PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
as of and for the years ended June 30, 2011 and 2010, and Other Supplementary
Information for the year ended June 30, 2011 and Independent Auditors'
Report

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
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SCHERRER
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements 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, 2011, as listed in the table of contents. These financial statements are the responsibility of PRIDCO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Puerto Rico Industrial Development Company as of June 30, 2010, were audited by other auditors whose report dated on November 16, 2010, expressed an unqualified opinion on those statements.

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 significant estimates made by management, as well as evaluating the overall financial statements 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 PRIDCO as of June 30, 2011, and the changes in financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012 on our consideration of PRIDCO's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 18 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 and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of PRIDCO. The schedule of changes in cash and sinking fund per trust indenture for the year ended June 30, 2011, included on page 53 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.

Scherrer Hernández & Co.

San Juan, Puerto Rico

March 2, 2012

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2012
Stamp 2619582 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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 years ended June 30, 2011 and 2010. These financial statements include the financial position and results of operations of four separate legal entities comprised of PRIDCO, the Puerto Rico Industrial Incentives Fund ("PRIIF"), the Puerto Rico Industrial Investment Corp. ("PRIICO"), the Puerto Rico Investment Development Company ("PRIDCOM").

Overview of the Financial Statements

The annual report includes management's discussion and analysis report, the independent auditors' report, and the basic financial statements. The financial statements also include 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 as a Whole

The statement of net assets and the statement of revenues, expenses, and changes in net assets present the net assets of and the changes in them. Net assets—the difference between assets and liabilities—is one way to measure financial health or financial position. Increases or decreases in net assets is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions and new or changed government legislation.

The net assets information for PRIDCO is presented as follows (in thousands):

	June 30,		Change	
	2011	2010	In dollars	Percent
Current assets	$ 88,096	$ 95,451	$ (7,355)	(7.71)%
Capital assets, net	673,446	703,709	(30,263)	(4.30)%
Other noncurrent assets	88,265	72,699	15,566	21.41%
Total assets	$ 849,807	$ 871,859	$ (22,052)	(2.53)%
Current liabilities	151,996	169,810	(17,814)	(10.49)%
Noncurrent liabilities	336,177	326,767	9,410	2.88%
Total liabilities	488,173	496,577	(8,404)	(1.69)%
Net assets:				
Invested in capital assets, net of related debt	376,029	401,277	(25,248)	(6.29)%
Restricted	35,026	32,342	2,684	8.30%
Deficit	(49,421)	(58,337)	8,916	(15.28)%
Total net assets	361,634	375,282	(13,648)	(3.64)%
Total liabilities and net assets	$ 849,807	$ 871,859	$ (22,052)	(2.53)%

In addition, the condensed changes in net assets information for PRIDCO as a whole are presented below (in thousands):

	Year Ended June 30, 2011	Year Ended June 30, 2010	Change Amount	Change Percent
Operating revenues -				
Rental income	$ 67,768	$ 62,185	$ 5,583	8.98%
Non operating revenues:				
Net gain on sale of properties and insurance recoveries	10,454	3,938	6,516	165.46%
Net investment and interest income	4,012	1,993	2,019	101.30%
Total nonoperating revenues	14,466	5,931	8,535	143.90%
Total revenues	82,234	68,116	14,118	20.73%
Operating expenses:				
Salaries and wages	16,417	16,749	(332)	(1.98)%
Administrative, general, and other expenses	22,153	23,192	(1,039)	(4.48)%
Depreciation and amortization	22,164	22,072	92	0.42%
Impairment loss	1,296	1,663	(367)	(22.07)%
Total operating expenses	62,030	63,676	(1,646)	(2.58)%
Nonoperating expenses - interest and debt issue cost	25,492	21,764	3,728	17.13%
Total expenses	87,522	85,440	2,082	2.44%
Loss before capital contributions and special item	(5,288)	(17,324)	12,036	(69.48)%
Capital contribution	966	6,999	(6,033)	(86.20)%
Special item - early retirement termination benefits	(9,326)	-	(9,326)	100.00%
Change in net assets	(13,648)	(10,325)	(3,323)	32.18%
Net assets, beginning of year	375,282	385,607	(10,325)	(2.68)%
Net assets, end of year	$ 361,634	$ 375,282	$ (13,648)	(3.64)%

In order to provide a clear explanation for the most significant changes in net assets, 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, PRIIF, PRIICO, and PRIDCOM, which are entities for which PRIDCO is financially accountable for.

The net assets information for PRIDCO on a separate basis is presented below (in thousands):

	June 30,		Change	
	2011	2010	In dollars	Percent
Current assets	$ 143,040	$ 137,378	$ 5,662	4.12%
Capital assets, net	655,420	684,987	(29,567)	(4.32)%
Other noncurrent assets	92,265	75,453	16,812	22.28%
Total assets	$ 890,725	$ 897,818	$ (7,093)	(0.79)%
Current liabilities	246,202	241,458	4,744	1.96%
Noncurrent liabilities	243,450	248,239	(4,789)	(1.93)%
Total liabilities	489,652	489,697	(45)	(0.01)%
Net assets:				
Invested in capital assets, net of related debt	416,325	434,369	(18,044)	(4.15)%
Restricted	35,026	32,342	2,684	8.30%
Deficit	(50,278)	(58,590)	8,312	(14.19)%
Total net assets	401,073	408,121	(7,048)	(1.73)%
Total liabilities and net assets	$ 890,725	$ 897,818	$ (7,093)	(0.79)%

	June 30,		Change	
	2010	2009	In dollars	Percent
Current assets	$ 137,378	$ 148,403	$ (11,025)	(7.43)%
Capital assets, net	684,987	700,037	(15,050)	(2.15)%
Other noncurrent assets	75,453	70,569	4,884	6.92%
Total assets	$ 897,818	$ 919,009	$ (21,191)	(2.31)%
Current liabilities	241,458	243,212	(1,754)	(0.72)%
Noncurrent liabilities	248,239	266,110	(17,871)	(6.72)%
Total liabilities	489,697	509,322	(19,625)	(3.85)%
Net assets:				
Invested in capital assets, net of related debt	434,369	432,781	1,588	0.37%
Restricted	32,342	37,120	(4,778)	(12.87)%
Deficit	(58,590)	(60,214)	1,624	(2.70)%
Total net assets	408,121	409,687	(1,566)	(0.38)%
Total liabilities and net assets	$ 897,818	$ 919,009	$ (21,191)	(2.31)%

Analysis of Net Assets at June 30, 2011 and 2010

As of June 30, 2011, net assets of $401 million are composed of $416.3 million invested in capital assets, net of related debt, $35 million restricted and a deficit of $50.3 million. Total net assets changed from $408.1 million to $401 million, a decrease of approximately $7.1 million or 1.73%. Current assets increased by approximately $6 million or 4.12%, mostly due to an increase in amounts due from PRIICO of approximately $14.3 million, a decrease in cash and cash equivalents of approximately $4.8 million, and a decrease in net accounts receivable of approximately $3.5 million.

Net assets invested in capital assets, net of related debt, decreased by approximately $18 million, mostly as a net result of a decrease in bonds payable of approximately $11.5 million and a decrease on net capital assets of approximately $29.5 million. Restricted assets are mainly composed of amounts deposited in the sinking fund for payment of bonds payable. Restricted assets increased by approximately $2.7 million, mostly as a net result of an increase in deposits in sinking funds of approximately $3.1 million, a decrease in the interest payable on bonds payable of approximately $400 thousand, and an increase in the current portion of bonds payable of approximately $800 thousand.

Analysis of Net Assets at June 30, 2010 and 2009

As of June 30, 2010, net assets of $408 million are composed of $434 million invested in capital assets, net of related debt, $32 million restricted and a deficit of $58 million. Total net assets changed from $409.6 million to $408.1 million, a decrease of approximately $1.6 million or 0.38%. Current assets decreased by approximately $11 million mostly due to a decrease in cash and cash equivalents deposited in the bond sinking account of approximately $5.7 million, a decrease in accounts receivable of approximately $8.6 million, a decrease in amounts due from the Commonwealth of approximately $1.6 million and an increase of approximately $12.5 million in amounts due from PRIICO, mostly as a result of loan repayments of approximately $9.7 million and $1.2 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO.

Net assets invested in capital assets, net of related debt, increased by approximately $1.6 million mostly as a net result of a decrease in bonds payable of approximately $16.5 million and a decrease on net capital assets of approximately $14.8 million. Restricted assets are mainly composed of amounts deposited in the sinking fund for payment of bonds payable. Restricted assets decreased by $4.8 million mostly as a net result of a decrease in the current portion of sinking funds of approximately $4.1 million, and an increase of approximately $798 thousand in the current portion of bonds payable.

