

***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, 2013 and 2012, and Other  
Supplementary Information for the Year ended  
June 30, 2013 and Independent Auditors' Report*

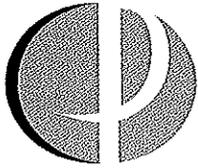
***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***

*Basic Financial Statements, Required Supplementary Information  
And Other Supplementary Information*

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**Table of Contents**

	<u>Page</u>
<b>Independent Auditors' Report</b>	2
<b>Required Supplementary Information –</b>	
Management's Discussion and Analysis	4
<b>Basic Financial Statements:</b>	
Statement of Net Position:	
– June 30, 2013	19
– June 30, 2012	20
Statements of Revenue, Expenses, and Changes in Net Position:	
– Year Ended June 30, 2013	21
– Year Ended June 30, 2012	22
Statements of Cash Flows:	
– Year Ended June 30, 2013	23
– Year Ended June 30, 2012	25
Notes to Basic Financial Statements	27
<b>Other Supplementary Information –</b>	
Schedule of Changes in Cash and Sinking Fund per Trust Indenture Year Ended June 30, 2013	54



**PARISSI P.S.C.**

Certified Public Accountants, Tax & Business Advisors

## **Independent Auditors' Report**

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

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, 2013, and the related notes to the financial statements, which collectively comprise PRIDCO's basic financial statements 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 audits. The financial statements for the year ended June 30, 2012 were audited by other auditors whose report expressed an unqualified opinion on those statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the Puerto Rico Industrial Development Company as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

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

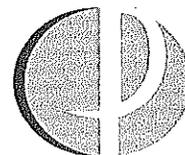
*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Puerto Rico Industrial Development Company's basic financial statements. The schedule of changes in cash and sinking fund per trust indenture for the year ended June 30, 2013, included on page 54 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.

*Taussi PSC*

December 5, 2013

Stamp No. E88584 was affixed  
to the original of this report  
License No. 88 expires December 1, 2014.



***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis (Unaudited)***  
***Years Ended June 30, 2013 and 2012***

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, 2013 and 2012. These financial statements include the financial position and results of operations of PRIDCO and its blended component units, the Puerto Rico Industrial Investment, Corp. (PRIICO) and the Puerto Rico Industrial Incentives Fund (PRIIF). This report includes management's discussion and analysis, the independent auditors' report, the basic financial statements, the notes that explain in more detail the information contained in the financial statements, and a supplemental schedule, which is not a required part of the basic financial statements.

***Financial Analysis of PRIDCO as a Whole***

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

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

	June 30,		Change	
	2013	2012	In dollars	Percent
Current assets	\$ 53,359	\$ 71,362	\$ (18,003)	(25.23)%
Capital assets, net	667,350	681,745	(14,395)	(2.11)%
Other noncurrent assets	69,333	76,002	(6,669)	(8.77)%
Total assets	<u>790,042</u>	<u>829,109</u>	<u>(39,067)</u>	<u>(4.71)%</u>
Current liabilities	142,133	169,080	(26,947)	(15.94)%
Noncurrent liabilities	290,883	301,075	(10,192)	(3.39)%
Total liabilities	<u>433,016</u>	<u>470,155</u>	<u>(37,139)</u>	<u>(7.90)%</u>
Net position:				
Net investment in capital assets	400,294	393,160	7,134	1.81%
Restricted	20,810	26,080	(5,270)	(20.21)%
Deficit	(64,078)	(60,286)	(3,792)	6.29%
Total net position	<u>357,026</u>	<u>358,954</u>	<u>(1,928)</u>	<u>(0.54)%</u>
Total liabilities and net position	<u>\$ 790,042</u>	<u>\$ 829,109</u>	<u>\$ (39,067)</u>	<u>(4.71)%</u>

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis (Unaudited)***  
***Years Ended June 30, 2013 and 2012***

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

	Year Ended June 30,		Change	
	2013	2012	Amount	Percent
Operating revenues:				
Rental income	\$ 62,763	\$ 63,118	\$ (355)	(0.56)%
Nonoperating revenues:				
Net gain on sale of properties and insurance recoveries	4,331	18,389	(14,058)	(76.45)%
Net investment and interest income	364	10,438	(10,074)	(96.51)%
Total nonoperating revenues	4,695	28,827	(24,132)	(83.71)%
Total revenues	67,458	91,945	(24,487)	(26.63)%
Operating expenses:				
Salaries and wages	18,124	16,213	1,911	11.79%
Administrative, general, and other expenses	23,473	24,167	(694)	(2.87)%
Depreciation and amortization	20,589	20,942	(353)	(1.69)%
Impairment loss	—	1,702	(1,702)	(100.00)%
Total operating expenses	62,186	63,024	(838)	(1.33)%
Nonoperating expenses - interest and amortization of debt issue cost	21,937	25,039	(3,102)	(12.39)%
Total expenses	84,123	88,063	(3,940)	(4.47)%
(Loss)/ income before capital contributions and special item	(16,665)	3,882	(20,547)	(529.29)%
Capital contributions	16,136	2,258	13,878	614.61%
Special item - early retirement termination benefits	(1,399)	(442)	(957)	216.52%
Change in net position	(1,928)	5,698	(7,626)	(133.84)%
Net position, beginning of year	358,954	353,256	5,698	1.61%
Net position, end of year	\$ 357,026	\$ 358,954	\$ (1,928)	(0.54)%

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

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***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis (Unaudited)***  
***Years Ended June 30, 2013 and 2012***

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

	June 30,		Change	
	2013	2012	In dollars	Percent
Current assets	\$ 140,336	\$ 143,457	(3,121)	(2.18)%
Capital assets, net	653,216	666,941	(13,725)	(2.06)%
Other noncurrent assets	69,333	76,002	(6,669)	(8.77)%
<b>Total assets</b>	<b>862,885</b>	<b>886,400</b>	<b>(23,515)</b>	<b>(2.65)%</b>
Current liabilities	240,040	265,705	(25,665)	(9.66)%
Noncurrent liabilities	211,769	214,917	(3,148)	(1.46)%
<b>Total liabilities</b>	<b>451,809</b>	<b>480,622</b>	<b>(28,813)</b>	<b>(5.99)%</b>
Net position:				
Net investment in capital assets	454,516	440,156	14,360	3.26%
Restricted	20,810	26,080	(5,270)	(20.21)%
Deficit	(64,250)	(60,458)	(3,792)	6.27%
<b>Total net position</b>	<b>411,076</b>	<b>405,778</b>	<b>5,298</b>	<b>1.31%</b>
<b>Total liabilities and net position</b>	<b>\$ 862,885</b>	<b>\$ 886,400</b>	<b>(23,515)</b>	<b>(2.65)%</b>

	June 30,		Change	
	2012	2011	In dollars	Percent
Current assets	\$ 143,457	\$ 143,040	\$ 417	0.29%
Capital assets, net	666,941	691,374	(24,433)	(3.53)%
Other noncurrent assets	76,002	47,933	28,069	58.56%
<b>Total assets</b>	<b>886,400</b>	<b>882,347</b>	<b>4,053</b>	<b>0.46%</b>
Current liabilities	265,705	246,202	19,503	7.92%
Noncurrent liabilities	214,917	243,450	(28,533)	(11.72)%
<b>Total liabilities</b>	<b>480,622</b>	<b>489,652</b>	<b>(9,030)</b>	<b>(1.84)%</b>
Net position:				
Net investment in capital assets	440,156	452,279	(12,123)	(2.68)%
Restricted	26,080	35,026	(8,946)	(25.54)%
Deficit	(60,458)	(94,610)	34,152	(36.10)%
<b>Total net position</b>	<b>405,778</b>	<b>392,695</b>	<b>13,083</b>	<b>3.33%</b>
<b>Total assets and liabilities</b>	<b>\$ 886,400</b>	<b>\$ 882,347</b>	<b>\$ 4,053</b>	<b>0.46%</b>

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis (Unaudited)***  
***Years Ended June 30, 2013 and 2012***

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**Analysis of Net Position at June 30, 2013 and 2012**

As of June 30, 2013, net position of \$411.1 million is composed of \$455 million of net investment in capital assets, \$20.8 million restricted and a deficit of \$64.3 million. Total net position changed from \$405.8 million to \$411.1 million, an increase of approximately \$5.3 million or 1.3%. Current assets decreased by approximately \$3.1 million or 2.2%. The sinking fund decreased approximately \$21.3 million because PRIDCO reduced its funding for the payment of debt to the necessary funding requirement. In addition, PRIDCO invested \$9 million of excess cash on hand in certificates of deposits. Amounts due from other funds increased approximately \$14.9 million as PRIDCO continues to fund the activities of PRIICO. Finally, PRIDCO collected \$2 million of notes receivable outstanding.

Net investment in capital assets increased by approximately \$14.4 million or 3.3%, mostly from construction in progress of \$9.2 million, and additional capital assets acquisition for \$1.5 million. The remaining change comes from the payment of debt related to capital asset acquisition. Restricted position is mainly composed of amounts deposited in the sinking fund for payment of bonds payable. Restricted position decreased by approximately \$5.3 million or 20.21%, mostly as a net result of a decrease in the current portion of bonds payable of approximately \$20.3 million, decrease in investments held in sinking funds of approximately \$26.5 million, and a decrease in the interest payable on bonds payable of \$950 thousand. As a result of financial measure, the deficit increased to \$64.3 million in 2013 from \$60.4 million in 2012.

**Analysis of Net Position at June 30, 2012 and 2011**

As a result of an internal review of PRIDCO's capital assets information during 2012, management discovered that capital assets had been misstated, mainly due an overstatement related to material errors related with unrecorded sales and retirements of capital assets completed before June 30, 2010 and understatement related with materials errors related with unrecorded additions of capital assets completed before June 30, 2010. The cumulative effect of the correction of these errors was to decrease the beginning balances as of June 30, 2010 of capital assets, total assets, and net position invested in capital assets, net of related debt for approximately \$8.4 million.

As of June 30, 2012, net position of \$405.8 million are composed of \$440.2 million invested in capital assets, net of related debt, \$26.1 million restricted and a deficit of \$60.5 million. Total net position changed from \$392.7 million to \$405.8 million, an increase of approximately \$13.1 million or 3.33%.

