

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, 2009
and 2008, and Other Supplementary Information for the
Year ended June 30, 2009 and Independent Auditors' Report*

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

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as of and for the Years Ended June 30, 2009 and 2008, and Other
Supplementary Information for the Year ended June 30, 2009 and
Independent Auditors' Report*



PRIDCO

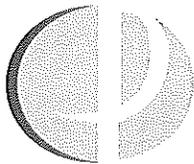
Puerto Rico Industrial Development Company

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

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Required Supplementary Information -	
Management's Discussion and Analysis	2
Basic Financial Statements:	
Balance Sheets:	
– June 30, 2009	8
– June 30, 2008	9
Statements of Revenue, Expenses, and Changes in Net Assets:	
– Year Ended June 30, 2009	10
– Year Ended June 30, 2008	11
Statements of Cash Flows:	
– Year Ended June 30, 2009	12
– Year Ended June 30, 2008	14
Notes to Basic Financial Statements	16
Other Supplementary Information -	
Schedule of Changes in Cash and Sinking Fund per Trust Indenture Year Ended June 30, 2009	39



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 years ended June 30, 2009 and 2008, 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PRIDCO as of June 30, 2009 and 2008, and the changes in financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of PRIDCO. The schedule of changes in cash and sinking fund per trust indenture for the year ended June 30, 2009 included on page 39 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.

December 18, 2009

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to the original of this report
License Exp. December 1, 2011.



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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, 2009 and 2008

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, 2009 and 2008. These financial statements include the financial position and results of operations of three separate legal entities comprised of PRIDCO, the Puerto Rico Industrial Incentives Fund (PRIIF) and the Puerto Rico Industrial Investment Corp. (PRIICO).

Overview of the Financial Statements

The annual report includes the management's discussion and analysis report, the independent auditors' report, and the basic financial statements. The financial statements also include notes that explain in more detail the information contained in the financial statements, and a supplemental schedule, which is not a required part of the basic financial statements.

Financial Analysis of PRIDCO as a Whole

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

Net assets — The condensed net asset information is presented as follows (in thousands):

	June 30		Change	
	2009	2008	In dollars	Percentage
Current assets	\$ 120,052	142,342	(22,290)	(15.66)%
Capital assets, net	717,274	720,038	(2,764)	(0.38)%
Other noncurrent assets	71,633	71,256	377	0.53%
Total assets	\$ 908,959	933,636	(24,677)	(2.64)%
Current liabilities	\$ 177,914	175,135	2,779	1.59%
Noncurrent liabilities	345,438	366,922	(21,484)	(5.86)%
Total liabilities	523,352	542,057	(18,705)	(3.45)%
Net assets:				
Invested in capital assets, net of related debt	366,015	352,975	13,040	3.69%
Restricted	37,120	40,507	(3,387)	(8.36)%
Deficit	(17,528)	(1,903)	(15,625)	821.07%
Total net assets	385,607	391,579	(5,972)	(1.53)%
Total liabilities and net assets	\$ 908,959	933,636	(24,677)	(2.64)%

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

	June 30		Change	
	2008	2007 (As Restated)	In dollars	Percentage
Current assets	\$ 142,342	168,410	(26,068)	(15.48)%
Capital assets, net	720,038	722,862	(2,824)	(0.39)%
Other noncurrent assets	71,256	84,532	(13,276)	(15.71)%
Total assets	\$ 933,636	975,804	(42,168)	(4.32)%
Current liabilities	\$ 175,135	133,064	42,071	31.62%
Noncurrent liabilities	366,922	418,522	(51,600)	(12.33)%
Total liabilities	542,057	551,586	(9,529)	(1.73)%
Net assets:				
Invested in capital assets, net of related debt	352,975	341,171	11,804	3.46%
Restricted	40,507	45,404	(4,897)	(10.79)%
Unrestricted	(1,903)	37,643	(39,546)	(105.06)%
Total net assets	391,579	424,218	(32,639)	(7.69)%
Total liabilities and net assets	\$ 933,636	975,804	(42,168)	(4.32)%

Analysis of Net Assets at June 30, 2009 and 2008

Net assets of \$386 million are composed of \$366 million invested in capital assets, net of related debt; \$37 million restricted and a deficit of \$17 million. Total net assets changed from \$392 million to \$386 million, a decrease of approximately \$6 million or 1.53%. Current assets decreased by approximately \$25 million mostly due to a decrease in cash and cash equivalents used for operating purposes. Amounts due from the Commonwealth consist of the outstanding balance of the line of credit used to fund the industrial incentives offered by the Special Incentives Fund which operations are not included as part of the basic financial statements of PRIDCO.

Net assets invested in capital assets, net of related debt, increased by \$13 million mostly as a net result of a decrease in bonds payable of approximately \$10.2 million and a decrease on net capital assets of approximately \$3 million. Restricted assets decreased by \$3.4 million mostly as a net result of an increase in the current portion of the bonds payable and interest payable of approximately \$4.9 million and an increase on the sinking fund of approximately \$1.5 million. Restricted assets are mainly composed of amounts deposited in the sinking fund that are restricted for the payment of the current portion of bonds payable.