Change in net assets information for PRIDCO is presented below (in thousands):

	Year Ended June 30, 2011	Year Ended June 30, 2010	Change Amount	Change Percent
Operating revenues -				
Rental income	$ 66,419	$ 60,935	$ 5,484	9.00%
Non operating revenues:				
Net gain on sale of properties and insurance recoveries	10,454	3,938	6,516	165.46%
Net investment and interest income	3,320	1,941	1,379	71.05%
Total nonoperating revenues	13,774	5,879	7,895	134.29%
Total revenues	80,193	66,814	13,379	20.02%
Operating expenses:				
Salaries and wages	16,417	16,749	(332)	(1.98)%
Administrative, general, and other expenses	20,031	20,985	(954)	(4.55)%
Depreciation and amortization	21,457	21,365	92	0.43%
Impairment loss	1,296	1,663	(367)	(22.07)%
Total operating expenses	59,201	60,762	(1,561)	(2.57)%
Nonoperating expenses - interest and debt issue cost	19,680	16,767	2,913	17.37%
Total expenses	78,881	77,529	1,352	1.74%
Income/(loss) before capital contributions and special item	1,312	(10,715)	12,027	(112.24)%
Capital contribution	966	6,999	(6,033)	(86.20)%
Transfers	-	2,150	(2,150)	(100.00)%
Special item - early retirement termination benefits	(9,326)	-	(9,326)	100.00%
Change in net assets	(7,048)	(1,566)	(5,482)	350.06%
Net assets, beginning of year	408,121	409,687	(1,566)	(0.38)%
Net assets, end of year	$ 401,073	$ 408,121	$ (7,048)	(1.73)%

	Year Ended June 30,		Change	
	2010	2009	Amount	Percent
Operating revenues -				
Rental income	$ 60,935	$ 72,032	$ (11,097)	(15.41)%
Non operating revenues:				
Net gain on sale of properties and insurance recoveries	3,938	9,163	(5,225)	(57.02)%
Net investment and interest income	$ 1,941	2,443	(502)	(20.55)%
Total nonoperating revenues	5,879	11,606	(5,727)	(49.35)%
Total revenues	66,814	83,638	(16,824)	(20.12)%
Operating expenses:				
Salaries and wages	16,749	17,855	(1,106)	(6.19)%
Administrative, general, and other expenses	20,985	23,884	(2,899)	(12.14)%
Provision for legal matters	-	16,274	(16,274)	(100.00)%
Depreciation and amortization	21,365	21,398	(33)	(0.15)%
Impairment loss	1,663	-	1,663	100.00%
Less capitalized expenses	-	(907)	907	(100.00)%
Total operating expenses	60,762	78,504	(17,742)	(22.60)%
Nonoperating expenses - interest and debt issue cost	16,767	18,155	(1,388)	(7.65)%
Total expenses	77,529	96,659	(19,130)	(19.79)%
(Loss)/income before capital contributions and special item	(10,715)	(13,021)	2,306	(17.71)%
Capital contribution	6,999	12,350	(5,351)	(43.33)%
Tranfers	2,150	2,695	(545)	(20.22)%
Special item - early retirement and voluntary separation plan	-	(885)	885	(100.00)%
Change in net assets	(1,566)	1,139	(2,705)	(237.49)%
Net assets, beginning of year (as restated)	409,687	408,548	1,139	0.28%
Net assets, end of year	$ 408,121	$ 409,687	$ (1,566)	(0.38)%

Year Ended June 30, 2011 versus June 30, 2010

In overall, PRIDCO's revenue increased by approximately $5.4 million or 9% mostly as a result of an increase in rent billing of approximately $676 thousand, an increase in other nonoperating income and rent penalties of approximately $582 thousand and a decrease in bad debt expenses of approximately $4.2 million.

Operating expenses decreased by approximately $1.6 million or 2.57%, mostly as a net results of decrease of salaries and wages of approximately $332 thousand, an increase in depreciation and amortization of approximately $92 thousand, a decrease in administrative, general, and other expenses of approximately $954 thousand, and a decrease in impairment loss on capital assets of approximately $367 thousand. The decrease in administrative, general and other expenses is mostly due to a net result of increase in management fees paid to the Department of Economic Development of Puerto Rico of approximately $5.1 million during the year ended June 30, 2011, an increase in the interest expense allocations made to the Special Incentive Fund for approximately $3.3 million, a decrease in the repairs and maintenance of approximately $700 thousand, and a decrease in professional services of approximately $900 thousands.

Nonoperating expenses for the year ended June 30, 2011 amounted to approximately $19.7 million, an increase of approximately $2.9 million, mostly composed of interest incurred related with the bonds and with the note payable to the Government Development Bank for Puerto Rico, which amounted to approximately $13.8 million and $5.6 million, respectively.

Special item associated with early retirement termination benefits of approximately $9.3 million is related with one-time retirement incentive program pursuant to Act No. 70 of July 2, 2010, approved during the year ended June 30, 2011 by the Legislature of the Commonwealth of Puerto Rico for all regular employees of the Central Government Agencies and certain Public Corporations.

Capital contributions amounted to approximately $966 thousand as PRIDCO received approximately $323 thousand in contributions from the Special Fund for Economic Development and approximately $643 thousand from the Special Incentives Fund for building improvements.

Gain on sale of properties and insurance recoveries in 2011 amounted to approximately $10.4 million, an increase of approximately $6.5 million or 165.46% from prior year. Such increase is directly related to approximately $9.8 of realized gains on sale of capital assets and $649 thousand of undistributed proceeds from sales of assets. Net investment and interest income in 2011 amounted to approximately $3.3 million, an increase of approximately $1.4 million or 71.05% from prior year. Such increase is directly related with increase in interest income earned from in deposits in sinking funds.

Year Ended June 30, 2010 versus June 30, 2009

In overall, PRIDCO's revenue decreased by approximately $11 million or 15.41% mostly as a result of a decrease in rent billing net of provisions of approximately $2.8 million, a reduction in other nonoperating income and rent penalties of approximately $5.8 million and an increase in bad debt expenses of approximately $1.3 million.

Operating expenses decreased by $17.7 million or 22.60% mostly as a result of the decrease of expenses related to litigation matters of approximately $16.2 million related to several land expropriation cases and a decrease on general and administrative expenses of approximately $2.9 million of which repair and maintenance comprise approximately $2.7 million.

Nonoperating expenses during 2010 amounted to approximately $16.7 million, a decrease of approximately $1.4 million, mostly composed of interest incurred related with the bonds and with the line of credit, which amounted to approximately $15.1 million and $1 million respectively.

Capital contributions amounted to approximately $7 million as PRIDCO received approximately $4.7 million in contributions from the Special Incentives Fund for building improvements related to economic development projects and a $2.2 million reimbursement from the Economic Development Agency ("EDA") in relation with the construction of the Bioprocess Development and Training Complex ("BDTC") in Mayagüez.

In addition, PRIDCO received a one-time $2.1 million transfer from PRIIF as approved by the Board of Directors to be used for maintenance and repairs of deteriorated PRIDCO properties.

Gain on sale of properties and insurance recoveries in 2010 amounted to approximately $3.9 million, a decrease of $5.2 million or 57.02% from prior year. Such decrease is directly related to approximately $4.5 million of insurance recoveries and $500 thousand of undistributed proceeds from sales of assets received in 2008.

Financial Analysis of PRIICO on a Separate Basis (in thousands):

	June 30,		Change	
	2011	2010	In dollars	Percent
Current assets	$ 102,332	$ 77,753	$ 24,579	31.61%
Capital assets, net	14,026	14,722	(696)	(4.73)%
Other noncurrent assets	-	1,246	(1,246)	(100.00)%
Total assets	$ 116,358	$ 93,721	$ 22,637	24.15%
Current liabilities	63,927	48,285	15,642	32.40%
Noncurrent liabilities	92,727	78,528	14,199	18.08%
Total liabilities	156,654	126,813	29,841	23.53%
Net assets:				
Invested in capital assets, Net of related debt	14,026	14,722	(696)	(4.73)%
Deficit	(54,322)	(47,814)	(6,508)	13.61%
Total net assets/(deficit)	(40,296)	(33,092)	(7,204)	21.77%
Total liabilities and net assets	$ 116,358	$ 93,721	$ 22,637	24.15%

	June 30,		Change	
	2010	2009	In dollars	Percent
Current assets	$ 77,185	$ 71,005	$ 6,180	8.70%
Capital assets, net	15,968	15,423	545	3.53%
Other noncurrent assets	568	1,814	(1,246)	(68.69)%
Total assets	$ 93,721	$ 88,242	$ 5,479	6.21%
Current liabilities	48,285	35,447	12,838	36.22%
Noncurrent liabilities	78,528	79,328	(800)	(1.01)%
Total liabilities	126,813	114,775	12,038	10.49%
Net assets:				
Invested in capital assets, Net of related debt	14,722	15,423	(701)	(4.55)%
Deficit	(47,814)	(41,956)	(5,858)	13.96%
Total net assets/(deficit)	(33,092)	(26,533)	(6,559)	24.72%
Total liabilities and net assets	$ 93,721	$ 88,242	$ 5,479	6.21%

Analysis of Net Assets of PRIICO at June 30, 2011 and 2010

PRIICO (Puerto Rico Industrial Investment Company) is the owner of the building that PRIDCO and other related and unrelated entities lease. PRIICO also enters in financial leasingS to facilitate the promotion and development of certain industries. Total assets increased by approximately $22.6 million or 24.15% ($116.4 million in 2011 versus $93.8 million in 2010), mostly due to an increase in amounts due from PRIDCO of $24 million or 31.05% ($77 million in 2010 to $100.9 million in 2011), mostly related with addition of building with the origination of loan payable with financial institution in the amount of approximately $21.4 million. In this transaction, PRIICO records the loan and the amount due from PRIDCO as the capital asset and the rent collections are recorded in PRIDCO. Also, there was a decrease in the lease financing receivables of approximately $568 thousand due to collection, during the year, and a decrease in net capital asset of approximately $696.