Net investment in capital assets decreased by approximately \$12.1 million or 2.68%, mostly as a net result of a decrease in bonds payable of approximately \$12.7 million, additions of capital assets of approximately \$7.4 million, retirements of capital assets of approximately \$12.3 million, and the effect of depreciation and amortization expense for the year ended June 30, 2012 of approximately \$20.3 million. Restricted position is mainly composed of amounts deposited in the sinking fund for payment of bonds payable. Restricted position decreased by approximately \$8.9 million or 25.54%, mostly as a net result of an increase in the current portion of bonds payable of approximately \$15.9 million, increase in investments held in sinking funds of approximately \$6.5 million, and a decrease in the interest payable on bonds payable of approximately \$416 thousand.

**Puerto Rico Industrial Development Company**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Management's Discussion and Analysis (Unaudited)**  
**Years Ended June 30, 2013 and 2012**

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

	Year Ended		Change	
	2013	2012	Amount	Percent
Operating revenues:				
Rental income	\$ 61,366	\$ 61,609	\$ (243)	(0.39)%
Nonoperating revenues:				
Net gain on sale of properties and insurance recoveries	4,331	18,389	(14,058)	(76.45)%
Net investment and interest income	361	9,889	(9,528)	(96.35)%
Total nonoperating revenues	4,692	28,278	(23,586)	(83.41)%
Total revenues	66,058	89,887	(23,829)	(26.51)%
Operating expenses:				
Salaries and wages	18,124	16,213	1,911	11.79%
Administrative, general, and other expenses	21,084	22,059	(975)	(4.42)%
Depreciation and amortization	19,904	20,263	(359)	(1.77)%
Impairment loss	—	1,702	(1,702)	(100.00)%
Total operating expenses	59,112	60,237	(1,125)	(1.87)%
Nonoperating expenses - interest and amortization of debt issue cost	16,385	19,076	(2,691)	(14.11)%
Total expenses	75,497	79,313	(3,816)	(4.81)%
(Loss)/ income before capital contributions and special item	(9,439)	10,574	(20,013)	(189.27)%
Capital contributions	16,136	2,258	13,878	614.61%
Transfers from PRIIF	—	693	(693)	100.00%
Special item - early retirement termination benefits	(1,399)	(442)	(957)	216.52%
Change in net position	5,298	13,083	(7,785)	(59.50)%
Net position, beginning of year	405,778	392,695	13,083	3.33%
Net position, end of year	\$ 411,076	\$ 405,778	\$ 5,298	1.31%

**Year Ended June 30, 2013 versus June 30, 2012**

Rental income decreased by approximately \$243 thousand or 0.39% as PRIDCO continue its efforts to increase occupation in its facilities. Net gain on sale of properties decreased approximately \$14 million, or 76%, as a result of PRIDCO's decision to discontinue its program to sell properties. Current management decided to change this strategy by renting existing available facilities, under different arrangements, rather than selling the facilities.

Operating expenses decreased by approximately \$1.1 million or 1.9%, mostly as a net results of increase of salaries and wages of approximately \$1.9 million, a decrease in depreciation and amortization of approximately \$360 thousand, a decrease in administrative, general, and other expenses of approximately \$1 million, and a decrease in impairment loss on capital assets of approximately \$1.7 million. The increase in salaries and wages is mostly due to a retroactive salary increase and new employees hired by PRIDCO. The retroactive salary increase considered the years from 2009 to 2013. The decrease in administrative, general and other expenses is mostly due to a net result of a decrease of approximately \$1.5 million related to consulting and professional fees, increase in pension fund costs of approximately \$760 thousand, increase in provision for environmental matters of \$2.4

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis (Unaudited)***  
***Years Ended June 30, 2013 and 2012***

---

million, increase in travel, lodging and mileage expenses of approximately \$390 thousand, decrease in electricity expenses of approximately \$181 thousand, decrease in legal expenses of approximately \$294 thousand, decrease in repairs and maintenance expenses of approximately \$1.6 million, decrease in the management fees paid to the Department of Economic Development and Commerce of approximately \$735 thousand.

The retroactive salary increase considered the years from 2009 to 2013. The decrease in administrative, general and other expenses is mostly due to a net result of a decrease of approximately \$1.5 million related to consulting and professional fees, increase in pension fund costs of approximately \$760 thousand, increase in provision for environmental matters of \$2.4 million, increase in travel, lodging and mileage expenses of approximately \$390 thousand, decrease in electricity expenses of approximately \$181 thousand, decrease in legal expenses of approximately \$294 thousand, decrease in repairs and maintenance expenses of approximately \$1.6 million, decrease in the management fees paid to the Department of Economic Development and Commerce of approximately \$735 thousand, and a decrease in the interest expense allocations made to the Special Incentives Fund for approximately \$382 thousand.

Non-operating expenses for the year ended June 30, 2013 amounted to approximately \$16.4 million, a decrease of approximately \$2.7 million, mostly composed of interest incurred related with the bonds and with the notes payable to the Government Development Bank for Puerto Rico, which amounted to approximately \$11 million and \$5.1 million, respectively.

Special item associated with early retirement termination benefits of approximately \$1.4 million and \$442 thousand for years ended June 30, 2013 and 2012 respectively, 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 Commonwealth for all regular employees of the Central Government Agencies and certain Public Corporations. The increase from 2012 resulted from one additional employee that entered into the program before the closing of the selection period. Capital contributions for the year ended June 30, 2013, amounted to approximately \$16.1 million as PRIDCO received approximately \$15.8 million in contributions from the Special Fund for Economic Development and approximately \$360 thousand from the Special Incentives Fund for building constructions and improvements. Gain on sale of properties and insurance recoveries in 2013 amounted to approximately \$4.3 million, a decrease of approximately \$14 million or 76.5% from prior year. Net investment and interest income in 2013 amounted to approximately \$361 million, a decrease of approximately \$9.5 million or 96.35% from prior year. This decrease is directly related with decrease in interest income earned from deposits in sinking funds.

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**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2013 and 2012

	Year Ended June 30,		Change	
	2012	2011	Amount	Percent
Operating revenues:				
Rental income	\$ 61,609	\$ 66,419	\$ (4,810)	(7.24)%
Nonoperating revenues:				
Net gain on sale of properties and insurance recoveries	18,389	10,454	7,935	75.90%
Net investment and interest income	9,889	3,320	6,569	197.86%
Total nonoperating revenues	28,278	13,774	14,504	105.30%
Total revenues	89,887	80,193	9,694	12.09%
Operating expenses:				
Salaries and wages	16,213	16,417	(204)	(1.24)%
Administrative, general, and other expenses	22,059	20,031	2,028	10.12%
Depreciation and amortization	20,263	21,457	(1,194)	(5.56)%
Impairment loss	1,702	1,296	406	31.33%
Total operating expenses	60,237	59,201	1,036	1.75%
Nonoperating expenses - interest and amortization of debt issue cost	19,076	19,680	(604)	(3.07)%
Total expenses	79,313	78,881	432	0.55%
Income before capital contributions and special item	10,574	1,312	9,262	705.95%
Capital contributions	2,258	966	1,292	133.75%
Transfers	693	—	693	100.00%
Special item - early retirement and voluntary separation plan	(442)	(9,326)	8,884	(95.26)%
Change in net position	13,083	(7,048)	20,131	(285.63)%
Net position, beginning of year	392,695	399,743	(7,048)	(1.76)%
Net position, end of year	\$ 405,778	\$ 392,695	\$ 13,083	3.33%

**Year Ended June 30, 2012 versus June 30, 2011**

In overall, PRIDCO's revenues decreased by approximately \$4.8 million or 7.24%, mostly as a result of a decrease in rental income of approximately \$1.5 million, a decrease in other nonoperating income and rent penalties of approximately \$492 thousand, and an increase in bad debt expense of approximately \$2.8 million.

Operating expenses increased by approximately \$1 million or 1.75%, mostly as a net results of decrease of salaries and wages of approximately \$204 thousand, a decrease in depreciation and amortization of approximately \$1.2 million, an increase in administrative, general, and other expenses of approximately \$2 million, and an increase in impairment loss on capital assets of approximately \$406 thousand. The increase in administrative, general and other expenses is mostly due to a net result of a decrease of approximately \$873 thousand related to consulting and professional fees, decrease in pension fund costs of approximately \$942 thousand, increase in provision for environmental matters of \$280 thousand, increase in electricity expenses of approximately \$514 thousand related with the overall increase in petroleum costs, increase in legal expenses of approximately \$523 thousand, increase in insurance expense of approximately \$283 thousand, increase in repairs and maintenance and other of \$1.9 million, decrease in the management fees paid to the Department of Economic Development and

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis (Unaudited)***  
***Years Ended June 30, 2013 and 2012***

---

Commerce of approximately \$444 thousand, and an increase in the interest expense allocations made to the Special Incentives Fund for approximately \$209 thousand.

Nonoperating expenses for the year ended June 30, 2012 amounted to approximately \$19.1 million, a decrease of approximately \$604 thousands, mostly composed of interest incurred related with the bonds and with the notes payable to the Government Development Bank for Puerto Rico, which amounted to approximately \$13 million and \$5.8 million, respectively.

Special item associated with early retirement termination benefits of approximately \$442 thousand for the year ended June 30, 2012, 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. This special item amounted to approximately \$442 thousand and \$9.3 million for the years ended June 30, 2012 and 2011, respectively.

Capital contributions for the year ended June 30, 2012, amounted to approximately \$2.3 million as PRIDCO received approximately \$1.4 million in contributions from the Special Fund for Economic Development and approximately \$843 thousand from the Special Incentives Fund for building constructions and improvements.

In addition, PRIDCO received during the year ended June 30, 2012 a one-time fund transfer from PRIIF amounting to \$693 thousands, as approved by the Board of Directors to be used for the Immediate Rescue Plan, a light repair program for selected deteriorated PRIDCO properties.

Gain on sale of properties and insurance recoveries in 2012 amounted to approximately \$18.4 million, an increase of approximately \$7.9 million or 75.90% from prior year. This increase is directly related to approximately \$18 million of realized gains on sale of capital assets and \$348 thousand of recoverable insurance. Such increase in realized gain on sale of properties is the result of management strategic plan to increase the sales of properties to improve the entity's cash flow position. Net investment and interest income in 2012 amounted to approximately \$9.9 million, an increase of approximately \$6.6 million or 197.86% from prior year. This increase is directly related with increase in interest income earned from deposits in sinking funds.