Analysis of Net Assets at June 30, 2008 and 2007

Net assets of \$392 million are composed of \$353 million invested in capital assets, net of related debt; \$41 million restricted and an unrestricted net deficit of \$1.9 million. Total net assets changed from \$424 million to \$392 million, a decrease of approximately \$33 million or 7.69%. Current assets decreased by approximately \$26 million mostly due to the fact that PRIIF paid approximately \$23.6 million to the Special Incentives Fund, a special fund of the Commonwealth, in order to fund pending incentives commitments. Amounts due from the Commonwealth consist of the outstanding balance of the line of credit used to fund the industrial incentives offered by the Special Incentives Fund which operations are not included as part of the basic financial statements of PRIDCO.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

Net assets invested in capital assets, net of related debt, increased by \$11.8 million mostly as a net result of the \$11.3 million sale of the Mennen building in PRIIF and related debt of \$3.4 million, and a decrease of \$5.2 million in bonds payable. Restricted assets decreased by \$4.9 million mostly due to a decrease in the restricted cash used for the construction of the Bioprocess Development and Training Complex in Mayagüez. Restricted assets are mainly composed of amounts deposited in the sinking fund that are restricted for the payment of the current portion of bonds payable.

The condensed changes in net assets information is presented below (in thousands):

	Year Ended June 30,		Change	
	2009	2008	In dollars	Percentage
Operating revenue —				
Rental income	\$ 72,032	66,368	5,664	8.53%
Nonoperating revenue:				
Net gain on sale of properties and insurance recoveries	9,163	11,513	(2,350)	(20.41)%
Net investment and interest income	2,735	5,859	(3,124)	(53.32)%
Total nonoperating revenue	11,898	17,372	(5,474)	(31.51)%
Total revenue	83,930	83,740	190	0.23%
Operating expenses:				
Salaries and wages	17,855	16,412	1,443	8.79%
Administrative, general, and other expenses	22,430	27,205	(4,775)	(17.55)%
Provision for legal matters	16,274	7,465	8,809	118.00%
Depreciation and amortization	22,107	23,930	(1,823)	(7.62)%
Industrial incentives and grants	130	325	(195)	(60.00)%
Less capitalized expenses	(907)	(2,892)	1,985	(68.64)%
Total operating expenses, net	77,889	72,445	5,444	7.51%
Nonoperating expenses:				
Interest and debt issue cost, net	23,478	23,627	(149)	(0.63)%
Payment to Commonwealth	—	23,634	(23,634)	100.00%
Total nonoperating expenses	23,478	47,261	(23,783)	(50.32)%
Total expenses	101,367	119,706	(18,339)	(15.32)%
Deficiency before capital contributions	(17,437)	(35,966)	18,529	(51.52)%
Capital contributions	12,350	3,650	8,700	238.36%
Special item - early retirement and voluntary separation plan	(885)	(323)	(562)	173.99%
Change in net assets	(5,972)	(32,639)	26,667	(81.70)%
Net assets, beginning of year (as restated)	391,579	424,218	(32,639)	(7.69)%
Net assets, end of year	\$ 385,607	391,579	(5,972)	(1.53)%

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

	Year Ended June 30,		Change	
	2008	2007	In dollars	Percentage
Operating revenue —				
Rental income	\$ 66,368	64,231	2,137	3.33%
Nonoperating revenue:				
Net gain on sale of properties and insurance recoveries	11,513	21,370	(9,857)	(46.13)%
Net investment and interest income	5,859	6,558	(699)	(10.66)%
Total nonoperating revenue	17,372	27,928	(10,556)	(37.80)%
Total revenue	83,740	92,159	(8,419)	(9.14)%
Operating expenses:				
Salaries and wages	16,412	16,230	182	1.12%
Administrative, general, and other expenses	27,205	29,055	(1,850)	(6.37)%
Provision for legal matters	7,465	—	7,465	—
Depreciation and amortization	23,930	19,162	4,768	24.88%
Industrial incentives and grants	325	700	(375)	(53.57)%
Less capitalized expenses	(2,892)	(3,019)	127	(4.21)%
Total operating expenses, net	72,445	62,128	10,317	16.61%
Nonoperating expenses:				
Interest and debt issue cost, net	23,627	21,486	2,141	9.96%
Payment to Commonwealth	23,634	—	23,634	100.00%
Total nonoperating expenses	47,261	21,486	25,775	119.96%
Total expenses	119,706	83,614	36,092	43.17%
Excess (Deficiency) before capital contributions	(35,966)	8,545	(44,511)	(520.90)%
Capital contributions	3,650	3,641	9	0.25%
Special item - early retirement and voluntary separation plan	(323)	(2,645)	2,322	(87.79)%
Change in net assets	(32,639)	9,541	(42,180)	(442.09)%
Net assets, beginning of year (as restated)	424,218	414,677	9,541	2.30%
Net assets, end of year	\$ 391,579	424,218	(32,639)	(7.69)%

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

Year Ended June 30, 2009 vs. June 30, 2008

In overall, PRIDCO's revenue increased by approximately \$190 thousand, or .23% mostly as a result of increase in rent billing of \$5.6 million versus a reduction in other nonoperating income as the net gain on sale of properties and insurance recoveries, and reduction on net investment and interest income of approximately \$2.3 million and \$3.1 million respectively.

Operating expenses increased by \$5.4 million or 7.51% mostly as a result of the increase of expenses related to litigation matters of \$8.8 million, a decrease on general and administrative expenses of approximately \$4.8 million, mostly composed of the decrease on utilities, rent and fringe benefits of approximately \$4 million. Also, operating expenses decrease is mostly due to a decrease in depreciation and amortization expense of approximately \$1.8 million, a decrease in capitalized expenses of approximately \$1.9 million and an increase on salaries and wages of approximately \$1.4 million.

Nonoperating expenses in 2009 amounted to approximately \$23.5 million, a decrease of \$23.7 million is mostly composed of a payment made during the year ended June 30, 2008 to Commonwealth of \$23.6 million as approved by the Board of Directors of PRIDCO to be used by the Special Incentives Fund, a fund of the Commonwealth.

Total industrial incentives granted by PRIIF during the year decreased by \$195 thousands because PRIIF awarded incentives to only one grantee.