Current liabilities increased by approximately $15.6 million or 32.40% ($48.3 million in 2010 to $63.9 million in 2011) mostly due to an increase in amounts due to PRIDCO of $14.3 million or 33.28% ($42.9 million in 2010 to $57.2 million in 2011) mostly due to the payments of long term debt made by PRIDCO on behalf of PRIICO amounting to approximately $5.8 million and $5.8 million in principal and interest portion, respectively. Such long term debt corresponds to several loan agreements in which PRIDCO serves as guarantor as well as the owner of the property. The remaining $2.7 million correspond to approximately $1.2 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO, approximately $1.0 million of administrative expense charges, and approximately $476 thousand in cash advances.

Net assets invested in capital assets, net of related debt, represent the capital assets less the incurred debt amounted to $14 million as of June 30, 2011, a decrease of approximately $696 thousand related to the depreciation expense of $707 thousand and an additions of capital assets of approximately $11 thousand.

Analysis of Net Assets of PRIICO at June 30, 2010 and 2009

Total assets increased by approximately $5.5 million or 6.21% ($93.7 million in 2010 versus $88.2 million in 2009) mostly due to an increase in amounts due from PRIDCO of $6.7 million or 9.53% ($70.2 million in 2009 to $77 million in 2010) related to rent income as per a new buy/leaseback entered into with a tenant amounting to $4.4 million during the year ended at June 30, 2010. PRIICO records the loan and the amount due from PRIDCO as the capital asset and the rent collections are recorded in PRIDCO.

Current liabilities increased by approximately $12.8 million mostly due to the payments of long term debt made by PRIDCO on behalf of PRIICO amounting to approximately $4.8 million and $4.9 million in principal and interest portion, respectively. Such long term corresponds to several loan agreements in which PRIDCO serves as guarantor as well as the owner of the property. The remaining $3.1 million correspond to approximately $2.1 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO plus $1 million of administrative charges.

Net assets invested in capital assets, net of related debt, represent the capital assets less the incurred debt amounted to $14.7 million as of June 30, 2010, a decrease of approximately $701 thousand mostly related to the depreciation expense of $707 thousand.

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

	Year Ended June 30, 2011	Year Ended June 30, 2010	Change Amount	Change Percent
Operating revenues -				
Rental income	$ 1,836	$ 1,666	$ 170	10.20%
Non operating revenues -				
Net investment and interest income	88	102	(14)	(13.73)%
Total revenues	1,924	1,768	156	8.82%
Operating expenses:				
Administrative, general, and other expenses	2,232	1,970	262	13.30%
Depreciation and amortization	707	707	-	0.00%
Maintenance and repairs	377	653	(276)	(42.27)%
Total operating expenses	3,316	3,330	(14)	(0.42)%
Operating loss	(1,392)	(1,562)	170	(10.88)%
Nonoperating expenses - interest expense	5,812	4,997	815	16.31%
Change in net assets	(7,204)	(6,559)	(645)	9.83%
Net deficit, beginning of year	(33,092)	(26,533)	(6,559)	24.72%
Net deficit, end of year	$ (40,296)	$ (33,092)	$ (7,204)	21.77%

	Year Ended June 30, 2010	Year Ended June 30, 2009	Change Amount	Change Percent
Operating revenues -				
Rental income	$ 1,666	$ 3,672	$ (2,006)	(54.63)%
Non operating revenues -				
Net investment and interest income	102	136	(34)	(25.00)%
Total revenues	1,768	3,808	(2,040)	(53.57)%
Operating expenses:				
Administrative, general, and other expenses	1,970	1,800	170	9.44%
Depreciation and amortization	707	709	(2)	(0.28)%
Maintenance and repairs, net	653	418	235	56.22%
Total operating expenses	3,330	2,927	403	13.77%
Operating income/(loss)	(1,562)	881	(681)	(77.30)%
Nonoperating expenses - interest expense	(4,997)	(5,323)	326	(6.12)%
Change in net assets	(6,559)	(4,442)	(2,117)	47.66%
Net deficit, beginning of year	(26,533)	(22,091)	(4,442)	20.11%
Net deficit, end of year	$ (33,092)	$ (26,533)	$ (6,559)	24.72%

Year Ended June 30, 2011 versus June 30, 2010

In overall, PRIICO's total revenue increased by approximately $170 thousand, or 10.20% mostly as a result of a review of the office space footage which resulted in an increase of rent charged to PRIDCO and the Department of Economic Development. Other tenants include the Rums of Puerto Rico and the Occupational Development Council among others.

Operating expenses decreased by approximately $14 thousand or 0.42% mostly as a net result of the increase on general and administrative expenses of approximately $262 thousand ($2.2 million in 2011 versus $1.9 million in 2010), mostly related to an increase in utilities expenses of approximately $155 thousand and increase in insurance expense of approximately $55 thousand, and a decrease in repair and maintenance of approximately $276 thousand or 42.27%.

Non-operating expenses decreased by approximately $815 thousand related to the net result of increase of interest due to new loan payable issued during the year ended June 30, 2011 in the amount of approximately $21.4 million and an overall decrease of the interest portions of notes and loans payable made during the year ended June 30, 2011.

Year Ended June 30, 2010 versus June 30, 2009

In overall, PRIICO's total revenue decreased by approximately $2 million, or 54.63% mostly as a result of a review of the office space footage which resulted in a decrease of PRIDCO's rent expense share. Other tenants include the Department of Economic Development, Rums of Puerto Rico and the Occupational Development Council among others.

Operating expenses increased by $403 thousand or 13.77% mostly as a result of the increase on general and administrative expenses related to an increase in utilities expenses of approximately $179 ($727 thousand in 2010 versus $548 thousand in 2009). Also, repair and maintenance increased as per an increase in maintenance of building areas of approximately $234 thousand or 55.98%.

Non-operating expenses decreased by approximately $326 thousand related to the decrease of the interest portions of notes and loans payable made during the year ended June 30, 2010.

Financial Analysis of PRIIF on a Separate Basis (in thousands):

	June 30,		Change	
	2011	2010	In dollars	Percent
Total assets	$ 865	$ 261	$ 604	231.42%
Total liabilities	8	8	-	0.00%
Unrestricted net assets	857	253	604	238.74%
Total liabilities and net assets	$ 865	$ 261	$ 604	231.42%

	June 30,		Change	
	2010	2009	In dollars	Percent
Current assets	$ 261	$ 1,934	$ (1,673)	(86.50)%
Other noncurrent assets	-	527	(527)	(100.00)%
Total assets	$ 261	$ 2,461	$ (2,200)	(89.39)%
Total liabilities	8	8	-	0.00%
Unrestricted net assets	253	2,453	(2,200)	(89.69)%
Total liabilities and net assets	$ 261	$ 2,461	$ (2,200)	(89.39)%

Analysis of Net Assets of PRIIF at June 30, 2011 and 2010

PRIIF (Puerto Rico Industrial Incentives Fund) 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 has been limited economic activity within this fund during the past two years.

Total assets increased by approximately $604 thousand mostly due to the collections of an outstanding notes receivable balances of approximately $418 thousand and recognition of account receivable of approximately $178 thousand related with dividend income.

Analysis of Net Assets of PRIIF at June 30, 2010 and 2009

Total assets decreased by approximately $2.2 million due to the collection of an outstanding note receivable of approximately $2.1 million. This amount was transferred subsequently to PRIDCO in relation to a property repair program as per approval of the Board of Directors as of June 30, 2010.

Changes in net assets information for PRIIF are presented below (in thousands):

	Year Ended June 30,		Change	
	2011	2010	In dollars	Percent
Nonoperating revenues:				
Interest income/(expense)	186	(50)	236	(472.00)%
Other income	418	-	418	100.00%
Income/(loss) before capital contributions	604	(50)	654	(1308.00)%
Capital contributions to PRIDCO	-	(2,150)	2,150	(100.00)%
Change in net assets	604	(2,200)	2,804	(127.45)%
Net assets, beginning of year	253	2,453	(2,200)	(89.69)%
Net assets, end of year	$ 857	$ 253	$ 604	238.74%

	Year Ended June 30,		Change	
	2010	2009	In dollars	Percent
Industrial incentives and grants	$ -	$ 130	$ (130)	(100.00)%
Nonoperating revenue -				
Interest (expense)/income	(50)	156	(206)	(132.05)%
(Loss)/income before capital contributions	(50)	26	76	292.31%
Capital contributions to PRIDCO	(2,150)	(2,695)	545	(20.22)%
Change in net assets	(2,200)	(2,669)	469	(17.57)%
Net assets, beginning of year	2,453	5,122	(2,669)	(52.11)%
Net assets, end of year	$ 253	$ 2,453	$ (2,200)	(89.69)%

Year Ended June 30, 2011 versus June 30, 2010

Nonoperating revenues increased approximately $654 thousand mostly related to dividend income of approximately $186 thousand earned during the year ended June 30, 2011 and recoveries of allowance for doubtful accounts of approximately $418 thousand.

Capital contributions to PRIDCO decreased by approximately $2.1 million taking in consideration that for the year ended June 30, 2011, the Board of Directors approved a transfer from PRIIF to PRIDCO to be used for the Immediate Rescue Plan, a light repair program for selected deteriorated PRIDCO properties. This transfer did not occurred for the year ended June 30, 2011.

Year Ended June 30, 2010 versus June 30, 2009

As can be noted above, the economic activity of PRIIF has been limited in terms of the industrial incentives granted in the past. Basically, PRIIF only granted $130 thousand as industrial incentives during the year ended June 30, 2009, as the granting of incentives shifted from PRIIF to the Special Incentives Fund and the Special Fund for Economic Development, both funds of the Commonwealth and administered by PRIDCO. As such, PRIIF's contributions to PRIDCO remained comparable from 2009 to 2010 and therefore being the cause for the overall decrease in net assets.