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***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis***  
***Years Ended June 30, 2013 and 2012***

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

	<u>June 30,</u>		<u>Change</u>	
	<u>2013</u>	<u>2012</u>	<u>In dollars</u>	<u>Percent</u>
Current assets	\$ 105,505	\$ 103,481	\$ 2,024	1.96%
Capital assets, net	14,134	14,804	(670)	(4.53)%
Total assets	<u>119,639</u>	<u>118,285</u>	<u>1,354</u>	<u>1.14%</u>
Current liabilities	94,747	79,123	15,624	19.75%
Noncurrent liabilities	79,114	86,158	(7,044)	(8.18)%
Total liabilities	<u>173,861</u>	<u>165,281</u>	<u>8,580</u>	<u>5.19%</u>
Net position:				
Net investment in capital assets	14,134	14,804	(670)	(4.53)%
Deficit	(68,356)	(61,800)	(6,556)	10.61%
Total net position	<u>(54,222)</u>	<u>(46,996)</u>	<u>(7,226)</u>	<u>15.38%</u>
Total liabilities and net position	<u>\$ 119,639</u>	<u>\$ 118,285</u>	<u>\$ 1,354</u>	<u>1.14%</u>
	<u>June 30,</u>		<u>Change</u>	
	<u>2012</u>	<u>2011</u>	<u>In dollars</u>	<u>Percent</u>
Current assets	\$ 103,481	\$ 102,332	\$ 1,149	1.12%
Capital assets, net	14,804	14,026	778	5.55%
Total assets	<u>\$ 118,285</u>	<u>\$ 116,358</u>	<u>\$ 1,927</u>	<u>1.66%</u>
Current liabilities	\$ 79,123	\$ 63,927	\$ 15,196	23.77%
Noncurrent liabilities	86,158	92,727	(6,569)	(7.08)%
Total liabilities	<u>165,281</u>	<u>156,654</u>	<u>8,627</u>	<u>5.51%</u>
Net position:				
Net investment in capital assets	14,804	14,026	778	5.55%
Deficit	(61,800)	(54,322)	(7,478)	13.77%
Total net position	<u>(46,996)</u>	<u>(40,296)</u>	<u>(6,700)</u>	<u>16.63%</u>
Total liabilities and net position	<u>\$ 118,285</u>	<u>\$ 116,358</u>	<u>\$ 1,927</u>	<u>1.66%</u>

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis***  
***Years Ended June 30, 2013 and 2012***

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**Analysis of Net Position of PRIICO at June 30, 2013 and 2012**

PRIICO is the owner of the building that PRIDCO and other related and unrelated entities lease. PRIICO also enters in financial leasing to facilitate the promotion and development of certain industries. Total assets increased by approximately \$1.4 million or 1.14% mostly due to an increase in amounts due from PRIDCO of \$2 million or 1.91% mostly related with rent charges made by PRIICO. Also, there was a decrease in net capital assets of approximately \$670 thousand.

Current liabilities increased by approximately \$15.6 million or 19.75% mostly due to an increase in amounts due to PRIDCO of \$14.9 million or 20.62% mostly due to the payments of long-term debt made by PRIDCO on behalf of PRIICO amounting to approximately \$6.6 million and \$5.6 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. In addition, amounts due to PRIDCO were affected by approximately \$2.9 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO and approximately \$1.1 million of administrative expense charges.

Net position invested in capital assets, net of related debt, represent the capital assets less the incurred debt amounted to \$14.1 million as of June 30, 2013, a decrease of approximately \$670 thousand or 4.53%. Said decrease is mostly related to additions of capital assets of \$14 thousand and the effect of depreciation and amortization expense for the year ended June 30, 2013 of approximately \$685 thousand.

**Analysis of Net Position of PRIICO at June 30, 2012 and 2011**

Total assets increased by approximately \$1.9 million or 1.66% (\$118.3 million in 2012 versus \$116.4 million in 2011), mostly due to an increase in amounts due from PRIDCO of \$2.4 million or 2.38% (\$100.9 million in 2011 to \$103.3 million in 2012), mostly related with rent charges made by PRIICO. Also, there was a decrease in the lease financing receivables of approximately \$246 thousand due to collections for the year ended June 30, 2012, and an increase in net capital assets of approximately \$778 thousand.

Current liabilities increased by approximately \$15.2 million or 23.77% (\$63.9 million in 2011 to \$79.1 million in 2012) mostly due to an increase in amounts due to PRIDCO of \$15.2 million or 26.56% (\$57.2 million in 2011 to \$72.4 million in 2012) mostly due to the payments of long-term debt made by PRIDCO on behalf of PRIICO amounting to approximately \$6.6 million and \$5.9 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. In addition, amounts due to PRIDCO were affected by approximately \$1.7 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO and approximately \$1 million of administrative expense charges.

Net position invested in capital assets, net of related debt, represent the capital assets less the incurred debt amounted to \$14.8 million as of June 30, 2012, an increase of approximately \$778 thousand or 5.55%. This increase is mostly related to the removal of net investments in lease financing receivable and recognition of previously leased building at its fair value which created an increase in capital assets of \$1.4 million, offset by depreciation expense for the year ended June 30, 2012 of \$679 thousand.

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis  
Years Ended June 30, 2013 and 2012

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

	Year Ended June 30,		Change	
	2013	2012	Amount	Percent
Operating revenues:				
Rental income	\$ 1,966	\$ 2,136	\$ (170)	(7.96)%
Nonoperating revenues:				
Net investment and interest income	3	35	(32)	(91.43)%
Other income	—	506	(506)	(100.00)%
Total revenues	1,969	2,677	(708)	(26.45)%
Operating expenses:				
Administrative, general, and other expenses	2,550	2,334	216	9.25%
Depreciation and amortization	685	679	6	0.88%
Maintenance and repairs	408	401	7	1.75%
Total operating expenses	3,643	3,414	229	6.71%
Operating loss	(1,674)	(737)	(937)	127.14%
Nonoperating expenses - interest expense	5,552	5,963	(411)	(6.89)%
Change in net position	(7,226)	(6,700)	(526)	7.85%
Net position, beginning of year	(46,996)	(40,296)	(6,700)	16.63%
Net position, end of year	\$ (54,222)	\$ (46,996)	\$ (7,226)	15.38%

	Year Ended June 30,		Change	
	2012	2011	Amount	Percent
Operating revenues:				
Rental income	\$ 2,136	\$ 1,836	\$ 300	16.34%
Nonoperating revenues:				
Net investment and interest income	35	88	(53)	(60.23)%
Other income	506	—	506	100.00%
Total revenues	2,677	1,924	753	39.14%
Operating expenses:				
Administrative, general, and other expenses	2,334	2,232	102	4.57%
Depreciation and amortization	679	707	(28)	(3.96)%
Maintenance and repairs, net	401	377	24	6.37%
Total operating expenses	3,414	3,316	98	2.96%
Operating loss	(737)	(1,392)	655	(47.05)%
Nonoperating expenses - interest expense	5,963	5,812	151	2.60%
Change in net position	(6,700)	(7,204)	504	(7.00)%
Net position, beginning of year	(40,296)	(33,092)	(7,204)	21.77%
Net position, end of year	\$ (46,996)	\$ (40,296)	\$ (6,700)	16.63%

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis***  
***Years Ended June 30, 2013 and 2012***

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**Year Ended June 30, 2013 versus June 30, 2012**

In overall, PRIICO's total revenues decreased by approximately \$170 thousand or 7.96%, mostly as a result of two of the tenants left the office space leased during the year ended June 30, 2013. Other tenants include PRIDCO, the Rums of Puerto Rico, the Department of Economic Development and Commerce, and the Occupational Development Council, among others.

Operating expenses increased by approximately \$229 thousand or 6.71%, mostly as the increase in general and administrative expenses of approximately \$216 thousand (\$2.5 million in 2013 versus \$2.3 million in 2012), increase in depreciation and amortization expenses of approximately \$6 thousand, and increase in repairs and maintenance expenses of approximately \$7 thousand. The increase in general and administrative expenses is mostly related to an increase in utilities expenses of approximately \$161 thousand, increase in administrative expenses charged from PRIDCO of approximately \$39 thousand and increase in supplies expenses of approximately \$15 thousand.

Non-operating expenses decreased by approximately \$411 thousand, mostly due to the overall decrease of the interest portions of notes and loans payable made during the year ended June 30, 2013.

**Year Ended June 30, 2012 versus June 30, 2011**

In overall, PRIICO's total revenues increased by approximately \$300 thousand or 16.34%, 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 and Commerce. Other tenants include the Rums of Puerto Rico and the Occupational Development Council among others.

Operating expenses increased by approximately \$98 thousand or 2.96%, mostly as a net result of the increase on general and administrative expenses of approximately \$102 thousand (\$2.3 million in 2012 versus \$2.2 million in 2011), decrease in depreciation and amortization expenses of approximately \$28 thousand, and an increase in repairs and maintenance expenses of approximately \$24 thousand. The increase in general and administrative expenses is mostly related to an increase in utilities expenses of approximately \$115 thousand, offset by a decrease in supplies expenses of approximately \$15 thousand.

Non-operating expenses increased by approximately \$151 thousand, mostly due to the net result of increase of interest expense due to new loan payable issued in the mid of 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, 2012.

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis  
Years Ended June 30, 2013 and 2012

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

	June 30,		Change	
	2013	2012	In dollars	Percent
Current assets	\$ 172	\$ 172	\$ —	0.00%
Other noncurrent assets	—	—	—	0.00%
Total assets	172	172	—	0.00%
Unrestricted net position	\$ 172	\$ 172	\$ —	0.00%

	June 30,		Change	
	2012	2011	In dollars	Percent
Current assets	\$ 172	865	(693)	(80.12)%
Other noncurrent assets	—	—	—	—
Total assets	172	865	(693)	(80.12)%
Total liabilities	—	8	(8)	(100.00)%
Unrestricted net position	172	857	(685)	(79.93)%
Total liabilities and net position	\$ 172	\$ 865	\$ (693)	(80.12)%

**Analysis of Net Position of PRIIF at June 30, 2013 and 2012**

PRIIF is a fund through which PRIDCO used to grant industrial incentives. PRIIF was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment and maintenance of existing employment within the industrial and service sectors of Puerto Rico's economy. There has not been economic activity within this fund during the year ended June 30, 2013. There has been limited economic activity within this fund during the past two years.

**Analysis of Net Assets of PRIIF at June 30, 2012 and 2011**

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 decreased by approximately \$693 thousand mostly due to a one-time transfer of funds for the same amount to PRIDCO, as approved by the Board of Directors to be used for the Immediate Rescue Plan, a light repair program for selected deteriorated PRIDCO properties.