Capital contributions amounted to \$12.3 million as PRIDCO received approximately \$7.8 million as contributions from the Special Incentives Fund for building improvements and \$4.5 million on contribution from the Special Fund for Economic Development (SFED) as a construction cost reimbursement for the Bioprocess Development Training Complex in Mayagüez.

Gain on sale of properties and insurance recoveries in 2009 amounted to approximately \$9.2 million, a decrease of \$2.3 million or 20.41% from prior year is directly related to the sale of 8 "cuerdas" of land and building facilities with a total of 84,927 square feet of PRIDCO buildings.

Year Ended June 30, 2008 vs. June 30, 2007

In overall, PRIDCO's operating revenue increased by approximately \$2 million, or 3.33% mostly as a result of increase in rent billing of \$4.2 million versus a reduction in other nonoperating income of \$3.4 million and a decrease of \$1.3 million of bad debts.

Operating expenses increased by \$10.3 million (16.61%) mostly as a result of the increase of expenses related to litigation matters of \$7.4 million, and depreciation and amortization expense of \$4.7 million.

Nonoperating expenses in 2008 amounted to approximately \$47 million, an increase of \$25.8 million mostly composed of a payment to Commonwealth of \$23.6 million as approved by the Board of Directors of PRIDCO to be used by the Special Incentives Fund, a fund of the Commonwealth.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

Total industrial incentives granted by PRIIF during the year decreased by \$375 thousands because PRIIF awarded incentives to only one grantee.

Capital contributions amounted to \$3.7 million as PRIDCO received approximately \$2 million as contributions from the Special Incentives Fund for building improvements and \$1.7 million as part of federal reimbursements under the Economic Development Act (EDA) federal program.

Capitalized expenses remained comparable with prior year (\$2.8 million in 2008 versus \$3 million in 2007). There was a new construction project at Moca/Aguadilla that started during September 2007.

Gain on sale of properties and insurance recoveries in 2008 amounted to \$11.5 million, a decrease of \$9.8 million or 46% from prior year directly related to the sale of 57 "cuerdas" of land and building facilities with a total of 224,000 square feet of PRIDCO buildings and the Mennen building in PRIIF in fiscal year 2008.

Capital Assets

PRIDCO's investment in capital assets as of June 30, 2009 and 2008 amounted to approximately \$717 million and \$720 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, 2009 and 2008, PRIDCO invested approximately \$5.6 million, and \$12.1 million, respectively, mainly related to 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).

Depreciation and amortization expense for the years ended June 30, 2009 and 2008 amounted to approximately \$22.1 million and \$23.9 million, respectively.

See note 8 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, 2009 and 2008, PRIDCO had \$266 and \$276 million respectively, in outstanding bonds, including the current portion of \$11 million and \$5.6 million at June 30, 2009 and 2008, respectively.

The credit rating of PRIDCO's public debt is "BBB", as determined by Standards & Poor's on July 16, 2003 and "BAA1", as determined by Moody's Investor Services as of July 11, 2003. 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.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet
June 30, 2009

(In Thousands)

Assets	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Corp.	Eliminations	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 16,596	152	71	—	16,819
Sinking fund	15,774	—	—	—	15,774
Rent and accounts receivable, net	38,877	—	—	—	38,877
Interest receivable	54	195	—	—	249
Notes receivables, current maturities	112	1,587	—	—	1,699
Prepaid expenses	1,555	—	100	—	1,655
Due from the Commonwealth	44,979	—	—	—	44,979
Due from other funds	30,456	—	70,297	(100,753)	—
Total current assets	<u>148,403</u>	<u>1,934</u>	<u>70,468</u>	<u>(100,753)</u>	<u>120,052</u>
Noncurrent assets:					
Notes receivable -- noncurrent portion	562	527	—	—	1,089
Sinking fund reserve account, at accreted cost	36,781	—	—	—	36,781
Investment in equity securities	15,986	—	—	—	15,986
Deferred bond issue costs	2,626	—	—	—	2,626
Lease financing receivables	—	—	537	—	537
Capital assets, net	700,037	—	17,237	—	717,274
Property held for sale	14,614	—	—	—	14,614
Total noncurrent assets	<u>770,606</u>	<u>527</u>	<u>17,774</u>	<u>—</u>	<u>788,907</u>
Total assets	<u>\$ 919,009</u>	<u>2,461</u>	<u>88,242</u>	<u>(100,753)</u>	<u>908,959</u>
Liabilities and Net Assets					
Current liabilities:					
Current portion of:					
Loans and notes payable to commercial banks	\$ —	—	4,675	—	4,675
Due to PR Land Administration	1,306	—	—	—	1,306
Bonds payable	11,087	—	—	—	11,087
Obligations under capital leases	190	—	—	—	190
Notes payable to Government Development Bank	90,928	—	—	—	90,928
Contract retentions	2,638	—	—	—	2,638
Accrued interest	4,348	—	186	—	4,534
Accounts payable and other accrued liabilities	60,335	8	130	—	60,473
Deferred credits	2,083	—	—	—	2,083
Due to other funds	70,297	—	30,456	(100,753)	—
Total current liabilities	<u>243,212</u>	<u>8</u>	<u>35,447</u>	<u>(100,753)</u>	<u>177,914</u>
Noncurrent liabilities:					
Bonds payable	254,551	—	—	—	254,551
Obligations under capital leases	122	—	—	—	122
Loans and notes payable to commercial banks	—	—	79,328	—	79,328
Rent and other deposits	11,437	—	—	—	11,437
Total noncurrent liabilities	<u>266,110</u>	<u>—</u>	<u>79,328</u>	<u>—</u>	<u>345,438</u>
Total liabilities	<u>509,322</u>	<u>8</u>	<u>114,775</u>	<u>(100,753)</u>	<u>523,352</u>
Net assets:					
Invested in capital assets, net of related debt	432,781	—	(66,766)	—	366,015
Restricted	37,120	—	—	—	37,120
Unrestricted (deficit)	(60,214)	2,453	40,233	—	(17,528)
Total net assets (deficit)	<u>409,687</u>	<u>2,453</u>	<u>(26,533)</u>	<u>—</u>	<u>385,607</u>
Total liabilities and net assets	<u>\$ 919,009</u>	<u>2,461</u>	<u>88,242</u>	<u>(100,753)</u>	<u>908,959</u>