The net asset information for PRIDCOM on a separate basis is presented below (in thousands):

	June 30,		Change	
	2011	2010	In dollars	Percent
Capital assets	$ 4,000	$ 4,000	$ -	(0.00)%
Total assets	$ 4,000	$ 4,000	$ -	(0.00)%
Net assets invested in capital assets	$ 4,000	4,000	-	(0.00)%
Total net assets	$ 4,000	$ 4,000	$ -	(0.00)%

	June 30,		Change	
	2010	2009	In dollars	Percent
Capital assets	$ 4,000	$ 4,000	$ -	(0.00)%
Total assets	$ 4,000	$ 4,000	$ -	(0.00)%
Net assets invested in capital assets	$ 4,000	4,000	-	(0.00)%
Total net assets	$ 4,000	$ 4,000	$ -	(0.00)%

PRIDCO held's and investment in PRIDCOM of $4 million that represents the value of the net assets of PRIDCOM and a 100% ownership. PRIDCOM is presented as a separate blended component unit in these financial statements, taking in consideration that represents a separate legal entity for which PRIDCO is considered to be financially accountable. PRIDCOM had no operations during the years ended June 30, 2011 and 2010.

Capital Assets:

PRIDCO's investment in capital assets as of June 30, 2011 and 2010 amounted to approximately $673.4 million and $703.7 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, 2011 and 2010, PRIDCO invested approximately \$26.1 million, and \$7.5 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 9 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, 2011 and 2010, PRIDCO had approximately \$237.5 and \$248.9 million, respectively, in outstanding bonds, including the current portion of \$12.7 million and \$11.8 million at June 30, 2011 and 2010, respectively.

The credit rating of PRIDCO's public debt is "BBB-", as determined by Standards & Poor's in October 2007 and "BAA1", as determined by Moody's Investor Services on April 16, 2010. Detailed information regarding long-term debt activity is included in Note 11 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.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET ASSETS (IN THOUSANDS)
JUNE 30, 2011

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Eliminations and Reclassifications	Total Reporting Entity
ASSETS						
Current assets:						
Cash and cash equivalents	$ 4,134	$ 18	$ 687	$ -	$ -	$ 4,839
Sinking fund, restricted	10,033	-	-	-	-	10,033
Rent and accounts receivable, net	26,584	-	178	-	-	26,762
Interest receivable	-	-	-	-	-	-
Notes receivables, current portion	318	-	-	-	-	318
Lease financing receivables, current portion	-	1,246	-	-	-	1,246
Prepaid expenses	1,799	156	-	-	-	1,955
Due from the Commonwealth	42,943	-	-	-	-	42,943
Due from other funds	57,229	100,912	-	-	(158,141)	-
Total current assets	143,040	102,332	865	-	(158,141)	88,096
Noncurrent assets:						
Notes receivable, noncurrent portion	335	-	-	-	-	335
Sinking fund reserve accounts, at accreted cost, restricted	41,435	-	-	-	-	41,435
Investment in equity securities, at cost	4,093	-	-	-	(4,000)	93
Deferred bond issue costs	2,070	-	-	-	-	2,070
Capital assets, net	655,420	14,026	-	4,000	-	673,446
Property held for sale	44,332	-	-	-	-	44,332
Total noncurrent assets	747,685	14,026	-	4,000	(4,000)	761,711
Total assets	$ 890,725	$ 116,358	$ 865	$ 4,000	$ (162,141)	$ 849,807
LIABILITIES AND NET ASSETS						
Current liabilities:						
Current portion of:						
Loans and notes payable to commercial banks	$ -	$ 6,569	$ -	$ -	$ -	$ 6,569
Due to PR Land Administration	1,306	-	-	-	-	1,306
Bonds payable	12,680	-	-	-	-	12,680
Obligations under capital leases	121	-	-	-	-	121
Notes payable to Government Development Bank	88,532	-	-	-	-	88,532
Contract retentions	1,542	15	-	-	-	1,557
Accrued interest	3,762	-	-	-	-	3,762
Accounts payable and other accrued liabilities	27,514	114	8	-	-	27,636
Termination benefits accrual, current portion	577	-	-	-	-	577
Due to the Commonwealth	7,669	-	-	-	-	7,669
Deferred credits	1,587	-	-	-	-	1,587
Due to other funds	100,912	57,229	-	-	(158,141)	-
Total current liabilities	246,202	63,927	8	-	(158,141)	151,996
Noncurrent liabilities:						
Bonds payable	224,824	-	-	-	-	224,824
Obligations under capital leases	164	-	-	-	-	164
Termination benefits accrual, noncurrent portion	8,622	-	-	-	-	8,622
Loans and notes payable to commercial banks	-	92,727	-	-	-	92,727
Rent and other deposits	9,840	-	-	-	-	9,840
Total noncurrent liabilities	243,450	92,727	-	-	-	336,177
Total liabilities	489,652	156,654	8	-	(158,141)	488,173
Net assets:						
Invested in capital assets, net of related debt	416,325	14,026	-	4,000	(58,322)	376,029
Restricted	35,026	-	-	-	-	35,026
Unrestricted/(deficit)	(50,278)	(54,322)	857	-	54,322	(49,421)
Total net assets/(deficit)	401,073	(40,296)	857	4,000	(4,000)	361,634
Total liabilities and net assets	$ 890,725	$ 116,358	$ 865	$ 4,000	$ (162,141)	$ 849,807

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 NET ASSETS (IN THOUSANDS)
JUNE 30, 2010

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Eliminations and Reclassifications	Total Reporting Entity
ASSETS						
Current assets:						
Cash and cash equivalents	$ 8,975	$ 27	$ 261	$ -	$ -	$ 9,263
Sinking fund, restricted	10,028	-	-	-	-	10,028
Rent and accounts receivable, net	30,081	-	-	-	-	30,081
Interest receivable	24	-	-	-	-	24
Notes receivables, current portion	224	-	-	-	-	224
Lease financing receivables, current portion	-	568	-	-	-	568
Prepaid expenses	1,704	156	-	-	-	1,860
Due from the Commonwealth	43,403	-	-	-	-	43,403
Due from other funds	42,939	77,002	-	-	(119,941)	-
Total current assets	137,378	77,753	261	-	(119,941)	95,451
Noncurrent assets:						
Notes receivable, noncurrent portion	228	-	-	-	-	228
Sinking fund reserve accounts, at accreted cost, restricted	38,350	-	-	-	-	38,350
Investment in equity securities, at cost	15,986	-	-	-	(4,000)	11,986
Deferred bond issue costs	2,355	-	-	-	-	2,355
Lease financing receivables, noncurrent portion	-	1,246	-	-	-	1,246
Capital assets, net	684,987	14,722	-	4,000	-	703,709
Property held for sale	18,534	-	-	-	-	18,534
Total noncurrent assets	760,440	15,968	-	4,000	(4,000)	776,408
Total assets	$ 897,818	$ 93,721	$ 261	$ 4,000	$ (123,941)	$ 871,859
LIABILITIES AND NET ASSETS						
Current liabilities:						
Current portion of:						
Loans and notes payable to commercial banks	$ -	$ 5,137	$ -	$ -	$ -	$ 5,137
Due to PR Land Administration	1,306	-	-	-	-	1,306
Bonds payable	11,875	-	-	-	-	11,875
Obligations under capital leases	175	-	-	-	-	175
Notes payable to Government Development Bank	90,070	-	-	-	-	90,070
Contract retentions	2,163	10	-	-	-	2,173
Accrued interest	4,161	-	-	-	-	4,161
Accounts payable and other accrued liabilities	33,427	199	8	-	-	33,634
Due to the Commonwealth	19,244	-	-	-	-	19,244
Deferred credits	2,035	-	-	-	-	2,035
Due to other funds	77,002	42,939	-	-	(119,941)	-
Total current liabilities	241,458	48,285	8	-	(119,941)	169,810
Noncurrent liabilities:						
Bonds payable	237,090	-	-	-	-	237,090
Obligations under capital leases	172	-	-	-	-	172
Loans and notes payable to commercial banks	-	78,528	-	-	-	78,528
Rent and other deposits	10,977	-	-	-	-	10,977
Total noncurrent liabilities	248,239	78,528	-	-	-	326,767
Total liabilities	489,697	126,813	8	-	(119,941)	496,577
Net assets:						
Invested in capital assets, net of related debt	434,369	14,722	-	4,000	(51,814)	401,277
Restricted	32,342	-	-	-	-	32,342
Unrestricted/(deficit)	(58,590)	(47,814)	253	-	47,814	(58,337)
Total net assets/(deficit)	408,121	(33,092)	253	4,000	(4,000)	375,282
Total liabilities and net assets	$ 897,818	$ 93,721	$ 261	$ 4,000	$ (123,941)	$ 871,859

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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2011