***Puerto Rico Industrial Development Company***  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Management's Discussion and Analysis*  
*Years Ended June 30, 2013 and 2012*

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

	Year Ended June 30,		Change	
	2013	2012	In dollars	Percent
Nonoperating revenues:				
Other income	\$ —	\$ 8	\$ (8)	(100.00)%
Transfer to PRIDCO	—	(693)	693	(100.00)%
Change in net position	—	(685)	685	(100.00)%
Net position, beginning of year	172	857	(685)	(79.93)%
Net position, end of year	172	172	—	0.00%

	Year Ended June 30,		Change	
	2012	2011	In dollars	Percent
Nonoperating revenues:				
Interest income	—	186	(186)	(100.00)%
Other income	8	418	(410)	(98.09)%
Income before capital contributions	8	604	(596)	(98.68)%
Transfer to PRIDCO	(693)	—	(693)	100.00%
Change in net position	(685)	604	(1,289)	(213.41)%
Net position, beginning of year	857	253	604	238.74%
Net position, end of year	\$ 172	\$ 857	\$ (685)	(79.93)%

**Year Ended June 30, 2013 versus June 30, 2012**

There has not economic activity within this fund during the year ended June 30, 2013.

**Year Ended June 30, 2012 versus June 30, 2011**

Nonoperating revenues decreased approximately \$596 thousand mostly related to non-recurrent revenue related with dividend income for the year ended June 30, 2011 of approximately \$186 thousand and recoveries of allowance for doubtful accounts of approximately \$418 thousand.

Capital contributions to PRIDCO of \$693 thousand represent a one-time transfer of funds to PRIDCO, as approved by the Board of Directors to be used for the Immediate Rescue Plan, a light repair program for selected deteriorated PRIDCO properties.

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Management's Discussion and Analysis***  
***Years Ended June 30, 2013 and 2012***

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***Capital Assets:***

PRIDCO's investment in capital assets as of June 30, 2013 and 2012 amounted to approximately \$653.2 million and \$666.9 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, 2013 and 2012, PRIDCO invested approximately \$12.8 million and \$7.4 million, respectively, mainly related to addition of building and construction of buildings that will be leased to private organizations, as part of the industrial development activities. This construction activity was mainly financed through lines of credit and special financing from commercial banks which are later refinanced on a long-term basis. Rent from the buildings is pledged for the payment of long term debt (See Debt Administration below).

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

***Debt Administration:***

At June 30, 2013 and 2012, PRIDCO had approximately \$197.2 million and \$225.3 million, respectively, in outstanding bonds payable, including the current portion of \$8.3 million and \$28.6 million at June 30, 2013 and 2012, respectively.

The credit rating of PRIDCO's public debt is "BBB-", as determined by Standards & Poor's in June 2012 and "Baa1", as determined by Moody's Investor Services in October 2013. Detailed information regarding long-term debt activity is included in Note 10 to the basic financial statements.

***Contacting PRIDCO's Financial Management:***

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

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***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Statement of Net Position (In thousands)***  
***June 30, 2013***

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 8,804	\$ 30	\$ 8	\$ —	\$ 8,842
Investment in Certificates of Deposit	8,974	—	—	—	8,974
Sinking fund, restricted	9,518	—	—	—	9,518
Rent and accounts receivable, net	23,391	5	164	—	23,560
Notes receivables, current portion	77	—	—	—	77
Prepaid expenses and other assets	2,204	184	—	—	2,388
Due from other funds	87,368	105,286	—	(192,654)	—
Total current assets	<u>140,336</u>	<u>105,505</u>	<u>172</u>	<u>(192,654)</u>	<u>53,359</u>
Noncurrent assets:					
Sinking fund reserve accounts, at accreted cost, restricted	21,993	—	—	—	21,993
Investment in equity securities, at cost	4,093	—	—	—	4,093
Due from the Commonwealth of Puerto Rico	41,653	—	—	—	41,653
Deferred bond issue costs	1,594	—	—	—	1,594
Capital assets, net	653,216	14,134	—	—	667,350
Total noncurrent assets	<u>722,549</u>	<u>14,134</u>	<u>—</u>	<u>—</u>	<u>736,683</u>
<b>TOTAL</b>	<b>\$ 862,885</b>	<b>\$ 119,639</b>	<b>\$ 172</b>	<b>\$ (192,654)</b>	<b>\$ 790,042</b>
<b>LIABILITIES AND NET POSITION</b>					
Current liabilities:					
Current portion of:					
Loans and notes payable to commercial banks	—	7,044	—	—	7,044
Due to Puerto Rico Land Administration	1,306	—	—	—	1,306
Bonds payable	8,305	—	—	—	8,305
Obligations under capital leases	88	—	—	—	88
Notes payable to Government Development Bank	87,325	—	—	—	87,325
Contract retentions	1,931	14	—	—	1,945
Accrued interest	4,084	—	—	—	4,084
Accounts payable and other accrued liabilities	21,423	321	—	—	21,744
Termination benefits accrual, current portion	966	—	—	—	966
Due to the Commonwealth of Puerto Rico	7,737	—	—	—	7,737
Deposits	1,589	—	—	—	1,589
Due to other funds	105,286	87,368	—	(192,654)	—
Total current liabilities	<u>240,040</u>	<u>94,747</u>	<u>—</u>	<u>(192,654)</u>	<u>142,133</u>
Noncurrent liabilities:					
Bonds payable	188,864	—	—	—	188,864
Obligations under capital leases	137	—	—	—	137
Termination benefits accrual, noncurrent portion	8,739	—	—	—	8,739
Accounts payable and other accrued liabilities	6,929	—	—	—	6,929
Loans and notes payable to commercial banks	—	79,114	—	—	79,114
Rent and other deposits	7,100	—	—	—	7,100
Total noncurrent liabilities	<u>211,769</u>	<u>79,114</u>	<u>—</u>	<u>—</u>	<u>290,883</u>
Total liabilities	<u>451,809</u>	<u>173,861</u>	<u>—</u>	<u>(192,654)</u>	<u>433,016</u>
Net position :					
Net investment in capital assets	454,516	14,134	—	(68,356)	400,294
Restricted	20,810	—	—	—	20,810
Unrestricted/(deficit)	(64,250)	(68,356)	172	68,356	(64,078)
Total net position	<u>411,076</u>	<u>(54,222)</u>	<u>172</u>	<u>—</u>	<u>357,026</u>
<b>TOTAL</b>	<b>\$ 862,885</b>	<b>\$ 119,639</b>	<b>\$ 172</b>	<b>\$ (192,654)</b>	<b>\$ 790,042</b>

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 Position (In thousands)  
June 30, 2012

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 9,085	\$ 3	\$ 6	\$ —	\$ 9,094
Sinking fund, restricted	30,814	—	—	—	30,814
Rent and accounts receivable, net	24,629	—	166	—	24,795
Notes receivables, current portion	2,076	—	—	—	2,076
Prepaid expenses and other assets	4,419	164	—	—	4,583
Due from other funds	72,434	103,314	—	(175,748)	—
Total current assets	143,457	103,481	172	(175,748)	71,362
Noncurrent assets:					
Notes receivable, noncurrent portion	142	—	—	—	142
Sinking fund reserve accounts, at accreted cost, restricted	27,182	—	—	—	27,182
Investment in equity securities, at cost	4,093	—	—	—	4,093
Due from the Commonwealth of Puerto Rico	42,748	—	—	—	42,748
Deferred bond issue costs	1,837	—	—	—	1,837
Capital assets, net	666,941	14,804	—	—	681,745
Total noncurrent assets	742,943	14,804	—	—	757,747
<b>TOTAL</b>	<b>\$ 886,400</b>	<b>\$ 118,285</b>	<b>\$ 172</b>	<b>\$ (175,748)</b>	<b>\$ 829,109</b>
<b>LIABILITIES AND NET POSITION</b>					
Current liabilities:					
Current portion of:					
Loans and notes payable to commercial banks	\$ —	\$ 6,574	\$ —	\$ —	\$ 6,574
Due to Puerto Rico Land Administration	1,306	—	—	—	1,306
Bonds payable	28,570	—	—	—	28,570
Obligations under capital leases	76	—	—	—	76
Notes payable to Government Development Bank	87,842	—	—	—	87,842
Contract retentions	1,634	22	—	—	1,656
Accrued interest	5,106	—	—	—	5,106
Accounts payable and other accrued liabilities	27,764	93	—	—	27,857
Termination benefits accrual, current portion	752	—	—	—	752
Due to the Commonwealth of Puerto Rico	7,634	—	—	—	7,634
Deposits	1,707	—	—	—	1,707
Due to other funds	103,314	72,434	—	(175,748)	—
Total current liabilities	265,705	79,123	—	(175,748)	169,080
Noncurrent liabilities:					
Bonds payable	196,701	—	—	—	196,701
Obligations under capital leases	132	—	—	—	132
Termination benefits accrual, noncurrent portion	8,243	—	—	—	8,243
Loans and notes payable to commercial banks	—	86,158	—	—	86,158
Rent and other deposits	9,841	—	—	—	9,841
Total noncurrent liabilities	214,917	86,158	—	—	301,075
Total liabilities	480,622	165,281	—	(175,748)	470,155
Net position:					
Net investment in capital assets	440,156	14,804	—	(61,800)	393,160
Restricted	26,080	—	—	—	26,080
Unrestricted/(deficit)	(60,458)	(61,800)	172	61,800	(60,286)
Total net position	405,778	(46,996)	172	—	358,954
<b>TOTAL</b>	<b>\$ 886,400</b>	<b>\$ 118,285</b>	<b>\$ 172</b>	<b>\$ (175,748)</b>	<b>\$ 829,109</b>

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

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Statement of Revenue, Expenses, and Changes in Net Position (In thousands)***  
***Year Ended June 30, 2013***

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
Operating revenue -					
Rental income, substantially from industrial properties, net	\$ 61,366	\$ 1,966	\$ —	(569)	\$ 62,763
Operating expenses:					
Salaries and wages	18,124	—	—	—	18,124
Administrative and general	15,861	2,550	—	(569)	17,842
Depreciation and amortization	19,904	685	—	—	20,589
Maintenance and repairs, net	5,223	408	—	—	5,631
Total operating expenses	59,112	3,643	—	(569)	62,186
Operating income/(loss)	2,254	(1,677)	—	—	577
Nonoperating revenues/(expenses):					
Net gain on sale of properties	4,331	—	—	—	4,331
Net investment income	90	—	—	—	90
Interest income on loans	271	3	—	—	274
Interest expense	(16,129)	(5,552)	—	—	(21,681)
Amortization of debt issue costs	(256)	—	—	—	(256)
Total nonoperating expenses, net	(11,693)	(5,549)	—	—	(17,242)
Loss before contributions and special item	(9,439)	(7,226)	—	—	(16,665)
Capital contribution - Special Incentives Fund	359	—	—	—	359
Capital contribution - Special Fund for Economic Development	15,777	—	—	—	15,777
Special item - early retirement termination benefits	(1,399)	—	—	—	(1,399)
Change in net position	5,298	(7,226)	—	—	(1,928)
Net position, beginning of year	405,778	(46,996)	172	—	358,954
Net position, end of year	\$ 411,076	\$ (54,222)	\$ 172	\$ —	\$ 357,026