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet
June 30, 2008
As restated

(In thousands)

Assets	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Corp	Eliminations	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 37,245	2,822	98	—	40,165
Sinking fund	15,728	—	—	—	15,728
Rent and accounts receivable, net	38,176	—	—	—	38,176
Interest receivable	42	197	—	—	239
Notes receivables, current maturities	—	462	—	—	462
Prepaid expenses	1,581	—	98	—	1,679
Due from the Commonwealth	45,893	—	—	—	45,893
Due from other funds	18,240	—	65,971	(84,211)	—
Total current assets	<u>156,905</u>	<u>3,481</u>	<u>66,167</u>	<u>(84,211)</u>	<u>142,342</u>
Noncurrent assets:					
Notes receivable -- noncurrent portion	—	1,649	—	—	1,649
Sinking fund reserve account, at accreted cost	35,279	—	—	—	35,279
Investment in equity securities	4,372	—	—	—	4,372
Deferred bond issue costs	2,898	—	—	—	2,898
Lease financing receivables	—	—	508	—	508
Capital assets, net	701,556	—	18,482	—	720,038
Property held for sale	26,550	—	—	—	26,550
Total noncurrent assets	<u>770,655</u>	<u>1,649</u>	<u>18,990</u>	<u>—</u>	<u>791,294</u>
Total assets	<u>\$ 927,560</u>	<u>5,130</u>	<u>85,157</u>	<u>(84,211)</u>	<u>933,636</u>
Liabilities and Net Assets					
Current liabilities:					
Current portion of:					
Loans and notes payable to commercial banks	\$ —	—	4,491	—	4,491
Due to PR Land Administration	1,305	—	—	—	1,305
Bonds payable	5,688	—	—	—	5,688
Obligations under capital leases	55	—	—	—	55
Notes payable to Government Development Bank	91,566	—	—	—	91,566
Contract retentions	4,064	—	—	—	4,064
Accrued interest	4,812	—	185	—	4,997
Accounts payable and other accrued liabilities	53,476	8	293	—	53,777
Deferred credits	9,192	—	—	—	9,192
Due to other funds	65,971	—	18,240	(84,211)	—
Total current liabilities	<u>236,129</u>	<u>8</u>	<u>23,209</u>	<u>(84,211)</u>	<u>175,135</u>
Noncurrent liabilities:					
Bonds payable	270,171	—	—	—	270,171
Due to PR Land Administration	1,306	—	—	—	1,306
Obligations under capital leases	8	—	—	—	8
Loans and notes payable to commercial banks	—	—	84,039	—	84,039
Rent and other deposits	11,398	—	—	—	11,398
Total noncurrent liabilities	<u>282,883</u>	<u>—</u>	<u>84,039</u>	<u>—</u>	<u>366,922</u>
Total liabilities	<u>519,012</u>	<u>8</u>	<u>107,248</u>	<u>(84,211)</u>	<u>542,057</u>
Net assets:					
Invested in capital assets, net of related debt	423,023	—	(70,048)	—	352,975
Restricted	40,507	—	—	—	40,507
Unrestricted (deficit)	(54,982)	5,122	47,957	—	(1,903)
Total net assets (deficit)	<u>408,548</u>	<u>5,122</u>	<u>(22,091)</u>	<u>—</u>	<u>391,579</u>
Total liabilities and net assets	<u>\$ 927,560</u>	<u>5,130</u>	<u>85,157</u>	<u>(84,211)</u>	<u>933,636</u>

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2009

(In Thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Corp.	Eliminations	Total Reporting Entity
Operating revenue:					
Rental income, substantially from industrial properties, net	\$ 72,032	—	3,672	(3,672)	72,032
Operating expenses:					
Salaries and wages	17,855	—	—	—	17,855
Administrative and general	15,779	—	1,800	(3,672)	13,907
Depreciation and amortization	21,398	—	709	—	22,107
Maintenance and repairs, net	8,105	—	418	—	8,523
Provision for legal matters	16,274	—	—	—	16,274
Industrial incentives and grants	—	130	—	—	130
Total operating expenses	79,411	130	2,927	(3,672)	78,796
Less capitalized expenses	907	—	—	—	907
Total operating expenses, net	78,504	130	2,927	(3,672)	77,889
Operating income (loss)	(6,472)	(130)	745	—	(5,857)
Nonoperating revenue (expenses):					
Net gain on sale of properties and insurance recoveries	9,163	—	—	—	9,163
Net investment income	2,170	—	—	—	2,170
Interest income on loans	273	156	136	—	565
Interest expense, net of capitalized interest	(17,873)	—	(5,323)	—	(23,196)
Amortization of debt issue costs	(282)	—	—	—	(282)
Total nonoperating revenue (expenses)	(6,549)	156	(5,187)	—	(11,580)
Income (loss) before contributions and special item					
	(13,021)	26	(4,442)	—	(17,437)
Capital contributions – Special Incentives Fund	7,850	—	—	—	7,850
Capital contributions – FEDE	4,500	—	—	—	4,500
Capital contributions – PRIIF	2,695	(2,695)	—	—	—
Special item - early retirement and voluntary separation plan	(885)	—	—	—	(885)
Changes in net assets	1,139	(2,669)	(4,442)	—	(5,972)
Net assets (deficit), beginning of year	408,548	5,122	(22,091)	—	391,579
Net assets (deficit), end of year	\$ 409,687	2,453	(26,533)	—	385,607