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Eliminations and Reclassifications	Total Reporting Entity
Operating revenues -						
Rental income, substantially from industrial properties, net	$ 66,419	$ 1,836	$ -	$ -	$ (487)	$ 67,768
Operating expenses:						
Salaries and wages	16,417	-	-	-	-	16,417
Administrative and general	15,133	2,232	-	-	(487)	16,878
Depreciation and amortization	21,457	707	-	-	-	22,164
Impairment loss	1,296	-	-	-	-	1,296
Maintenance and repairs, net	4,898	377	-	-	-	5,275
Total operating expenses, net	59,201	3,316	-	-	(487)	62,030
Operating income/(loss)	7,218	(1,480)	-	-	-	5,738
Nonoperating revenues/(expenses):						
Net gain on sale of properties and insurance recoveries	10,454	-	-	-	-	10,454
Net investment income	3,144	-	186	-	-	3,330
Interest income on loans	176	88	-	-	-	264
Interest expense	(19,385)	(5,812)	-	-	-	(25,197)
Amortization of debt issue costs	(295)	-	-	-	-	(295)
Other income	-	-	418	-	-	418
Total nonoperating (expenses)/revenues	(5,906)	(5,724)	604	-	-	(11,026)
(Loss)/income before contributions and special item	1,312	(7,204)	604	-	-	(5,288)
Capital contribution - Special Incentives Fund	643	-	-	-	-	643
Capital contribution - Special Fund for Economic Development	323	-	-	-	-	323
Special item - early retirement termination benefits	(9,326)	-	-	-	-	(9,326)
Change in net assets	(7,048)	(7,204)	604	-	-	(13,648)
Net assets/(deficit), beginning of year	408,121	(33,092)	253	4,000	(4,000)	375,282
Net assets/(deficit), end of year	$ 401,073	$ (40,296)	$ 857	$ 4,000	$ (4,000)	$ 361,634

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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2010

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Eliminations and Reclassifications	Total Reporting Entity
Operating revenues -						
Rental income, substantially from industrial properties, net	$ 60,935	$ 1,666	$ -	$ -	$ (416)	$ 62,185
Operating expenses:						
Salaries and wages	16,749	-	-	-	-	16,749
Administrative and general	15,408	1,970	-	-	(416)	16,962
Depreciation and amortization	21,365	707	-	-	-	22,072
Impairment loss	1,663	-	-	-	-	1,663
Maintenance and repairs, net	5,577	653	-	-	-	6,230
Total operating expenses, net	60,762	3,330	-	-	(416)	63,676
Operating income/(loss)	173	(1,664)	-	-	-	(1,491)
Nonoperating revenues/(expenses):						
Net gain on sale of properties and insurance recoveries	3,938	-	-	-	-	3,938
Net investment income	1,695	-	-	-	-	1,695
Interest income/(expense) on loans	246	102	(50)	-	-	298
Interest expense	(16,483)	(4,997)	-	-	-	(21,480)
Amortization of debt issue costs	(284)	-	-	-	-	(284)
Total nonoperating expenses	(10,888)	(4,895)	(50)	-	-	(15,833)
Loss before contributions and transfers	(10,715)	(6,559)	(50)	-	-	(17,324)
Capital contribution - Special Incentives Fund	4,735	-	-	-	-	4,735
Capital contributions - U.S. Government	2,264	-	-	-	-	2,264
Transfers	2,150	-	(2,150)	-	-	-
Change in net assets	(1,566)	(6,559)	(2,200)	-	-	(10,325)
Net assets/(deficit), beginning of year	409,687	(26,533)	2,453	4,000	(4,000)	385,607
Net assets/(deficit), end of year	$ 408,121	$ (33,092)	$ 253	$ 4,000	$ (4,000)	$ 375,282

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)
FOR THE YEAR ENDED JUNE 30, 2011

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Total Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash collected from rental income	$ 65,410	$ 1,836	$ -	$ -	$ 67,246
Cash paid for salaries and benefits	(24,192)	-	-	-	(24,192)
Cash paid for supplies and services	(18,298)	(2,689)	-	-	(20,987)
Net cash provided by/(used in) operating activities	22,920	(853)	-	-	22,067
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from sale of property and insurance recoveries	18,283	-	-	-	18,283
Payments of capital assets	(3,661)	(11)	-	-	(3,672)
Payments of notes and loans payable	-	(5,800)	-	-	(5,800)
Payments of obligations under capital leases	(141)	-	-	-	(141)
Payments of bonds payable	(11,885)	-	-	-	(11,885)
Interest paid	(19,382)	(5,812)	-	-	(25,194)
Net cash used in capital and related financing activities	(16,786)	(11,623)	-	-	(28,409)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
Net payments from/(to) blended component units	(11,811)	11,811	-	-	-
Net cash (used in)/provided by noncapital and related financing activities	(11,811)	11,811	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net change in sinking fund - redemption and bond service accounts	(3,090)	-	-	-	(3,090)
Interest collected on investments and loans and other nonoperating revenue	3,547	88	8	-	3,643
Collections from notes receivables	379	-	418	-	797
Collections from lease financing agreement	-	568	-	-	568
Net cash provided by investing activities	836	656	426	-	1,918
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,841)	(9)	426	-	(4,424)
CASH AND CASH EQUIVALENTS, beginning of year	8,975	27	261	-	9,263
CASH AND CASH EQUIVALENTS, end of year	$ 4,134	$ 18	$ 687	$ -	$ 4,839

Continues

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS (IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2011

Continued

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Total Reporting Entity
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/(USED IN) OPERATING EXPENSES:					
Operating loss, including special item of early retirement termination benefits	(2,108)	(1,480)	-	-	(3,588)
Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities:					
Depreciation and amortization expense	21,457	707	-	-	22,164
Impairment loss on capital assets	1,296	-	-	-	1,296
Allowance for doubtful accounts	42	-	-	-	42
Decrease in accounts receivable and deposits	(1,051)	-	-	-	(1,051)
Increase in other assets	(95)	-	-	-	(95)
Increase in termination benefits accrual	9,199	-	-	-	9,199
Decrease in accounts payable and accrued liabilities	(5,820)	(80)	-	-	(5,900)
Net cash provided by/(used in) operating activities	22,920	(853)	-	-	22,067
SUPPLEMENTAL CASH FLOW INFORMATION:					
Accretion of bonds payable	413	-	-	-	413
Amortization of bond discount	11	-	-	-	11
Capital contributions - Special Incentives Fund	643	-	-	-	643
Capital contributions - Special Fund for Economic Development	323	-	-	-	323
Capital asset addition through loan payable to commercial bank	21,431	(21,431)	-	-	-
Capital additions through obligations under capital leases	79	-	-	-	79
Reclassification of property held for sale as capital assets	18,534	-	-	-	18,534
Increase in line of credit with GDB and amount due form Commonwealth	460	-	-	-	460
Redemption of investment in equity securities and related decrease in Due to Commonwealth	11,615	-	-	-	11,615
Impairment of investment in equity securities	278	-	-	-	278
Rent and accounts receivable written-off	18,907	-	-	-	18,907
Recoveries of doubtful notes receivable	-	-	-	-	418

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS (IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2010

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Total Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash collected from rental income	$ 69,732	$ -	$ -	$ -	$ 69,732
Cash paid for salaries and benefits	(18,513)	-	-	-	(18,513)
Cash paid for supplies and services	(27,494)	(1,078)	-	-	(28,572)
Net cash provided by/(used in) operating activities	23,725	(1,078)	-	-	22,647
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from sale of property and insurance recoveries	4,450	-	-	-	4,450
Contributions from the U.S. Government	2,264	-	-	-	2,264
Payments of capital assets	(2,049)	(7)	-	-	(2,056)
Payments of notes and loans payable	-	(4,779)	-	-	(4,779)
Payments of obligations under capital leases	(175)	-	-	-	(175)
Payments of bonds payable	(17,050)	-	-	-	(17,050)
Interest paid	(16,683)	(4,997)	-	-	(21,680)
Net cash used in capital and related financing activities	(29,243)	(9,783)	-	-	(39,026)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
Net payments from/(to) blended component units	(8,028)	10,178	(2,150)	-	-
Net cash (used in)/provided by noncapital and related financing activities	(8,028)	10,178	(2,150)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net change in sinking fund - redemption and bond service accounts	4,176	-	-	-	4176
Interest collected on investments and loans and other nonoperating revenue	1,971	102	147	-	2220
Collections from notes receivables	(222)	-	2,112	-	1890
Collections from lease financing agreement	-	537	-	-	537
Net cash provided by investing activities	5,925	639	2,259	-	8,823
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(7,621)	(44)	109	-	(7,556)
CASH AND CASH EQUIVALENTS, beginning of year	16,596	71	152	-	16,819
CASH AND CASH EQUIVALENTS, end of year	$ 8,975	$ 27	$ 261	$ -	$ 9,263

Continues

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS (IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2010

Continued

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Investment Development Company	Total Reporting Entity
RECONCILIATION OF OPERATINGINCOME/(LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING EXPENSES:					
Operating income/(loss)	173	(1,664)	-	-	(1,491)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used in) operating activities:					
Depreciation and amortization expense	21,365	707	-	-	22,072
Impairment loss on capital assets	1,663	-	-	-	1,663
Increase in accounts receivable and deposits	8,337	-	-	-	8,337
Increase in other assets	(149)	(56)	-	-	(205)
Decrease in accounts payable and accrued liabilities	(7,664)	(107)	-	-	(7,771)
Net cash provided by/(used in) operating activities	23,725	(1,120)	-	-	22,605
SUPPLEMENTAL CASH FLOW INFORMATION:					
Accretion of bonds payable	377	-	-	-	377
Amortization of bond discount	9	-	-	-	9
Capital contributions - Special Incentives Fund	4,735	-	-	-	4,735
Capital asset addition through loan payable to commercial bank	4,400	(4,400)	-	-	-
Capital additions through obligations under capital leases	209	-	-	-	209
Reclassification of property held for sale as capital assets	14,614	-	-	-	14,614
Increase in loan payable	-	41	-	-	41
Increase in line of credit with GDB and amount due form Commonwealth	718	-	-	-	718

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

1. REPORTING ENTITY AND BASIS OF PRESENTATION

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.