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

**Puerto Rico Industrial Development Company**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Statement of Revenue, Expenses, and Changes in Net Position (In thousands)**  
**Year Ended June 30, 2012**

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
Operating revenue -					
Rental income, substantially from industrial properties, net	\$ 61,609	\$ 2,136	\$ —	\$ (627)	\$ 63,118
Operating expenses:					
Salaries and wages	16,213	—	—	—	16,213
Administrative and general	15,210	2,334	—	(627)	16,917
Depreciation and amortization	20,263	679	—	—	20,942
Impairment loss	1,702	—	—	—	1,702
Maintenance and repairs, net	6,849	401	—	—	7,250
Total operating expenses	60,237	3,414	—	(627)	63,024
Operating income/(loss)	1,372	(1,278)	—	—	94
Nonoperating revenues/(expenses):					
Net gain on sale of properties and insurance recoveries	18,389	—	—	—	18,389
Net investment income	9,586	—	—	—	9,586
Interest income on loans	303	35	—	—	338
Interest expense	(18,832)	(5,963)	—	—	(24,795)
Amortization of debt issue costs	(244)	—	—	—	(244)
Other income	—	506	8	—	514
Total nonoperating (expenses)/revenues, net	9,202	(5,422)	8	—	3,788
Income/(loss) before contributions and special item	10,574	(6,700)	8	—	3,882
Capital contribution - Special Incentives Fund	843	—	—	—	843
Capital contribution - Special Fund for Economic Development	1,415	—	—	—	1,415
Transfers	693	—	(693)	—	—
Special item - early retirement termination benefits	(442)	—	—	—	(442)
Change in net position	13,083	(6,700)	(685)	—	5,698
Net position, beginning of year	392,695	(40,296)	857	—	353,256
Net position, end of year	\$ 405,778	\$ (46,996)	\$ 172	\$ —	\$ 358,954

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

**Puerto Rico Industrial Development Company**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Statement of Cash Flows (In thousands)**  
**Year Ended June 30, 2013**

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash collected from rental income	\$ 59,745	\$ 1,966	\$ —	\$ 61,711
Cash paid for salaries and benefits	(18,876)	—	—	(18,876)
Cash paid for supplies and services	(18,278)	(2,761)	—	(21,039)
Net cash provided by/(used in) operating activities	<u>22,591</u>	<u>(795)</u>	<u>—</u>	<u>21,796</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sale of properties	7,919	—	—	7,919
Collection of capital contributions	9,879	(15)	—	9,864
Payments for capital assets	(3,101)	(6,574)	—	(9,675)
Payments of obligations under capital leases	(86)	—	—	(86)
Payments of bonds payable	(28,570)	—	—	(28,570)
Interest paid	(16,708)	(5,552)	—	(22,260)
Net cash used in capital and related financing activities	<u>(30,667)</u>	<u>(12,141)</u>	<u>—</u>	<u>(42,808)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Net payments from Commonwealth of Puerto Rico	681	—	—	681
Net change in accrued early retirement benefits	63	—	—	63
Net payments from/(to) other funds	(12,962)	12,962	—	—
Net cash (used in)/provided by noncapital and related financing activities	<u>(12,218)</u>	<u>12,962</u>	<u>—</u>	<u>744</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Net change in sinking fund - redemption and bond service accounts	26,485	—	—	26,485
Investment in certificates of deposit	(8,974)	—	—	(8,974)
Interest collected on investments, loans and other nonoperating revenue	361	1	2	364
Collections from notes receivables	2,141	—	—	2,141
Net cash provided by investing activities	<u>20,013</u>	<u>1</u>	<u>2</u>	<u>20,016</u>
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(281)</u>	<u>27</u>	<u>2</u>	<u>(252)</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>9,085</u>	<u>3</u>	<u>6</u>	<u>9,094</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 8,804</u>	<u>\$ 30</u>	<u>\$ 8</u>	<u>\$ 8,842</u>

*Continues*

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

**Puerto Rico Industrial Development Company**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Statement of Cash Flows (In thousands)**  
**Year Ended June 30, 2013**

Continued

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
<b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:</b>				
Operating income/(loss)	\$ 2,254	\$ (1,675)	\$ —	\$ 579
Adjustments to reconcile operating income/(loss) to net cash provided by/(used in) operating activities:				
Depreciation and amortization expense	19,904	685	—	20,589
Increase in accounts receivable and deposits	1,238	—	—	1,238
Increase in prepaid expenses and other assets	(332)	—	—	(332)
Increase in termination benefits accrual	(752)	—	—	(752)
Decrease in rent deposits and other assets	(2,741)	(20)	—	(2,761)
Decrease in deferred credits	(118)	—	—	(118)
Increase in accounts payable and accrued liabilities	3,138	215	—	3,353
Net cash provided by/(used in) operating activities	<u>\$ 22,591</u>	<u>\$ (795)</u>	<u>\$ —</u>	<u>\$ 21,796</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>				
Accretion of bonds payable	\$ 456	\$ —	\$ —	\$ 456
Amortization of bond discount	12	—	—	12
Capital contributions - Special Incentives Fund	359	—	—	359
Capital contributions - Special Fund for Economic Development	6,257	—	—	6,257
Capital additions through obligations under capital leases	103	—	—	103
Decrease in line of credit with GDB and decrease in due from Commonwealth of Puerto Rico	517	—	—	517

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Statement of Cash Flows (In thousands)***  
***Year Ended June 30, 2012***

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash collected from rental income	\$ 63,565	\$ 2,136	\$ —	\$ 65,701
Cash paid for salaries and benefits	(16,422)	(2,757)	—	(19,179)
Cash paid for supplies and services	(23,610)	—	—	(23,610)
Net cash provided by/(used in) operating activities	<u>23,533</u>	<u>(621)</u>	<u>—</u>	<u>22,912</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sale of property and insurance recoveries	24,389	—	—	24,389
Payments of capital assets	(3,435)	—	—	(3,435)
Payments of notes and loans payable	—	(6,564)	—	(6,564)
Payments of obligations under capital leases	(130)	—	—	(130)
Payments of bonds payable	(12,680)	—	—	(12,680)
Interest paid	(18,382)	(5,963)	—	(24,345)
Net cash used in capital and related financing activities	<u>(10,238)</u>	<u>(12,527)</u>	<u>—</u>	<u>(22,765)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Transfer of funds	693	—	(693)	—
Net payments from/(to) Commonwealth of Puerto Rico	(365)	—	—	(365)
Net payments from/(to) blended component units	(12,803)	12,803	—	—
Net cash (used in)/provided by noncapital and related financing activities	<u>(12,475)</u>	<u>12,803</u>	<u>(693)</u>	<u>(365)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Net change in sinking fund - redemption and bond service accounts	(6,528)	—	—	(6,528)
Interest collected on investments, loans and other nonoperating revenue	10,358	35	12	10,405
Other income	—	49	—	49
Collections from notes receivables	301	246	—	547
Net cash provided by investing activities	<u>4,131</u>	<u>330</u>	<u>12</u>	<u>4,473</u>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>4,951</u>	<u>(15)</u>	<u>(681)</u>	<u>4,255</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>4,134</u>	<u>18</u>	<u>687</u>	<u>4,839</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 9,085</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 9,094</u>

*Continues*

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

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Statement of Cash Flows (In thousands)***  
***Year Ended June 30, 2012***

Continued

	<u>Puerto Rico Industrial Development Company</u>	<u>Puerto Rico Industrial Investment Corp.</u>	<u>Puerto Rico Industrial Incentives Fund, Inc.</u>	<u>Total Reporting Entity</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:</b>				
Operating income (loss), including special item of early retirement termination benefits	\$ 930	\$ (1,278)	\$ —	\$ (348)
Adjustments to reconcile operating income (loss) to net cash provided by/(used in) operating activities:				
Depreciation and amortization expense	20,263	679	—	20,942
Impairment loss on capital assets	1,702	—	—	1,702
Allowance for doubtful accounts	2,900	—	—	2,900
Decrease in accounts receivable and deposits	(944)	—	—	(944)
Increase in other assets	(2,620)	(8)	—	(2,628)
Increase in termination benefits accrual	(204)	—	—	(204)
Increase in accounts payable and accrued liabilities	1,506	(14)	—	1,492
Net cash provided by/(used in) operating activities	<u>\$ 23,533</u>	<u>\$ (621)</u>	<u>\$ —</u>	<u>\$ 22,912</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>				
Accretion of bonds payable	\$ 436	\$ —	\$ —	\$ 436
Amortization of bond discount	11	—	—	11
Capital contributions - Special Incentives Fund	843	—	—	843
Capital contributions - Special Fund for Economic Development	1,415	—	—	1,415
Capital asset addition through elimination of direct financing lease	—	1,000	—	1,000
Capital additions through obligations under capital leases	53	—	—	53
Increase in line of credit with GDB and increase in due from Commonwealth of Puerto Rico	525	—	—	525
Rent and accounts receivable written-off	15,421	—	—	15,421

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)***

***Notes to the Financial Statements***

***Years Ended June 30, 2013 and 2012***

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

- i. The 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.
- ii. The Puerto Rico Industrial Incentives Fund, Inc. (PRIIF) was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the retention of existing employment in the industrial and service sectors of the Puerto Rico economy. However, effective during the year ended June 30, 2013, the activities and operations of PRIIF has substantially decreased to a point that during 2013 there were no activities to be reported.