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2008
As restated

(In Thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Corp.	Eliminations	Total Reporting Entity
Operating revenue:					
Rental income, substantially from industrial properties, net	\$ 65,862	—	4,178	(3,672)	66,368
Operating expenses:					
Salaries and wages	16,412	—	—	—	16,412
Administrative and general	20,001	—	2,241	(3,672)	18,570
Depreciation and amortization	22,628	—	1,302	—	23,930
Maintenance and repairs, net	8,139	—	496	—	8,635
Provision for legal matters	7,465	—	—	—	7,465
Industrial incentives and grants	—	325	—	—	325
Total operating expenses	74,645	325	4,039	(3,672)	75,337
Less capitalized expenses	2,892	—	—	—	2,892
Total operating expenses, net	71,753	325	4,039	(3,672)	72,445
Operating income (loss)	(5,891)	(325)	139	—	(6,077)
Nonoperating revenue (expenses):					
Net gain on sale of properties and insurance recoveries	9,612	—	1,901	—	11,513
Net investment income	3,893	1,349	176	—	5,418
Interest income on loans	262	179	—	—	441
Legislative appropriations from the Commonwealth of Puerto Rico	—	(23,634)	—	—	(23,634)
Interest expense, net of capitalized interest	(18,014)	—	(5,327)	—	(23,341)
Amortization of debt issue costs	(286)	—	—	—	(286)
Total nonoperating expenses	(4,533)	(22,106)	(3,250)	—	(29,889)
Loss before contributions, transfers and special item	(10,424)	(22,431)	(3,111)	—	(35,966)
Capital contributions – Special Incentives Fund	1,998	—	—	—	1,998
Capital contributions – U.S. Government	1,652	—	—	—	1,652
Special item - early retirement and voluntary separation plan	(323)	—	—	—	(323)
Changes in net assets	(7,097)	(22,431)	(3,111)	—	(32,639)
Net assets (deficit), beginning of year, as restated	415,645	27,553	(18,980)	—	424,218
Net assets (deficit), end of year	\$ 408,548	5,122	(22,091)	—	391,579

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
Year Ended June 30, 2009

(In Thousands)

	<u>Puerto Rico Industrial Development Company</u>	<u>Puerto Rico Industrial Incentives Fund, Inc.</u>	<u>Puerto Rico Industrial Investment Corp.</u>	<u>Total Reporting Entity</u>
Cash flows from operating activities:				
Cash collected from rental income	\$ 68,115	—	—	68,115
Cash paid for salaries and benefits	(18,080)	—	—	(18,080)
Cash paid for supplies and services	(37,837)	—	1,294	(36,543)
Cash paid for incentive grants	—	(130)	—	(130)
Net cash provided by (used in) operating activities	<u>12,198</u>	<u>(130)</u>	<u>1,294</u>	<u>13,362</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of property and insurance recoveries	5,862	—	—	5,862
Contributions from the Special Fund for Economic Development	4,500	—	—	4,500
Payments of property and equipment and land held for improvement	(7,024)	—	—	(7,024)
Payments of notes and loans payable	—	—	(4,527)	(4,527)
Payments of capital leases	(190)	—	—	(190)
Payment to PR Land Administration	(1,305)	—	—	(1,305)
Payments of bonds payable	(11,320)	—	—	(11,320)
Interest paid	(17,629)	—	(5,322)	(22,951)
Net cash used in capital and related financing activities	<u>(27,106)</u>	<u>—</u>	<u>(9,849)</u>	<u>(36,955)</u>
Cash flows from noncapital and related financing activities:				
Proceeds from notes payable to Government Development Bank	277	—	—	277
Payments of notes payable to Government Development Bank	(914)	—	—	(914)
Payments for early retirement and voluntary separation plan	(885)	—	—	(885)
Net payments from (to) blended component units	(5,195)	(2,695)	7,890	—
Net cash provided by (used in) noncapital and related financing activities	<u>(6,717)</u>	<u>(2,695)</u>	<u>7,890</u>	<u>(1,522)</u>
Cash flows from investing activities:				
Net change in sinking fund – redemption and bond service accounts	(1,548)	—	—	(1,548)
Interest collected on investments and loans and other nonoperating revenue	2,431	141	130	2,702
Collections from notes receivable	93	14	—	107
Collections from lease financing agreement	—	—	508	508
Net cash provided by investing activities	<u>976</u>	<u>155</u>	<u>638</u>	<u>1,769</u>
Net change in cash and cash equivalents	<u>(20,649)</u>	<u>(2,670)</u>	<u>(27)</u>	<u>(23,346)</u>
Cash and cash equivalents, beginning of year	37,245	2,822	98	40,165
Cash and cash equivalents, end of year	<u>\$ 16,596</u>	<u>152</u>	<u>71</u>	<u>16,819</u>

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
Year Ended June 30, 2009

(In Thousands)