These financial statements present PRIDCO and its blended component units. Component units are entities for which PRIDCO is considered to be financially accountable. The following component units are reported as blended component units of PRIDCO.

Puerto Rico Industrial Investment Corporation ("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.

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.

Puerto Rico Investment Development Company ("PRIDCOM") owns certain land premises located in Mayagüez. These land facilities are leased to third parties by PRIDCO. PRIDCO holds an investment in PRIDCOM of $4 million that represents the value of the net assets of PRIDCOM and a 100% ownership.

The balances and transactions of the component units discussed above have been blended with those of the PRIDCO because, while legally separate, they were created and can be dissolved through resolutions of the PRIDCO's Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying basic financial statements of PRIDCO are reported using the economic resources measurement focus and the accrual basis of accounting. PRIDCO has elected not to apply Financial Accounting Standards Board Statements and interpretations issued subsequent to November 30, 1989.

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.

Concentration of Credit Risk – PRIDCO maintains cash on deposit with high rated financial institutions and with the Puerto Rico Treasury Department. The laws of the Commonwealth of Puerto Rico require public funds deposited in commercial banks to be collateralized by the bank when funds exceed the amount 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 of Puerto Rico. Deposits with the Governmental Development Bank of

Puerto Rico are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the bank; the entity would not recover its deposits.

Cash Equivalents - PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents. At June 30, 2010, cash equivalents amounted to approximately $4.3 million, and represent two time deposits with two financial institutions. One of the time deposits amounted to approximately $314 thousand and bears interest at 0.65%. The other time deposit amounted to $4 million and bears interest at 1.30%. There were no cash equivalents as of June 30, 2011.

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.

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 estimated losses on rent receivable, 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 collectibility 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 years ended June 30, 2011 and 2010.

Interfund Balances - Interfund receivables and payables balances and transactions have been eliminated from the basic financial statements.

Restricted Assets - Restricted assets at June 30, 2011 and 2010, consist of sinking fund to be used for the payment of debt service and sinking fund requirements, and are composed of the following (in thousands):

	2011	2010
Debt service and sinking funds	$ 51,468	$ 48,378

Liabilities payable from restricted assets consist of the following:

	2011	2010
Bonds payable within one year	$ 12,680	$ 11,875
Interest payable	3,762	4,161
	16,442	16,036
Net restricted assets	$ 35,026	$ 32,342

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

During the years ended June 30, 2011 and 2010, PRIDCO performed an assessment of impairment on capital assets. 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 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. Management determined and recorded an impairment of approximately $1.3 million and $1.7 million for the years ended June 30, 2011 and 2010, respectively. Insurance recoveries have been presented as nonoperating revenue.

In addition, PRIDCO follows the provisions of GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," which addresses accounting and financial reporting standards for 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. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as postclosure care.

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 and Guayama) 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.

At June 30, 2011 and 2010, PRIDCO's reserve for environmental liabilities amounted to $3.8 million and $4 million, respectively, and was reported as part of accounts payable and other accrued liabilities. In addition to the cases outlined above, PRIDCO has taken vigorous actions to identify any other potential claims or liability arising from environmental deficiencies and has provided in the accompanying statement of net assets as of June 30, 2011 and 2010 for any of these deficiencies where a probable loss is foreseen.

Operating Revenue and Expenses - PRIDCO distinguishes operating revenue and expenses from nonoperating 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 nonoperating revenue and expenses.

Revenue Recognition:

Rental Income

Income from rental activities related to industrial properties is reported as revenue on the accrual basis over the term of the leases. Most of the leases are in effect cancelable, subject to penalty in case of early termination.

Non-exchange Transactions

Non-exchange transactions consist of intergovernmental grants, including contributions in aid for construction, mainly from various agencies of the Government of the United States and the Commonwealth.

Contributions received by PRIDCO for construction during the years ended June 30, 2011 and 2010, amounted to as follows (in thousands):

	2011	2010
Capital contributions - Special Incentives Funds	$ 643	$ 4,735
Capital contributions - Special Fund for Economic Development	323	-
Capital contributions - U.S. Government	-	2,264
	$ 966	$ 6,999

Industrial Incentives Granted by PRIIF - Industrial incentives are granted to businesses qualifying for financial assistance or to motivate and encourage investment of foreign corporations in Puerto Rico. There were no incentives disbursements during the years ended June 30, 2011 and 2010.

Debt Issue Costs - Debt issue costs are amortized to expense over the term of the debt to which they relate using a method substantially equivalent to the interest method.

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.

As per Law Number 156 of August 20, 1996, for fiscal years beginning on or after July 1, 1997, 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 subject to 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.

Termination Benefits - The Company accounts for termination benefits in accordance with the provisions of GASB No. 47, Accounting for Termination Benefits, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Subsequent Events - The Company has evaluated the impact of subsequent events through March 2, 2012, which is the date that these financial statements were available to be issued.

Reclassifications - For purposes of comparability, certain reclassifications have been made in the 2010 financial statements to conform to the 2011 financial statements presentation.

3. SINKING FUND

As of June 30, 2011, the Company 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, 2011 and 2010, investments held by said sinking fund and respective contractual maturities are as follows:

	June 30, 2011				
	Due Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasury Bonds	$ -	$ -	$ 17,166	$ 24,231	$ 41,397
Money Market Funds - U.S. Bank Trust National Association	10,071	-	-	-	10,071
Total	$ 10,071	$ -	$ 17,166	$ 24,231	$ 51,468

	June 30, 2010				
	Due Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasury Bonds	$ -	$ -	$ 16,453	$ 21,859	$ 38,312
Money Market Funds - U.S. Bank Trust National Association	10,066	-	-	-	10,066
Total	$ 10,066	$ -	$ 16,453	$ 21,859	$ 48,378

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 quality rating for investments held in sinking fund as of June 30, 2011and 2010, are as follows:

	2011	
	Credit Risk Rating	
Counterparty	**Standard & Poors**	**Moody's**
U.S. Bank Trust National Association	AA-	Aa1
U.S. Treasury Bonds	AAA	Aaa

	2010	
	Credit Risk Rating	
Counterparty	**Standard & Poors**	**Moody's**
U.S. Bank Trust National Association	AA-	Aa2
U.S. Treasury Bonds	AAA	Aaa

4. 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. SIDCO's only project consists of a facility in Guayama, which was reconstructed, remodeled, and 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, 2011 and 2010, summarized information regarding SIDCO's assets follows (in thousands):

	2011	2010
Current assets	$ 518	$ 491
Land and plant	90,118	90,118
Total assets	90,636	90,609
Contribution by pharmaceutical company	(89,485)	(89,372)
Other liabilities	(710)	(799)
Investment in SIDCO, net	$ 441	$ 438

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.

5. RENT AND ACCOUNTS RECEIVABLE

Rent and accounts receivable as of June 30, 2011 and 2010, consist of the following (in thousands):

	2011	2010
Rent receivable	$ 29,146	$ 53,813
Loans receivable	8,785	10,155
Others	23,700	16,478
Total	$ 61,631	$ 80,446
Less: Allowance for doubtful accounts	(34,869)	(50,365)
Rent and accounts receivable, net	$ 26,762	$ 30,081

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts during the years ended June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Allowance for doubtful accounts, beginning of year	$ 50,365	$ 47,376
Plus: Provision of doubtful accounts	3,411	2,989
Less: Accounts written-off	(18,907)	-
Allowance for doubtful accounts, end of year	$ 34,869	$ 50,365

7. NOTES RECEIVABLE

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIIF to qualifying exempt businesses for the purpose of partially financing the acquisition of machinery and working capital needs and a note receivable from a third party for investment commissions. Notes receivable as of June 30, 2011 and 2010 consist of the following (in thousands):

	2011	2010
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%.	$ 138	$ 452
Non-interest bearing note receivable from third party in the original amount of $580 thousand, payable in monthly installments of $15 thousand beginning on September 1, 2010 through August 31, 2013, and monthly installments of $416 hundred beginning on September 1, 2013 through August 31, 2021.	515	-
	653	452
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 8% during the term of the loan. This note is due in monthly installments of $1 thousand commencing on December 1, 2003 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. Balance was fully reserved.	439	460
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. Balance was fully reserved.	452	454
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 9% during the term of the loan. This note is due in monthly installments of $4 thousand commencing on December 1, 2003 over a 10-year period. Balance was fully reserved as of June 30, 2010 and fully collected during the year ended June 30, 2011.	-	398
	891	1,312
Total	1,544	1,764
Less allowance for doubtful accounts	(891)	(1,312)
Less current maturities	(318)	(224)
Notes receivable, noncurrent portion	$ 335	$ 228

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

8. LEASE FINANCING RECEIVABLE

PRIICO leases certain building premises located in Caguas to a pharmaceutical company. This lease was classified as a lease financing receivable, which expires in the fiscal year ended June 30, 2012.The components of PRIICO's investment in direct financing leases at June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Minimum lease payments receivable	273	927
Residual value	1,000	1,000
	1,273	1,927
Less: Unearned income	(27)	(113)
Net investment in direct financing leases	$ 1,246	$ 1,814

Unearned income is amortized to lease income by the interest method using a constant periodic rate over the lease term.

