment category Act, age and years of creditable service.
• Proportion of participants with spouses	70% of current active members are assumed to be married at retirement with males 4 years older than females.

Additional information on the System is provided in its financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940-2003.

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Termination Benefits

During the fiscal year ended June 30, 2010, the Commonwealth approved the Act No. 70 of July 2, 2010 providing for an early termination program (the Program) that includes various options to incentivize early retirement and retirement incentives for eligible employees under the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS). Except for certain restrictions, all regular employees are eligible under the Program to retire under one of the available options. There are three different options offered by the Program as follows:

Years of Service	Incentive
(a). Less than one year	One month of salary
(b). One year and one day and less than three years	Three months of salary
(c). More than three years	Six months of salary

Employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, will receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements. Annuity pension payment is based on the following parameters:

Credited Years of Service	Pension Payment (As a % of Salary)
15	40.00%
16	42.50%
17	45.00%
18	47.50%
19 to 29	50.00%

PRIDCO will be responsible for making the applicable employer contributions to the ERS, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options (a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Option (c) provides eligible employees that have 30 years of credited services contributing to the ERS and request to start receiving their pension benefits will be entitled to receive the economic incentive disposed for option (a) but not entitled to the incentives provided under option (b).Employees that have the required retirement age but have not achieved the years of credited services contributing to the ERS will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

PRIDCO records liability and expense upon election by the employees to participate in the Program. At June 30, 2014, the future incentive payments reported as liability was approximately $723 thousand. The liability is included as part of the termination benefits accrual in the accompanying statement of net position as of June 30, 2014.

During the year ended June 30, 2014, no employee was included in the Program, accordingly no expense was recognized.

12. COMMITMENTS

Construction Program

For the fiscal years ending June 30, 2014, PRIDCO estimates to invest approximately $10 million, respectively, for construction, land acquisition, and development. The investment in property will be financed through internally generated funds, federal grants, legislative infrastructure incentives, and external financing sources.

Other Commitments

PRIDCO administers the Special Incentives Fund, Special Fund Economic Development, and Rums of Puerto Rico Fund, which are funds appropriated by the Commonwealth's Legislature. Upon receipt of funds from the Commonwealth, PRIDCO deposits such funds in a special account over which PRIDCO only has administrative responsibilities.

PRIDCO maintains a joint agreement with the University of Puerto Rico for the administration of the Bioprocess Development and Training Complex (BDTC) in Mayagüez. Under said agreement, PRIDCO constructed a modern building with state of the art facilities for rental by pharmaceutical and high end technological industries with research and development projects. PRIDCO is therefore renting the building to BDTC. During the year ended June 30, 2009, PRIDCO received $4.5 million from the Special Fund for Economic Development, a fund of the Commonwealth, in order to cover for the $5 million share that the University of Puerto Rico did not provide and $2.2 million in 2010 from the Economic Development Agency (EDA). The construction concluded during 2009 and cost approximated $11.3 million as of June 30, 2009. For the year ended June 30, 2014, the BDTC has received funding solely from the Special Fund for Economic Development, a fund of the Commonwealth.

PRIDCO maintains a joint interagency agreement along with the Puerto Rico Tourism Company (PRTC). Both entities agreed to provide $1 million each for the Office of Land Use Planning. PRIDCO is responsible for the purchase of office equipment as well as professional services necessary for the operations of said office. PRIDCO received $1 million from PRTC and total expenditures amounted to $672 thousand. PRTC has not made any contribution during the years ended June 30, 2014.

PRIDCO leases office in New York City under an operating lease with a third party expiring in the year 2022. Rent expense including common area maintenance, taxes and other charges amounted to approximately $372 thousand for the year ended June 30, 2014. Said office space is shared with GDB and Rums of Puerto Rico aiming towards the presence of the Commonwealth of Puerto Rico in one of the most important cities of the world. PRIDCO charges rent back to the previously mentioned governmental agencies based on space occupancy allocation.

Future annual minimum lease payments under the operating lease agreement at June 30, 2014, are as follows (in thousands):

Year Ending June 30,	PRIDCO	Other	Total Rent
2015	$ 323	$ 560	$ 883
2016	323	560	883
2017	323	560	883
2018	332	573	905
2019	332	573	905
2020-2023	1,196	2,070	3,266
Total	$ 2,829	$ 4,896	$ 7,725

13. CONTINGENCIES

PRIDCO is a defendant in a number of legal proceedings arising in the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases. Contingency reserves as of June 30, 2014 amounted to approximately $5.6 million, and its included as part of accounts payable and other accrued liabilities.