	<u>Puerto Rico Industrial Development Company</u>	<u>Puerto Rico Industrial Incentives Fund, Inc.</u>	<u>Puerto Rico Industrial Investment Corp.</u>	<u>Total Reporting Entity</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (6,472)	(130)	745	(5,857)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	21,398	—	709	22,107
Provision for legal matters	16,274	—	—	16,274
Capitalized expenses	907	—	—	907
(Increase) in receivables and deposits	(4,835)	—	—	(4,835)
Increase (decrease) in other assets	(7,381)	—	2	(7,379)
(Decrease) in accounts payable and accrued liabilities	(7,693)	—	(162)	(7,855)
Net cash provided by (used in) operating activities	<u>\$ 12,198</u>	<u>(130)</u>	<u>1,294</u>	<u>13,362</u>
Supplementary information of noncash transactions:				
Accretion of bonds payable	\$ 1,090	—	—	1,090
Amortization of deferred and bond discount	9	—	—	9
Capital contributions - Special Incentives Fund	7,950	—	—	7,950
Common stock owed to the Special Fund for Economic Development	11,614	—	—	11,614
Note receivable from third party	673	—	—	673
Insurance recovery	3,500	—	—	3,500

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
Year Ended June 30, 2008
As restated

(In Thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Corp.	Total Reporting Entity
Cash flows from operating activities:				
Cash collected from rental income	\$ 60,934	—	284	61,218
Cash paid for salaries and benefits	(16,412)	—	—	(16,412)
Cash paid for supplies and services	(41,174)	—	996	(40,178)
Cash paid for incentive grants	—	(325)	—	(325)
Net cash provided by (used in) operating activities	<u>3,348</u>	<u>(325)</u>	<u>1,280</u>	<u>4,303</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of property and insurance recoveries	28,556	—	—	28,556
Contributions from the U.S. Government	1,652	—	—	1,652
Payments of property and equipment and land held for improvement	(23,841)	—	—	(23,841)
Payments of notes and loans payable	—	—	(3,149)	(3,149)
Payments of capital leases	(96)	—	—	(96)
Payments of bonds payable	(7,000)	—	—	(7,000)
Interest paid	(17,660)	—	(5,349)	(23,009)
Net cash used in capital and related financing activities	<u>(18,389)</u>	<u>—</u>	<u>(8,498)</u>	<u>(26,887)</u>
Cash flows from noncapital and related financing activities:				
Proceeds from notes payable to Government Development Bank	10,784	—	—	10,784
Payments of notes payable to Governmental Development Bank	(2,947)	—	—	(2,947)
Payments for early retirement and voluntary separation plan	(9,454)	—	—	(9,454)
Net payments from (to) blended component units	21,185	(28,261)	7,076	—
Payment to the Commonwealth	—	(23,634)	—	(23,634)
Net cash provided by (used in) noncapital and related financing activities	<u>19,568</u>	<u>(51,895)</u>	<u>7,076</u>	<u>(25,251)</u>
Cash flows from investing activities:				
Net change in sinking fund – redemption and bond service accounts	1,401	—	—	1,401
Interest collected on investments and loans and other nonoperating revenue	3,763	1,508	176	5,447
Collections from notes receivable	—	101	—	101
Collections from lease financing agreement	—	—	(27)	(27)
Net cash provided by investing activities	<u>5,164</u>	<u>1,609</u>	<u>149</u>	<u>6,922</u>
Net change in cash and cash equivalents	9,691	(50,611)	7	(40,913)
Cash and cash equivalents, beginning of year	27,554	53,433	91	81,078
Cash and cash equivalents, end of year	<u>\$ 37,245</u>	<u>2,822</u>	<u>98</u>	<u>40,165</u>

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
Year Ended June 30, 2008

(In Thousands)

	<u>Puerto Rico Industrial Development Company</u>	<u>Puerto Rico Industrial Incentives Fund, Inc.</u>	<u>Puerto Rico Industrial Investment Corp.</u>	<u>Total Reporting Entity</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (5,891)	(325)	139	(6,077)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	22,628	—	1,302	23,930
Capitalized expenses	2,892	—	—	2,892
(Increase) in receivables and deposits	(14,678)	—	—	(14,678)
Increase (decrease) in other assets	5,049	—	(7)	5,042
(Decrease) in accounts payable and accrued liabilities	(6,652)	—	(154)	(6,806)
Net cash provided by (used in) operating activities	<u>\$ 3,348</u>	<u>(325)</u>	<u>1,280</u>	<u>4,303</u>
Supplementary information of noncash transactions:				
Accretion of bonds payable	\$ 1,716	—	—	1,716
Amortization of deferred and bond discount	8	—	—	8
Capital contributions - Special Incentives Fund	1,998	—	—	1,998
In-kind payment to Puerto Rico Land Authority	(1,305)	—	—	(1,305)
Elimination of debt related to sale of Mennen building	(4,214)	—	4,214	—
Retirement of Mennen building from PRIICO	13,396	—	(13,396)	—
Elimination of contract retentions	—	—	222	222

See accompanying notes to basic financial statements.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

1. REPORTING ENTITY

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

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

- Puerto Rico Industrial Incentives Fund, Inc. (PRIIF) was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the maintenance of existing employment in the industrial and service sectors of the Puerto Rico economy.
- 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 special type industries.

Pursuant to a stock purchase agreement dated May 1, 2002, PRIDCO acquired all outstanding shares of Star-Kist Food, Inc. for \$4 million, which represents the fair value of the land that it owned. Subsequently, Star-Kist Food, Inc. changed its name to Puerto Rico Industrial Development Company. This has remained inactive. In addition, investments in equity securities include \$11.6 million which represent advances received from the Special Fund for Economic Development in relation to an Agreement for Research and Development Incentive Funds with the Hewlett Packard Technology Center, Inc. located in Aguadilla, which is related to Hewlett Packard, a worldwide renowned technology company.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Cash Equivalents

PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

(b) 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. As of June 30, 2009, PRIDCO's investments consisted mostly of certificates of deposit issued by financial institutions in Puerto Rico and the United States, by the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
 Notes to Basic Financial Statements
 Years Ended June 30, 2009 and 2008

(c) **Rent Receivable, Notes and Lease Financing Receivable and Allowance for Uncollectible Amounts**

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 uncollectible amounts is established through provisions recorded as an offset of rental income. This allowance is based on the evaluation of the risk characteristics of the notes portfolio, including such factors as the nature of the individual credit outstanding, past loss experience, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the collectibility of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Notwithstanding this, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions.