9. INTERFUND BALANCES AND TRANSACTIONS

Following is a summary of the interfund balances as of June 30, 2011 and 2010 (in thousands):

Receivable by	Payable by	Purpose	2011	2010
PRIDCO	PRIICO	Administrative and operating expenses	$ 57,229	$ 42,939
PRIICO	PRIDCO	Rent receivable	36,927	35,090
PRIICO	PRIDCO	Other tenant rent receivable	63,985	41,912
			$ 158,141	$ 119,941

10. INVESTMENTS IN EQUITY SECURITIES

Investments in equity securities are stated at cost and are mostly composed of common and preferred stock shares in private entities. As of June 30, 2010, investments in equity securities were mostly composed of preferred shares amounting to $11.9 million acquired through advances received from the Special Fund for Economic Development ("FEDE", for its Spanish acronym) in relation to an Agreement for Research and Development Incentive Funds with the Hewlett Packard Technology Center, Inc. ("HPTC") located in Aguadilla, which is related to Hewlett Packard, a worldwide renowned technology company. On October 31, 2010, PRIDCO entered into a Master Agreement for Termination of Agreement for Research and Development Incentives Funds with HPTC. As a result, PRIDCO agreed to redeem the $11.6 million preferred stock outstanding in cancellation of a balance due to FEDE. During the years ended June 30, 2011 and 2010, PRIDCO performed an assessment of impairment on investments in equity securities and did not consider investments in equity securities to be other-than-temporarily impaired.

11. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2011 and 2010 consist of the following (in thousands):

	June 30, 2011			
	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	$ 161,167	$ 12,099	$ (36,826)	$ 136,440
Land on leased projects	68,980	282	(325)	68,937
Construction in progress	1,477	1,684	(1,947)	1,214
Total capital assets not being depreciated	231,624	14,065	(39,098)	206,591
Capital assets being depreciated:				
Buildings and improvements	740,696	31,381	(19,605)	752,472
Machinery and equipment	66,420	1,077	(189)	67,308
Furniture and vehicles	13,663	86	(17)	13,732
Total capital assets being depreciated	820,779	32,544	(19,811)	833,512
Less accumulated depreciation for:				
Buildings and improvements	(313,371)	(18,621)	5,739	(326,253)
Machinery and equipment	(46,035)	(3,454)	184	(49,305)
Furniture and vehicles	(8,010)	(1,119)	4	(9,125)
Total accumulated depreciation	(367,416)	(23,194)	5,927	(384,683)
Total capital assets being depreciated, net	453,363	9,350	(13,884)	448,829
Total capital assets, net	$ 684,987	$ 23,415	$ (52,982)	$ 655,420

PRIDCO evaluated its capital assets for impairment and recorded a provision of approximately $1.3 million which is included as an addition to accumulated depreciation.

	June 30, 2010			
	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	$ 169,040	$ 3,730	$ (11,603)	$ 161,167
Land on leased projects	67,805	1,896	(721)	68,980
Construction in progress	377	3,077	(1,977)	1,477
Total capital assets not being depreciated	237,222	8,703	(14,301)	231,624
Capital assets being depreciated:				
Buildings and improvements	727,848	22,922	(10,074)	740,696
Machinery and equipment	65,049	1,483	(112)	66,420
Furniture and vehicles	13,643	154	(134)	13,663
Total capital assets being depreciated	806,540	24,559	(10,320)	820,779
Less accumulated depreciation for:				
Buildings and improvements	(297,663)	(18,799)	3,091	(313,371)
Machinery and equipment	(43,107)	(3,036)	108	(46,035)
Furniture and vehicles	(6,955)	(1,193)	138	(8,010)
Total accumulated depreciation	(347,725)	(23,028)	3,337	(367,416)
Total capital assets being depreciated, net	458,815	1,531	(6,983)	453,363
Total capital assets, net	$ 696,037	$ 10,234	$ (21,284)	$ 684,987

PRIDCO evaluated its capital assets for impairment and recorded a provision of approximately $1.7 million which is included as an addition to accumulated depreciation.

	June 30, 2011			
	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated -				
Land on leased projects	$ 830	$ -	$ -	$ 830
Total capital assets not being depreciated	830	-	-	830
Capital assets being depreciated:				
Buildings and improvements	22,661	-	-	22,661
Machinery and equipment	8,325	10	-	8,335
Total capital assets being depreciated	30,986	10	-	30,996
Less accumulated depreciation for:				
Buildings and improvements	(11,958)	(651)	-	(12,609)
Machinery and equipment	(5,136)	(55)	-	(5,191)
Total accumulated depreciation	(17,094)	(706)	-	(17,800)
Total capital assets being depreciated, net	13,892	(696)	-	13,196
Total capital assets, net	$ 14,722	$ (696)	$ -	$ 14,026

	June 30, 2010			
	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated -				
Land on leased projects	$ 830	$ -	$ -	$ 830
Total capital assets not being depreciated	830	-	-	830
Capital assets being depreciated:				
Buildings and improvements	22,661	-	-	22,661
Machinery and equipment	8,886	7	(568)	8,325
Total capital assets being depreciated	31,547	7	(568)	30,986
Less accumulated depreciation for:				
Buildings and improvements	(11,307)	(651)	-	(11,958)
Machinery and equipment	(5,079)	(57)	-	(5,136)
Total accumulated depreciation	(16,386)	(708)	-	(17,094)
Total capital assets being depreciated, net	15,161	(701)	(568)	13,892
Total capital assets, net	$ 15,991	$ (701)	$ (568)	$ 14,722

12. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2011 and 2010 consist of the following (in thousands):

	June 30, 2011			
	PRIDCO	PRIICO	PRIIF	TOTAL
Accounts payable	$ 7,670	$ 114	$ 8	$ 7,792
Compensated absences	5,299	-	-	5,299
Accrued payroll related expenses	366	-	-	366
Legal liabilities	6,775	-	-	6,775
Environmental liabilities	3,804	-	-	3,804
Other accrued liabilities	3,600	-	-	3,600
Total	$ 27,514	$ 114	$ 8	$ 27,636

	June 30, 2010			
	PRIDCO	PRIICO	PRIIF	TOTAL
Accounts payable	$ 7,926	$ 199	$ 8	$ 8,133
Compensated absences	5,485	-	-	5,485
Accrued payroll related expenses	2,061	-	-	2,061
Legal liabilities	11,787	-	-	11,787
Environmental liabilities	4,026	-	-	4,026
Other accrued liabilities	2,142	-	-	2,142
Total	$ 33,427	$ 199	$ 8	$ 33,634

13. DUE FROM/TO THE COMMONWEALTH

Amounts Due from the Commonwealth as of June 30, 2011 and 2010 consist of the following (in thousands):

Receivable from	Purpose	2011	2010
Special Incentives Fund	Funds provided for granting industrial incentives	$ 42,943	$ 43,403

Amounts Due to the Commonwealth as of June 30, 2011 and 2010 consist of the following (in thousands):

Payable to	Purpose	2011	2010
Special Fund for Economic Development	Advance for acquisition of investment securities	$ 300	$ 11,914
Rums of Puerto Rico Fund	Operating advances	7,369	7,075
Special Incentives Fund	Operating advances	-	255
		$ 7,669	$ 19,244

These funds 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.

14. LINES OF CREDIT AND LONG-TERM DEBT ACTIVITY

Lines of credit and long-term debt activity for the years ended June 30, 2011 and 2010 were as follows (in thousands):

	June 30, 2011					
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 249,297	$ -	$ 413	$ (11,885)	$ 237,825	$ 12,680
Less: Bond discount	(332)	-	-	11	(321)	(12)
Subtotal	248,965	-	413	(11,874)	237,504	12,668
Notes payable to GDB	90,070	-	-	(1,538)	88,532	88,532
Obligations under capital leases	347	79	-	(141)	285	121
Total	$ 339,382	$ 79	$ 413	$ (13,553)	$ 326,321	$ 101,321

	June 30, 2010					
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 265,984	$ -	$ 377	$ (17,064)	$ 249,297	$ 11,885
Less: Bond discount	(346)	-	-	14	(332)	(11)
Subtotal	265,638	-	377	(17,050)	248,965	11,874
Notes payable to GDB	90,928	718	-	(1,576)	90,070	90,070
Obligations under capital leases	312	210	-	(175)	347	172
Total	$ 356,878	$ 928	$ 377	$ (18,801)	$ 339,382	$ 102,116

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

	June 30, 2011				
	PRIICO				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans and notes payable	$ 83,665	$ 21,435	$ (5,804)	$ 99,296	$ 6,569

	June 30, 2010				
	PRIICO				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans and notes payable	$ 84,003	$ 4,441	$ (4,779)	$ 83,665	$ 5,137

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

	2011	2010
Term loan payable in 156 monthly installments of $53 thousand including interest and is due on January 2012. The loan bears interest at 5.10% and is jointly and severally guaranteed by PRIDCO.	$ 374	$ 977
Term loan payable in 180 monthly installments of $137 thousand including interest and is due on March 2018. The loan bears interest at 6.98% and is jointly and severally guaranteed by PRIDCO.	15,215	15,806
Term loan payable in 179 monthly installments of $118 thousand including interest, bearing interest at 5.46% and a final balloon payment due on October 2019. The loan is jointly and severally guaranteed by PRIDCO.	9,598	10,457
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 on December 2024. The loan bears interest at 6.06% and is jointly and severally guaranteed by PRIDCO.	12,172	12,722
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 on December 2024. The loan bears interest at 6.061% and is jointly and severally guaranteed by PRIDCO.	7,886	8,249
Term loan payable in monthly installments of $56 thousand including interest and is due on August 2016. The loan bears interest at 5.26% and is jointly and severally guaranteed by PRIDCO.	3,058	3,558
Term loan payable in 180 monthly installments of $268 thousand including interest with a balloon payment for the remainder balance including interest due on June 2022 . The loan bears interest at 6.06% and is jointly and severally guaranteed by PRIDCO.	25,948	27,524
Term loan payable in 119 monthly installments of $38 thousand including interest and a last balloon payment due on February 2020. The loan bears interest at 8.45% and is jointly and severally guaranteed by PRIDCO.	4,287	4,372
Term loan payable in 138 monthly installments of $208 thousand including interest with a balloon payment for the remainder balance including interest due on June 2022 . The loan bears interest at 5.38% and is jointly and severally guaranteed by PRIDCO.	20,758	-
Total debt	99,296	83,665
Less current maturities	(6,569)	(5,137)
Loans and notes payable to commercial banks, noncurrent portion	$ 92,727	$ 78,528

Notes payable to the Government Development Bank for Puerto Rico ("GDB") are comprised of four line of credit agreements with outstanding principal of approximately $88 and $90 million as of June 30, 2011 and 2010, respectively.