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

Effective for the year ended June 30, 2013, PRIDCO implemented the requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). This Statement brings the authoritative accounting and financial reporting literature for state and local governments together in a single source, with the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA) guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. GASB 62 results in a more consistent application of the guidance in financial statements of state and local governments. GASB 62 supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

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- with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.
- c. ***Use of Estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.
- d. ***Concentration of Credit Risk*** – PRIDCO maintains cash on deposit with high rated financial institutions and with the Puerto Rico Treasury Department. The laws of the Commonwealth require from commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth. Deposits with the Governmental Development Bank of Puerto Rico (GDB) and Economic Development Bank of Puerto Rico (EDB), are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the bank, PRIDCO would not recover its deposits. At June 30, 2013 and 2012, there were no concentration of credit risk.
- e. ***Cash Equivalents*** – PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents. As of June 30, 2013, cash equivalents amounted to \$5.5 million. There were no cash equivalents as of June 30, 2012.
- f. ***Investments*** – PRIDCO is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments, its agencies or instrumentalities, including mortgage loans secured or guaranteed under federal housing laws. The investment in certificates of deposit is restricted for the payment of construction works performed on one of the PRIDCO's industrial facilities located in Juana Díaz. Investments in equity securities are stated at amortized cost and are mostly composed of common and preferred stock shares in private entities. During the years ended June 30, 2013 and 2012, PRIDCO evaluated these investments for impairment and did not consider investments in equity securities to be impaired.
- g. ***Rent Receivable, Notes and Lease Financing Receivable and Allowance for Doubtful Accounts*** – PRIDCO's rent receivable arises from the leasing of industrial facilities to its customers. Rent is calculated based on agreed rates on executed contracts. The allowance for doubtful accounts is established through provisions recorded as an offset of rental income. PRIDCO provides for an allowance for doubtful accounts, notes receivable and lease financing receivable upon an evaluation of the risks characteristics of those accounts, loss experience, economic conditions and other pertinent factors. Charge-offs is recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Notwithstanding this, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions.

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to the Financial Statements  
Years Ended June 30, 2013 and 2012

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, 2013 and 2012.

- h. Interfund Balances and Transactions* – Interfund receivables and payables balances and transactions have been eliminated from the basic financial statements.
- i. Restricted Assets* – Restricted assets at June 30, 2013 and 2012, 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):

	<u>2013</u>	<u>2012</u>
Debt service and sinking funds	\$ 31,511	\$ 57,996
Liabilities payable from restricted assets consist of the following:		
Bonds payable within one year	8,305	28,570
Interest payable	2,396	3,346
Total liabilities payable from restricted assets	<u>10,701</u>	<u>31,916</u>
Net restricted assets	<u>\$ 20,810</u>	<u>\$ 26,080</u>

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

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

During the years ended June 30, 2013 and 2012, PRIDCO performed an assessment of impairment on capital assets and, as a result of these assessments, recorded impairments for the fiscal year ended June 30, 2012 was approximately \$1.7 million. However, for the fiscal year ended June 30, 2013, the assessment did not result in the need to record an additional impairment reserve.

## ***Puerto Rico Industrial Development Company***

*(A Component Unit of the Commonwealth of Puerto Rico)*

*Notes to the Financial Statements*

*Years Ended June 30, 2013 and 2012*

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An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Impaired capital assets that will no longer be used by PRIDCO should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by PRIDCO should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.

- k. Operating Revenue and Expenses* – PRIDCO distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.
- l. Revenue Recognition* – Revenue from rental activities related to industrial properties is reported as revenue on the accrual basis over the term of the leases based on the monthly rental fees established by each lease agreement. Most of the leases are in effect cancelable, subject to penalty in case of early termination. Revenue from non-exchange transactions consist of intergovernmental grants, including contributions in aid for construction, mainly from two funds of the Commonwealth. These are recorded as revenue as soon as all eligibility requirements are met. Contributions received by PRIDCO for construction and improvements of capital assets during the years ended June 30, 2013 and 2012, amounted to as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Capital contributions:		
Special Fund for Economic Development	\$ 15,777	\$ 1,415
Special Incentives Fund	<u>359</u>	<u>843</u>
Total capital contributions	<u>\$ 16,136</u>	<u>\$ 2,258</u>

- m. 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, 2013 and 2012.
- n. Debt Issue Costs* – Debt issue costs are amortized to expense over the term of the debt to which they relate using a systematic and rational method that approximate the interest method.

**Puerto Rico Industrial Development Company**

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Financial Statements

Years Ended June 30, 2013 and 2012

- o. Compensated Absences* – The employees of PRIDCO are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated at a maximum of 60 days and 90 days, respectively. The excess of 60 days in vacation and of 90 days of sick leave, until December 31st of each year, should be paid to the employee before March 31st of the following year. For employees under collective bargaining agreement, the excess of 60 days in vacation and of 90 days of sick leave, until June 30 of each year, should be paid to the employee before July 31st of the following year.
- p. Termination Benefits* – PRIDCO recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated.
- q. Reclassifications* – Certain reclassifications have been made to the 2012 basic financial statements to conform to current year presentation.

**2. SINKING FUND**

As of June 30, 2013 and 2012, PRIDCO held a sinking fund with U.S. Bank (the Trustee), to be used for the payment of bonds payable debt service and sinking fund requirements. At June 30, 2013 and 2012, investments held by said sinking fund and respective contractual maturities are as follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
	<u>Due Within</u>	<u>Due Within</u>
	<u>One Year</u>	<u>One Year</u>
Money Market Funds -		
U.S. Bank Trust National Association	\$ 31,511	\$ 57,996

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, 2013 and 2012, are as follows:

Counterparty	<u>2013</u>	
	<u>Credit Risk Rating</u>	
	<u>Standard &amp; Poors</u>	<u>Moody's</u>
U.S. Bank Trust National Association	AA-	Aa3

Counterparty	<u>2012</u>	
	<u>Credit Risk Rating</u>	
	<u>Standard &amp; Poors</u>	<u>Moody's</u>
U.S. Bank Trust National Association	AA-	Aa2

## ***Puerto Rico Industrial Development Company***

***(A Component Unit of the Commonwealth of Puerto Rico)***

***Notes to the Financial Statements***

***Years Ended June 30, 2013 and 2012***

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

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

At June 30, 2013 and 2012, summarized information regarding SIDCO's assets follows (in thousands):

	<u>2013</u>	<u>2012</u>
Current assets	\$ 566	\$ 542
Land and plant	90,118	90,118
Total assets	<u>90,684</u>	<u>90,660</u>
Contribution by pharmaceutical company	(89,710)	(89,597)
Other liabilities	<u>(532)</u>	<u>(621)</u>
Investment in SIDCO, net	<u>\$ 442</u>	<u>\$ 442</u>

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.

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

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**4. RENT AND ACCOUNTS RECEIVABLE**

Rent and accounts receivable as of June 30, 2013 and 2012, consist of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Rent receivable	\$ 30,846	\$ 26,596
Loans receivable	9,927	9,467
Others	<u>12,370</u>	<u>11,080</u>
Total	53,143	47,143
Less: Allowance for doubtful accounts	<u>(29,583)</u>	<u>(22,348)</u>
Rent and accounts receivable, net	<u>\$ 23,560</u>	<u>\$ 24,795</u>

Changes in the allowance for doubtful accounts during the years ended June 30, 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Allowance for doubtful accounts, beginning of year	\$ 22,348	\$ 34,869
Plus: Provision of doubtful accounts	8,332	2,900
Less: Accounts written-off	<u>(1,097)</u>	<u>(15,421)</u>
Allowance for doubtful accounts, end of year	<u>\$ 29,583</u>	<u>\$ 22,348</u>

*This Space is Intentionally Left Blank.*

**Puerto Rico Industrial Development Company**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

**5. NOTES RECEIVABLE**

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIDCO and PRIIF to qualifying exempt businesses and to one Municipality of Puerto Rico for the purpose of partially financing the acquisition of machinery and land premises and working capital needs. Notes receivable as of June 30, 2013 and 2012 consist of the following (in thousands):

	<u>2013</u>	<u>2012</u>
<b><u>PRIDCO</u></b>		
Non-revolving note receivable from third party in the original amount of \$766 thousand, payable in semiannual installments of \$112 thousand beginning on November 1, 2009 through 2012, bearing interest at 3.22%.	\$ 29	\$ 30
Non-interest bearing note receivable from a third party in the original amount of \$580 thousand, payable in monthly installments of \$15,416 beginning on September 1, 2010 through August 31, 2013.	48	322
Non-revolving note receivable from a Municipality of Puerto Rico in the original amount of \$366 thousand due in April 2013, bearing interest at 10.00%.	—	366
Non-interest bearing note receivable from a Municipality of Puerto Rico in the original amount of \$1.5 million, payable in one installment of \$750 thousand due in July 2012 and another installment of \$750 thousand due on January 2013.	—	1,500
	<u>77</u>	<u>2,218</u>
<b><u>PRIIF</u></b>		
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 4.25% during the term of the loan. This note is due in monthly installments of \$5 thousand commencing on March 1, 2010 to September 1, 2023 and a final monthly payment of \$4 thousand due on October 1, 2023, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	439	439
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments of \$2 thousand commencing on December 1, 2004 over a 20-year period, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	452	452
	<u>891</u>	<u>891</u>
Total	968	3,109
Less allowance for doubtful accounts	(891)	(891)
Less current maturities	<u>(77)</u>	<u>(2,076)</u>
Total, net of allowance for doubtful accounts	\$ —	\$ 142

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

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to the Financial Statements  
Years Ended June 30, 2013 and 2012

**6. INTERFUND BALANCES AND TRANSACTIONS**

Following is a summary of the interfund balances as of June 30, 2013 and 2012 (in thousands):

Receivable by	Payable by	Purpose	2013	2012
PRIDCO	PRIICO	Administrative and operating expenses	\$ 87,368	\$ 72,434
PRIICO	PRIDCO	Rent receivable	40,875	38,890
PRIICO	PRIDCO	Other tenant rent receivable	64,411	64,424
			<u>\$ 192,654</u>	<u>\$ 175,748</u>

**7. CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2013 and 2012 consist of the following (in thousands):

	June 30, 2013			
	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	\$ 162,975	\$ 323	\$ (814)	\$ 162,484
Land on leased projects	69,740	—	(1,219)	68,521
Construction in progress	4,159	8,863	(2,706)	10,316
Total capital assets not being depreciated	<u>236,874</u>	<u>9,186</u>	<u>(4,739)</u>	<u>241,321</u>
Capital assets being depreciated:				
Buildings and improvements	751,999	2,405	(7,079)	747,325
Machinery and equipment	66,662	1,094	(3,324)	64,432
Furniture and vehicles	13,729	103	(2)	13,830
Total capital assets being depreciated	<u>832,390</u>	<u>3,602</u>	<u>(10,405)</u>	<u>825,587</u>
Less accumulated depreciation for:				
Buildings and improvements	(341,596)	(16,517)	6,145	(351,968)
Machinery and equipment	(50,815)	(2,595)	2,771	(50,639)
Furniture and vehicles	(9,912)	(1,175)	2	(11,085)
Total accumulated depreciation	<u>(402,323)</u>	<u>(20,287)</u>	<u>8,918</u>	<u>(413,692)</u>
Total capital assets being depreciated, net	<u>430,067</u>	<u>(16,685)</u>	<u>(1,487)</u>	<u>411,895</u>
Total capital assets, net	<u>\$ 666,941</u>	<u>\$ (7,499)</u>	<u>\$ (6,226)</u>	<u>\$ 653,216</u>

PRIDCO evaluated its capital assets for impairment and no impairment charges were recorded during the year ended June 30, 2013.