Notes and lease financing receivables are presented at the outstanding unpaid principal balance reduced by the allowance for losses. These are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement.

(d) **Interfund Balances**

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

(e) **Restricted Assets**

Restricted assets at June 30, 2009 and 2008 consist of cash and cash equivalents, sinking fund, and other assets to be used for the payment of debt service and sinking fund requirements, and the granting of industrial incentives, and are composed of the following (in thousands):

	<u>2009</u>	<u>2008</u>
Debt service and sinking funds	\$ <u>52,555</u>	<u>51,007</u>
Liabilities payable from restricted assets consist of the following:		
Bonds payable within one year	\$ 11,087	5,688
Interest payable	<u>4,348</u>	<u>4,812</u>
	<u>15,435</u>	<u>10,500</u>
Net restricted assets	\$ <u>37,120</u>	<u>40,507</u>

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

(f) **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 kind of property over their estimated useful lives. Additions, renewals, and betterments, unless of relatively minor amounts, are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Estimated useful lives and capitalization thresholds are as follows:

	<u>Years</u>	<u>Capitalization Threshold (In thousand)</u>
Buildings and improvements	50	\$ 1
Machinery and equipment	15	1
Furniture and vehicles	5-15	1

During the year ended June 30, 2009, PRIDCO performed an assessment of impairment on capital assets under the provisions of Statement on Governmental Accounting Standard (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by PRIDCO should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by PRIDCO should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Management assessed and determined that there is no additional impairment of capital assets to be recorded as of June 30, 2009. Insurance recoveries have been presented as nonoperating revenue.

In addition, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, applicable for periods beginning after December 15, 2007, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as postclosure care. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented. PRIDCO maintains an environmental reserve as part of accounts payable and other accrued liabilities of approximately \$4.7 million as of June 30, 2009.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

(g) *Operating Revenue and Expenses*

PRIDCO distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

(h) *Revenue Recognition*

➤ **Rental Revenue**

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

➤ **Non-exchange Transactions**

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

Contributions during the years ended June 30, 2009 and 2008 were as follows (in thousands):

	2009		2008	
	Puerto Rico	U.S. Government	Puerto Rico	U.S. Government
Purpose —				
Improvements to facilities	\$ 7,850	—	1,998	1,652

(i) *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. Total amounts disbursed for the years ended June 30, 2009 and 2008 amounted to approximately \$130 thousands and \$325 thousands, respectively.

(j) *Debt Issue Costs and Deferred Loss on Refunding*

Debt issue costs are amortized to expense over the term of the debt to which they relate using a method substantially equivalent to the interest method. Losses on refunding are deferred and presented as a deduction from bonds payable. Deferred losses are amortized to expense over the term of the old debt following a method substantially equivalent to the interest method.

(k) *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. Upon retirement, resignation or involuntary termination, the employee will be paid 90, 80 or 50 days, respectively, of accumulated sick leave.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

(l) 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 period. Actual results could differ from those estimates.

(m) Subsequent Events

We will redeem the Refunding Revenue Bonds Series 1997 and the General Purpose Revenue Bonds Series 1997 in whole, for cash, at the principal amount of the Bonds plus accrued and unpaid interest at January 1, 2010.

In addition, we will also partially redeem the General Purpose Revenue Bonds Series 1988 for cash at the partial redemption amount plus accrued and unpaid interest at January 1, 2010.

(n) Reclassifications – Certain balances in the 2008 financial statements have been reclassified to conform with the 2009 financial statement presentation.

3. CUSTODIAL CREDIT RISK FOR DEPOSITS

For the year ended June 30, 2009, there are no custodial risks; however, as of June 30, 2008, PRIDCO's custodial credit risk was approximately \$4.7 million, which is the bank balance of cash and cash equivalents deposited at the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

Custodial credit risk is the risk that, in an event of a bank failure, PRIDCO's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits at the Government Development Bank for Puerto Rico and the Economic Development Bank of Puerto Rico are uninsured and uncollateralized, as these entities, which are component units of the Commonwealth, are exempt from compliance with the collateralization requirement.

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

Puerto Rico Southern Industrial Development Company (SIDCO) is a related organization engaged in promoting the development of the economy of Puerto Rico. SIDCO's only project consists of a facility in Guayama, which was reconstructed, remodeled, and leased to a pharmaceutical company. The agreement calls for an annual rent equal to the amounts due and payable by SIDCO under various notes payable agreements and any other expenses incurred by SIDCO related to the facility's construction. During the term of the lease, the pharmaceutical company may exercise, at any time, an option to purchase the plant at a price equal to the outstanding amount of the notes and other plant-related obligations plus \$750 thousands.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

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 (December 2, 2017) after the date of commencement of operations of the pharmaceutical company's tax-exemption grant (December 2, 1997, as amended), 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, 2009 and 2008, summarized information regarding SIDCO's assets follows (in thousands):

	<u>2009</u>	<u>2008</u>
Current assets	\$ 464	411
Land and plant	<u>90,118</u>	<u>90,118</u>
Total assets	90,582	90,529
Contribution by pharmaceutical company	(89,260)	(89,035)
Other liabilities	<u>(888)</u>	<u>(1,065)</u>
Investment in SIDCO, net	<u>\$ 434</u>	<u>429</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 \$1,597. Pursuant to the terms of the promissory note, the parties agreed upon as follows:

- SIDCO shall not be obligated to pay the unpaid balance of principal hereunder, and this obligation shall become null and void, in the event the pharmaceutical company terminates early the lease and option agreement entered within.
- In the event the pharmaceutical company or the successor lessor under the lease exercises the option to purchase the plant pursuant to the lease, then the unpaid principal balance due on the promissory note shall be automatically accelerated and become due and payable in accordance with the lease agreement.