- The first agreement represents a 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. The note bears interest at 125 basis points over 90-day LIBOR revised on a quarterly basis, with a floor rate of 5.00%. The note was due in December 2008 and 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.

- The remaining three notes payable are for providing industrial incentives under the Special Incentives Fund, a fund of the Commonwealth which is administered by PRIDCO, and as such, is excluded from PRIDCO's financial statements. Repayments for these notes are provided by the Commonwealth under legislative appropriations and are due on June 30, 2018 bearing interest at 7%. The outstanding balance amounted to approximately $43 million as of June 30, 2011 and 2010, respectively. Since these lines of credit are payable from resources to be provided by the Commonwealth, PRIDCO has recorded an amount due from Commonwealth of approximately $43 at June 30, 2011 and 2010, respectively.

Amounts due to the Puerto Rico Land Administration as of June 30, 2011 and 2010 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
2012	$ 6,569	$ 5,951	$ 12,520	$ 121	$ 9	$ 130
2013	6,574	5,562	12,136	75	5	80
2014	6,994	5,139	12,133	59	3	62
2015	7,412	4,793	12,205	23	1	24
2016	7,860	4,268	12,128	7	-	7
2017 to 2021	50,681	11,686	62,367	-	-	-
2022 to 2026	13,206	1,050	14,256	-	-	-
	$ 99,296	$ 38,449	$ 137,745	$ 285	$ 18	$ 303

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.

In addition, in connection with the fiscal years 1998 and 2003 bond issuances, certain debt issue costs amounting to approximately $2.7 million were deferred. These deferred issue costs are being amortized over the average terms of the 1998 and 2003 bonds, respectively, following a method substantially equivalent to the interest method. At June 30, 2011 and 2010, deferred debt issue costs amounted to approximately $2.1 million and $2.3 million, respectively.

Revenue refunding and general purpose revenue bonds outstanding at June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Revenue Refunding Bonds and General Purpose Revenue Bonds:		
Series A 1997:		
Term bonds, 6.60%, due on July 1, 2011	$ 6,140	$ 18,025
Term bonds, 6.70%, due on July 1, 2015	54,845	54,845
Term bonds, 6.75%, due on July 1, 2021	21,405	21,405
Series B 1997, 5.375%, due on July 1, 2016	16,910	16,910
Series 2003 General Purpose Revenue Bonds:		
Serial Bonds, 5.10% to 5.15% due July 1, 2017 and 2018	2,395	2,395
Capital appreciation bonds, implicit interest rates of 5.15% to 5.20%, due on July 1, 2017 and July 1, 2018.	7,974	7,550
Term Bonds, 5.20%, due on July 1, 2023	48,925	48,925
Term Bonds, 5.25%, due on July 1, 2028	78,910	78,910
	237,504	248,965
Less current maturities	(12,680)	(11,875)
Bonds payable - noncurrent	$ 224,824	$ 237,090

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, 2011 are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
2012	$ 12,680	$ 12,999	$ 25,679
2013	13,530	12,147	25,677
2014	14,445	11,233	25,678
2015	13,890	10,257	24,147
2016	17,895	9,286	27,181
2017 to 2021	51,325	43,099	94,424
2022 to 2026	69,340	21,411	90,751
2027 to 2031	41,960	3,361	45,321
	235,065	$ 123,793	$ 358,858
Plus: Accreted discount	2,760		
Less: Deferred amounts -			
Bond discount	(321)		
Total	$ 237,504		

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, 2011 and 2010, are payable in monthly installments of principal and interest ranging from $129 to $1,902 through the year 2016. The obligations under capital leases are secured by the corresponding office equipment and bear interest at rates ranging from 3.90% to 4.00%.

15. 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 nonoccupational disability up to a maximum benefit of 50% of the average compensation. However, for nonoccupational 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. PRIDCO is required to contribute 9.275% of its employees' gross salaries.

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.

Funding Policy

Contribution requirements are established by law and are as follows:

PRIDCO	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to $6,600
	8.275% of gross salary over $6,600
Hired on or after April 1, 1990	8.275% of gross salary

PRIDCO's contractually required contributions for the years ended June 30, 201, 2010 and 2009, amounted to approximately $1.3 million, for each year. The percentage of PRIDCO's required contributions were equal to the ones actually made to the System for the years ended June 30, 2011, 2010, and 2009.

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, 2011. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

• Investments Rate of Return	7.5% a year
• Payroll growth	3.0% per year
• Mortality	RP 2000 Mortality Rates
• Disability	Adjusted 1987 Commissioners Group Disability Table
• Retirement age	Graded scale of retirement ages
• Proportion of participants with spouses	50% of participants assumed to be married, with wives assumed to be four years younger than husbands

Additional information on the System is provided in its financial statements for the years ended June 30, 2009 and 2008, 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.

16. TERMINATION BENEFITS

During the 2010-11 fiscal year, the Legislature of the Commonwealth of Puerto Rico approved the Act No. 70 of July 2, 2010 related with a one-time retirement incentive program (the "Program") for all regular employees of the Central Government Agencies and certain Public Corporations. The program includes various options to incentivize early retirement and retirement incentives for employees eligible for retirement 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:

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

	Years of Service	Compensation
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

Article 4(b) provides, 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 Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both 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 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover 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, 2011, the future incentive payments reported as expense and liability were approximately \$9.3 million and \$9.2 million, respectively. The expense is included as part of administrative and general expenses in the in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2011. The liability is included as part of the termination benefits accrual in the accompanying statement of net assets as of June 30, 2011.

As of June 30, 2011, 17 employees were included in the program. During fiscal year 2011, payments to retired employees under this plan totaled approximately \$127 thousand for retirement compensation and approximately \$34 thousand for medical insurance coverage.

17. COMMITMENTS

Construction Program

For the fiscal year ending June 30, 2012, PRIDCO estimates to invest approximately \$10 million 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, the Economic Development Special Fund, 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 Fund, 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 costs approximated \$11.3 million as of June 30, 2009. For the years ended June 30, 2011 and 2010, 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 (The Company). 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 The Company and total expenditures amounted to $672 thousand. The Company has not made any contribution during the years ended June 30, 2011 and 2010.

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 $351 and $347 thousand in 2011and 2010, respectively. Said office space is shared with GDB, the Company, 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 are as follows (in thousands):

Year Ending June 30,	**PRIDCO**	**Other**	**Total Rent**
2012	$ 307	$ 532	$ 839
2013	315	546	861
2014	323	560	883
2015	323	560	883
Thereafter	2,507	4,335	6,842
	$ 3,775	$ 6,533	$ 10,308

18. 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, 2011 and 2010 amounted to approximately $6.8 million and $11.8 million, respectively.

During the year ended June 30, 2009, PRIDCO recorded $14.1 million as part of the legal reserve for the payment of land expropriated in the Municipality of Canóvanas as ordered by the Puerto Rico Department of Justice. The final legal settlement was for $7.25 million. During the year ended June 30, 2011, PRIDCO made partial payments amounting to approximately $5.25 million as agreed in legal settlement related with such order and the remaining balance of $2 million will be fully paid no later than June 30, 2012.

19. 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.

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
FOR THE YEAR ENDED JUNE 30, 2011 (IN THOUSANDS)

			U.S. Bank Trust Indenture Sinking Fund	
	Total	General Fund	Principal and Interest	Reserve Account
Balance at June 30, 2010	$ 57,353	$ 8,975	$ 10,028	$ 38,350
Cash (used in)/provided by operating activities	22,918	(2,750)	25,668	-
Sale of property and equipment and land held for improvement of sale	18,283	18,283	-	-
Additions to capital assets	(3,661)	(3,661)	-	-
Payment of bonds, due on July 1, 2010 and January 1, 2011	(11,885)	-	(11,885)	-
Payment of interest	(19,382)	(5,598)	(13,784)	-
Payment of note and capital lease obligations	(141)	(141)	-	-
Collections from notes receivable	379	379	-	-
Interest collected	3,549	458	6	3,085
Net payments to component units	(11,811)	(11,811)	-	-
Balance at June 30, 2011	$ 55,602	$ 4,134	$ 10,033	$ 41,435
Balance at June 30, 2011 represented by:				
Cash and cash equivalents and available for operations	$ 4,134	$ 4,134	$ -	$ -
Cash and cash equivalents held by the Trustee	10,033	-	10,033	-
Investment in U.S. Treasury bond strips, held by the Trustee, at market value	41,435	-	-	41,435
	$ 55,602	$ 4,134	$ 10,033	$ 41,435