**Puerto Rico Industrial Development Company**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2013 and 2012**

	June 30, 2012			
	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	\$ 168,839	\$ 21	\$ (5,885)	\$ 162,975
Land on leased projects	70,073	149	(482)	69,740
Construction in progress	1,215	4,388	(1,444)	4,159
Total capital assets not being depreciated	240,127	4,558	(7,811)	236,874
Capital assets being depreciated:				
Buildings and improvements	753,468	2,253	(3,722)	751,999
Machinery and equipment	66,911	484	(733)	66,662
Furniture and vehicles	13,710	55	(36)	13,729
Total capital assets being depreciated	834,089	2,792	(4,491)	832,390
Less accumulated depreciation for:				
Buildings and improvements	(324,829)	(18,486)	1,719	(341,596)
Machinery and equipment	(48,912)	(2,586)	683	(50,815)
Furniture and vehicles	(9,101)	(846)	35	(9,912)
Total accumulated depreciation	(382,842)	(21,918)	2,437	(402,323)
Total capital assets being depreciated, net	451,247	(19,126)	(2,054)	430,067
Total capital assets, net	\$ 691,374	\$ (14,568)	\$ (9,865)	\$ 666,941

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.

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**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to the Financial Statements  
Years Ended June 30, 2013 and 2012

	June 30, 2013			
	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated -				
Land on leased projects	\$ 830	\$ —	\$ —	\$ 830
Capital assets being depreciated:				
Buildings and improvements	23,456	—	—	23,456
Machinery and equipment	8,335	14	—	8,349
Total capital assets being depreciated	31,791	14	—	31,805
Less accumulated depreciation for:				
Buildings and improvements	(12,598)	(670)	—	(13,268)
Machinery and equipment	(5,219)	(14)	—	(5,233)
Total accumulated depreciation	(17,817)	(684)	—	(18,501)
Total capital assets being depreciated, net	13,974	(670)	—	13,304
Total capital assets, net	\$ 14,804	\$ (670)	\$ —	\$ 14,134

	June 30, 2012			
	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated -				
Land on leased projects	\$ 830	\$ —	\$ —	\$ 830
Capital assets being depreciated:				
Buildings and improvements	22,661	795	—	23,456
Machinery and equipment	8,335	—	—	8,335
Total capital assets being depreciated	30,996	795	—	31,791
Less accumulated depreciation for:				
Buildings and improvements	(12,609)	(651)	662	(12,598)
Machinery and equipment	(5,191)	(28)	—	(5,219)
Total accumulated depreciation	(17,800)	(679)	662	(17,817)
Total capital assets being depreciated, net	13,196	116	662	13,974
Total capital assets, net	\$ 14,026	\$ 116	\$ 662	\$ 14,804

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

**8. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES**

Accounts payable and other accrued liabilities as of June 30, 2013 and 2012 consist of the following (in thousands):

	June 30, 2013			Due within One Year
	PRIDCO	PRICO	TOTAL	
Accounts payable	\$ 9,734	\$ 321	\$ 10,055	\$ 10,055
Compensated absences	5,774	—	5,774	5,774
Accrued payroll related expenses	577	—	577	577
Legal liabilities	4,777	—	4,777	2,075
Environmental liabilities	5,148	—	5,148	921
Other accrued liabilities	2,342	—	2,342	2,342
<b>Total</b>	<b>\$ 28,352</b>	<b>\$ 321</b>	<b>\$ 28,673</b>	<b>\$ 21,744</b>

	June 30, 2012			Due within One Year
	PRIDCO	PRICO	TOTAL	
Accounts payable	\$ 8,132	\$ 93	\$ 8,225	\$ 8,225
Compensated absences	5,394	—	5,394	5,394
Accrued payroll related expenses	684	—	684	684
Legal liabilities	7,953	—	7,953	7,953
Environmental liabilities	2,938	—	2,938	2,938
Other accrued liabilities	2,663	—	2,663	2,663
<b>Total</b>	<b>\$ 27,764</b>	<b>\$ 93</b>	<b>\$ 27,857</b>	<b>\$ 27,857</b>

**9. DUE TO AND FROM THE COMMONWEALTH OF PUERTO RICO**

Amounts Due from the Commonwealth as of June 30, 2013 and 2012 consist of the following (in thousands):

Receivable from	Purpose	2013	2012
Special Incentives Fund	Funds provided for granting industrial incentives	\$ 41,653	\$ 42,417
Special Fund for Economic Development	Operating advances	—	331
		<b>\$ 41,653</b>	<b>\$ 42,748</b>

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to the Financial Statements  
Years Ended June 30, 2013 and 2012

Amounts Due to the Commonwealth as of June 30, 2013 and 2012 consist of the following (in thousands):

Payable to	Purpose	2013	2012
Rums of Puerto Rico Fund	Operating advances	\$ 7,437	\$ 7,334
Special Fund for Economic Development	Advance for acquisition of investment securities	300	300
		<u>\$ 7,737</u>	<u>\$ 7,634</u>

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

**10. LINES OF CREDIT AND LONG-TERM DEBT ACTIVITY**

Lines of credit and long-term debt activity for the years ended June 30, 2013 and 2012 were as follows (in thousands):

	June 30, 2013					
	PRIDCO					
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 225,580	\$ —	\$ 456	\$ (28,570)	\$ 197,466	\$ 8,292
Less: Bond discount	(309)	—	—	12	(297)	13
Subtotal	225,271	—	456	(28,558)	197,169	8,305
Notes payable to GDB	87,842	—	—	(517)	87,325	87,325
Obligations under capital leases	208	103	—	(86)	225	88
Total	<u>\$ 313,321</u>	<u>\$ 103</u>	<u>\$ 456</u>	<u>\$ (29,161)</u>	<u>\$ 284,719</u>	<u>\$ 95,718</u>
	June 30, 2012					
	PRIDCO					
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 237,825	\$ —	\$ 435	\$ (12,680)	\$ 225,580	\$ 28,558
Less: Bond discount	(321)	—	—	12	(309)	12
Subtotal	237,504	—	435	(12,668)	225,271	28,570
Notes payable to GDB	88,532	—	—	(690)	87,842	87,842
Obligations under capital leases	285	53	—	(130)	208	76
Total	<u>\$ 326,321</u>	<u>\$ 53</u>	<u>\$ 435</u>	<u>\$ (13,488)</u>	<u>\$ 313,321</u>	<u>\$ 116,488</u>

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to the Financial Statements  
Years Ended June 30, 2013 and 2012

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

		<b>June 30, 2013</b>				
		<b>PRIICO</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Loans and notes payable	\$	92,732	—	(6,574)	86,158	7,044
		<b>June 30, 2012</b>				
		<b>PRIICO</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Loans and notes payable	\$	99,296	—	(6,564)	92,732	6,574

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***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***Notes to the Financial Statements***  
***Years Ended June 30, 2013 and 2012***

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

	<u>2013</u>	<u>2012</u>
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.	\$ 13,917	\$ 14,586
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.	7,733	8,692
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.	10,970	11,591
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.	7,089	7,501
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.	1,978	2,534
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.	22,505	24,277
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.	4,096	4,196
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.	<u>17,870</u>	<u>19,355</u>
Total debt	86,158	92,732
Less current maturities	<u>(7,044)</u>	<u>(6,574)</u>
Loans and notes payable to commercial banks, noncurrent portion	<u>\$ 79,114</u>	<u>\$ 86,158</u>

**Puerto Rico Industrial Development Company**  
 (A Component Unit of the Commonwealth of Puerto Rico)  
 Notes to the Financial Statements  
 Years Ended June 30, 2013 and 2012

Notes payable to the Government Development Bank for Puerto Rico (GDB) are comprised of four line of credit agreements as follows:

	<u>2013</u>	<u>2012</u>
Non-revolving line of credit up to \$75 million with GDB to provide for payment of expenses related to the voluntary separation and early retirement plans, bearing interest at 150 basis points over 90 day LIBOR with a floor rate of 6%. PRIDCO is currently negotiating with GDB to renew the credit facility. Meanwhile, PRIDCO has agreed with GDB to continue making monthly installments of principal and interest according to original terms. PRIDCO identified several properties to be disposed of for repayment of this debt and placed as collateral several other non-trusted properties.	\$ 45,672	\$ 45,672
Notes payable that were used to grant industrial incentives under the Special Incentives Fund, a fund of the Commonwealth, which is administered by PRIDCO. Repayments for these notes are provided by the Puerto Rico Sales Tax Financing Corporation (COFINA) and Commonwealth under legislative appropriation. The notes are due on June 30, 2040 and bear interest at 7%. Since these lines of credit are payable from only from resources to be provided by COFINA and Commonwealth appropriations, PRIDCO has recorded an amount due from Commonwealth for the same amount.	<u>41,653</u>	<u>42,170</u>
Total notes payable to Government Development Bank	<u>\$ 87,325</u>	<u>\$ 87,842</u>

Amounts due to the Puerto Rico Land Administration as of June 30, 2013 and 2012 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.

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to the Financial Statements  
Years Ended June 30, 2013 and 2012

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

Year Ending June 30,	Due to Commercial Banks			Obligations under capital leases		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 7,044	\$ 5,138	\$ 12,182	\$ 88	\$ 7	\$ 95
2015	7,556	4,776	12,332	64	4	68
2016	7,715	4,201	11,916	39	2	41
2017	7,772	3,791	11,563	27	1	28
2018	17,920	3,138	21,058	7	—	7
2019 to 2023	34,826	5,460	40,286	—	—	—
2024 to 2025	3,325	181	3,506	—	—	—
Totals	\$ 86,158	\$ 26,685	\$ 112,843	\$ 225	\$ 14	\$ 239

PRIICO is subject to compliance with certain covenants on its loans and notes payable with commercial banks. During the years ended June 30, 2013 and 2012, PRIICO did not comply with some of those covenants and the financial institution waived the non-compliance as of 2013 and 2012, respectively.