14. POLLUTION REMEDIATION CONTINGENCIES

Because of the nature of the operations of the different tenants, under certain circumstances PRIDCO is responsible for pollution remediation in all its facilities. Pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. At June 30, 2014, PRIDCO's reserve for pollution remediation obligations amounted to approximately $4.3 million, and was reported as part of accounts payable and other accrued liabilities.

PRIDCO has been a party to several claims and lawsuits related to environmental pollution remediation obligations in which the Federal Environmental Protection Agency (EPA) and the Puerto Rico Environmental Quality Board (EQB) have been involved for many years. Such liabilities are pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA, or commonly known as Superfund), a United States federal law designed to cleanup sites

contaminated with hazardous substances. This law authorizes EPA to identify parties responsible for contamination of sites and compel the parties to remediate environmental pollution.

Financial responsibility cleanup costs have been and/or are being undertaken by the industrial potentially responsible parties (PRP's) at two CERCLA sites (Vega Alta, Guayama, Cidra, Cabo Rojo, Maunabo and San Germán) where the federal government named PRIDCO a PRP solely for being part owner of both sites. There are other sites where PRIDCO has called former tenants in order to make them accountable for cleanup costs and some others are currently under remedial monitoring actions either by EPA or PRIDCO itself.

Experience has shown that uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability.

Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's competitive or financial position. However, such costs could be material to results of operations in a particular future year.

15. RISK MANAGEMENT

The Treasury Department of PRIDCO is responsible of assuring that PRIDCO's property is properly insured. Annually, the Treasury Department in conjunction with other departments of PRIDCO compiles the information of all property owned and its respective market value. After evaluating this information, it is submitted to the Area of Public Insurance at the Department of the Treasury of the Commonwealth, which is responsible for purchasing all property and casualty insurance policies of all governmental instrumentalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

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16. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS

On July 1, 2013, PRIDCO restated its net position due to a change of an accounting principle, as required by GASB 65, *Items Previously Reported as Assets and Liabilities*, which required the eliminates of debt issue costs previously reported as assets. The effect as of the restatement is as follows:

	Statement of net position
Net position as as of July 1, 2013, as previosuly reported	$ 411,076
Restatement - for elimination of debt issue costs	(1,594)
Net position as July 1, 2013, as restated	$ 409,482

17. SUBSEQUENT EVENTS

PRIDCO evaluated subsequent events through November 12, 2014, the date on which the financial statements were available to be issued. There were no material subsequent events that would require further disclosure.

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OTHER SUPPLEMENTARY INFORMATION

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in Cash and Sinking Fund per Trust Indenture (In thousands)

Year Ended June 30, 2014

	Total	General Fund	U.S. Bank Trust Indenture Sinking Fund: Principal and Interest	U.S. Bank Trust Indenture Sinking Fund: Reserve Account
Balance at June 30, 2013	$ 40,315	$ 8,804	$ 9,518	$ 21,993
Cash provided by/ operating activities	27,977	9,970	18,000	7
Proceeds from sale of property and equipment	1,994	1,994	—	—
Collections from capital contributions	44,405	44,405		
Payments for capital assets	(12,353)	(12,353)	—	—
Payment of bonds	(8,305)	—	(8,305)	—
Payment of interest	(15,531)	(6,036)	(9,495)	—
Payment of obligations under capital lease	(190)	(190)	—	—
Collections from notes receivable	48	48	—	—
Investment in certificates of deposit	(13,368)	(13,368)	—	—
Interest collected on investments, loans and other nonoperating revenue	1,282	1,282	—	—
Net payments from Commonwealth of Puerto Rico	88	88	—	—
Net payments to other funds	(14,167)	(14,167)	—	—
Balance at June 30, 2014	$ 52,195	$ 20,477	$ 9,718	$ 22,000
Balance at June 30, 2014 represented by:				
Cash and cash equivalents available for operations	$ 20,477	$ 20,477	$ —	$ —
Cash and cash equivalents held by the Trustee	9,718	—	9,718	—
Investment in U.S. Treasury bond strips, held by the Trustee, at market value	22,000	—	—	22,000
	$ 52,195	$ 20,477	$ 9,718	$ 22,000

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