**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 trustee properties) for the payment of the Refunding and General Purpose Revenue Bonds, Series 1991 to 1997. In the event that the gross revenue from trustee 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, using a systematic and rational method that approximate the interest method. At June 30, 2013 and 2012, deferred debt issue costs amounted to approximately \$1.6 million and \$1.8 million, respectively.

**Puerto Rico Industrial Development Company**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

Revenue refunding and general purpose revenue bonds outstanding at June 30, 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Revenue Refunding Bonds and General Purpose Revenue Bonds:		
Series A 1997:		
Term bonds, 6.70%, due on July 1, 2015	\$ 13,045	\$ 48,305
Term bonds, 6.75%, due on July 1, 2021	28,095	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.	8,889	8,421
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
	<u>197,169</u>	<u>225,271</u>
Less current maturities	<u>(8,305)</u>	<u>(28,570)</u>
Bonds payable - noncurrent	<u>\$ 188,864</u>	<u>\$ 196,701</u>

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, 2013 are as follows (in thousands):

<b>Year Ending</b>		<b>Principal</b>		<b>Interest</b>		<b>Total</b>
<b>June 30,</b>						
2014	\$	8,305	\$	10,233	\$	18,538
2015		10,020		9,665		19,685
2016		12,865		9,119		21,984
2017		10,065		8,280		18,345
2018		7,333		10,783		18,116
2019 to 2023		59,532		34,732		94,264
2024 to 2028		76,900		13,846		90,746
2029 to 2032		8,795		231		9,026
		<u>193,815</u>	\$	<u>96,889</u>	\$	<u>290,704</u>
Plus: Accreted discount		3,651				
Less: Deferred amounts - Bond discount		<u>(297)</u>				
Total	\$	<u>197,169</u>				

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

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In May 2012, PRIDCO redeemed two U.S Treasury Bonds held in sinking fund and the funds generated in the redemption transaction were used to invest in money market funds to be held as part of the sinking funds' investments. In July 2012, PRIDCO used portion of the money market funds deposited in the sinking fund to early redeem a total of approximately \$20.8 million of Series A 1997 bonds. The transaction was approved by the Trustee, after the authorization to use funds in excess of minimum Trust requirements for the early redemption of Series A 1997 bonds.

***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, 2013 and 2012, are payable in monthly installments of principal and interest ranging from \$118 to \$1,737 in 2013 and \$117 to \$1,312 in 2012, through the year 2018. The obligations under capital leases are secured by the corresponding office equipment and bear interest rates ranging from 4.00% to 4.15% in 2013 and interest rate at 4.00% in 2012.

**11. RETIREMENT PLAN**

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

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

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

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

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

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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 for the year ended June 30, 2011. Commencing on July 1, 2011, PRIDCO is required to contribute 10.275%, with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016. Effective July 1, 2016, PRIDCO's contribution will increase by 1.25% annually until reaching 20.525%.

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

System 2000 is a hybrid-defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employees' contributions (9.275% of the employees' salary) will be used to fund the current plan.

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

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**Puerto Rico Industrial Development Company**  
 (A Component Unit of the Commonwealth of Puerto Rico)  
 Notes to the Financial Statements  
 Years Ended June 30, 2013 and 2012

- Termination Withdrawals rates vary by employment category, age and service.
- Disability Six month elimination period rates in the 1987 Adjusted Commissioners Group Disability Table.
- Retirement age Rates varies by employment category Act, age and years of creditable service.
- Proportion of participants with spouses 70% of current active members are assumed to be married at retirement with males 4 years older than females.

Additional information on the System is provided in its financial statements for the year ended June 30, 2013, 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.

**12. TERMINATION BENEFITS**

During the 2010-11 fiscal year, the Commonwealth approved the Act No. 70 of July 2, 2010 providing for an early termination program (the Program) that includes various options to incentivize early retirement and retirement incentives for eligible employees under the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS). Except for certain restrictions, all regular employees are eligible under the Program to retire under one of the available options. There are three different options offered by the Program as follows:

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

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

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

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

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

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

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

PRIDCO records liability and expense upon election by the employees to participate in the Program. At June 30, 2013 and 2012, the future incentive payments reported as expense and liability were approximately \$1.4 million and \$9.7 million for 2013, and \$442 thousand and \$9.0 million for 2012, respectively. The expense is included as special item in the accompanying statements of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012. The liability is included as part of the termination benefits accrual in the accompanying statements of net position as of June 30, 2013 and 2012.

As of June 30, 2013 and 2012, 25 and 21 employees, respectively, were included in the Program. During fiscal years 2013 and 2012, payments to retired employees under this Program totaled approximately \$674 thousand and \$555 thousand for retirement compensation, respectively, and approximately \$18 thousand and \$84 thousand for medical insurance coverage, respectively.

### **13. COMMITMENTS**

#### **Construction Program**

For the fiscal years ending June 30, 2013 and 2012, PRIDCO estimates to invest approximately \$10 million, respectively, for construction, land acquisition, and development. The investment in property will be financed through internally generated funds, federal grants, legislative infrastructure incentives, and external financing sources.

#### **Other Commitments**

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

**Puerto Rico Industrial Development Company**

*(A Component Unit of the Commonwealth of Puerto Rico)*

*Notes to the Financial Statements*

*Years Ended June 30, 2013 and 2012*

PRIDCO maintains a joint agreement with the University of Puerto Rico for the administration of the Bioprocess Development and Training Complex (BDTC) in Mayagüez. Under said agreement, PRIDCO constructed a modern building with state of the art facilities for rental by pharmaceutical and high end technological industries with research and development projects. PRIDCO is therefore renting the building to BDTC. During the year ended June 30, 2009, PRIDCO received \$4.5 million from the Special Fund for Economic Development, a fund of the Commonwealth, in order to cover for the \$5 million share that the University of Puerto Rico did not provide and \$2.2 million in 2010 from the Economic Development Agency (EDA). The construction concluded during 2009 and cost approximated \$11.3 million as of June 30, 2009. For the year ended June 30, 2012, the BDTC has received funding solely from the Special Fund for Economic Development, a fund of the Commonwealth.

PRIDCO maintains a joint interagency agreement along with the Puerto Rico Tourism Company (PRTC). Both entities agreed to provide \$1 million each for the Office of Land Use Planning. PRIDCO is responsible for the purchase of office equipment as well as professional services necessary for the operations of said office. PRIDCO received \$1 million from PRTC and total expenditures amounted to \$672 thousand. PRTC has not made any contribution during the years ended June 30, 2013 and 2012.

PRIDCO leases office in New York City under an operating lease with a third party expiring in the year 2022. Rent expense including common area maintenance, taxes and other charges amounted to approximately \$353 thousand and \$341 thousand for the years ended June 30, 2013 and 2012, respectively. Said office space is shared with GDB and Rums of Puerto Rico aiming towards the presence of the Commonwealth of Puerto Rico in one of the most important cities of the world. PRIDCO charges rent back to the previously mentioned governmental agencies based on space occupancy allocation.

Future annual minimum lease payments under the operating lease agreement at June 30, 2013, are as follows (in thousands):

<b>Year Ending June 30,</b>	<b>PRIDCO</b>	<b>Other</b>	<b>Total Rent</b>
2014	\$ 323	\$ 560	\$ 883
2015	323	560	883
2016	323	560	883
2017	323	560	883
2018	332	573	905
2019-2023	1,528	2,643	4,171
<b>Total</b>	<b>\$ 3,152</b>	<b>\$ 5,456</b>	<b>\$ 8,608</b>

***Puerto Rico Industrial Development Company***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
*Notes to the Financial Statements*  
*Years Ended June 30, 2013 and 2012*

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**14. 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, 2013 and 2012 amounted to approximately \$4.8 million and \$7.9 million, respectively.

**15. POLLUTION REMEDIATION CONTINGENCIES**

Because of the nature of the operations of the different tenants, under certain circumstances PRIDCO is responsible for pollution remediation in all its facilities. Pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. At June 30, 2013 and 2012, PRIDCO's reserve for pollution remediation obligations amounted to approximately \$5.1 million and \$2.9 million, respectively, and was reported as part of accounts payable and other accrued liabilities.

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

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

Experience has shown that uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability. Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's competitive or financial position. However, such costs could be material to results of operations in a particular future year.

**16. 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.

**17. SUBSEQUENT EVENTS**

PRIDCO evaluated subsequent events through December 5, 2013, the date on which the financial statements were available to be issued. There were no material subsequent events that would require further disclosure.

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**SUPPLEMENTARY INFORMATION**

**Puerto Rico Industrial Development Company**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Schedule of Changes in Cash and Sinking Fund per Trust Indenture (In Thousands)  
Year Ended June 30, 2013

	Total	General Fund	U.S. Bank Trust Indenture Sinking Fund	
			Principal and Interest	Reserve Account
Balance at June 30, 2012	\$ 67,081	\$ 9,085	\$ 30,814	\$ 27,182
Cash provided by/ (used in) operating activities	22,591	9,127	18,730	(5,266)
Sale of property and equipment and land held for improvement of sale	7,919	7,919	—	—
Collections from capital contributions	9,879	9,879	—	—
Payments for capital assets	(3,101)	(3,101)	—	—
Payment of bonds, due on July 1, 2012 and January 1, 2013	(28,570)	—	(28,570)	—
Payment of interest	(16,708)	(5,252)	(11,456)	—
Payment of obligations under capital lease	(86)	(86)	—	—
Collections from notes receivable	2,141	2,141	—	—
Investment in certificate of deposits	(8,974)	(8,974)	—	—
Interest collected on investments, loans and other nonoperating revenue	361	284	—	77
Net change in early retirement benefits	63	63	—	—
Net payments from Commonwealth of Puerto Rico	681	681	—	—
Net payments to other funds	(12,962)	(12,962)	—	—
Balance at June 30, 2013	<u>\$ 40,315</u>	<u>\$ 8,804</u>	<u>\$ 9,518</u>	<u>\$ 21,993</u>
Balance at June 30, 2013 represented by:				
Cash and cash equivalents and available for operations	\$ 8,804	\$ 8,804	\$ —	\$ —
Cash and cash equivalents held by the Trustee	9,518	—	9,518	—
Investment in U.S. Treasury bond strips, held by the Trustee, at market value	21,993	—	—	21,993
	<u>\$ 40,315</u>	<u>\$ 8,804</u>	<u>\$ 9,518</u>	<u>\$ 21,993</u>

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