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

5. RENT AND ACCOUNTS RECEIVABLE

Rent and accounts receivable as of June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Rent receivable	\$ 50,680	50,001
Loans receivable	9,111	7,840
Others	<u>25,315</u>	<u>23,591</u>
Total	85,106	81,432
Allowance for uncollectible receivables	<u>(46,229)</u>	<u>(43,256)</u>
Total	<u>\$ 38,877</u>	<u>38,176</u>

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

6. NOTES RECEIVABLE

Notes receivable represent the principal amount of various nonrevolving promissory notes issued to PRIIF by qualifying exempt businesses for the purpose of partially financing the acquisition of machinery and working capital needs and a note receivable from a third party for investment commissions. Notes receivable as of June 30, 2009 and 2008 consist of the following (in thousands):

	<u>2009</u>	<u>2008</u>
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 6.55% during the term of the loan, payable in quarterly installments of \$137 commencing on August 31, 2000 through May 31, 2011.	\$ 2,112	2,112
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments of \$1 commencing on December 1, 2003 over a 20-year period, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	500	500
Nonrevolving loan 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 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.	454	463
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 9% during the term of the loan. This note is due in monthly installments of \$4 commencing on December 1, 2003 over a 10-year period.	398	398
Note receivable from third party in the original amount of \$766 thousand, payable in semiannual installments of \$112 beginning on November 1, 2009 through 2012, bearing interest at 3.22%.	<u>674</u>	<u>—</u>
Total	4,138	3,473
Less reserve for bad debts	(1,350)	(1,362)
Less current maturities	<u>(1,699)</u>	<u>(462)</u>
Notes receivable - noncurrent portion	<u>\$ 1,089</u>	<u>1,649</u>

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 Basic Financial Statements
Years Ended June 30, 2009 and 2008

During the year ended June 30, 2009, PRIDCO received a note receivable related to commission sales collected in excess by RD Capital, Inc., (third party doing business on behalf and representing PRIDCO) on the sale of U.S. Treasury STRIPS. RD Capitals, Inc. agreed to pay to the order of PRIDCO the sum of \$766 thousand. The remainder, approximately \$674 thousand, including interest, shall be paid in installments of \$112 thousand, each beginning on November 1, 2009 through 2012, and a like amount semi-annually thereafter until the full amount of this note and accrued interest shall be fully paid. All payments shall be first applied to accrued interest and the balance to the principal. Interest shall accrue beginning on May, 1, 2009, on the outstanding balance and shall be at the rate of 3.22%.

7. INTERFUND BALANCES AND TRANSACTIONS

Following is a summary of the interfund balances as of June 30, 2009 and 2008 (in thousands):

<u>Receivable by</u>	<u>Payable by</u>	<u>Purpose</u>	<u>2009</u>	<u>2008</u>
PRIDCO	PRIICO	Administrative and operating expenses	\$ 30,456	18,240
PRIICO	PRIDCO	Rent receivable	70,297	65,971
		Total	\$ <u>100,753</u>	<u>84,211</u>

During the year ended June 30, 2009, PRIIF transferred approximately \$2.7 million to PRIDCO as per approval from the Board of Directors.

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

8. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2009 and 2008 consist of the following (in thousands):

	June 30, 2009			
	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	\$ 136,537	36,589	(4,086)	169,040
Land on leased projects	69,710	967	(2,872)	67,805
Construction in progress	29,650	7,650	(36,923)	377
Total capital assets not being depreciated	<u>235,897</u>	<u>45,206</u>	<u>(43,881)</u>	<u>237,222</u>
Capital assets being depreciated:				
Buildings and improvements	698,192	41,518	(12,441)	727,269
Machinery and equipment	60,583	4,843	(495)	64,931
Furniture and vehicles	12,159	1,681	(197)	13,643
Total capital assets being depreciated	<u>770,934</u>	<u>48,042</u>	<u>(13,133)</u>	<u>805,843</u>
Less accumulated depreciation for:				
Buildings and improvements	(259,459)	(36,137)	2,512	(293,084)
Machinery and equipment	(40,085)	(3,791)	887	(42,989)
Furniture and vehicles	(5,731)	(1,358)	134	(6,955)
Total accumulated depreciation	<u>(305,275)</u>	<u>(41,286)</u>	<u>3,533</u>	<u>(343,028)</u>
Total capital assets being depreciated, net	<u>465,659</u>	<u>6,756</u>	<u>(9,600)</u>	<u>462,815</u>
Total capital assets, net	<u>\$ 701,556</u>	<u>51,962</u>	<u>(53,481)</u>	<u>700,037</u>

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

	June 30, 2008			
	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	\$ 140,432	18,009	(21,904)	136,537
Land on leased projects	61,441	10,585	(2,316)	69,710
Construction in progress	64,370	16,988	(51,708)	29,650
Total capital assets not being depreciated	<u>266,243</u>	<u>45,582</u>	<u>(75,928)</u>	<u>235,897</u>
Capital assets being depreciated:				
Buildings and improvements	651,311	77,799	(30,918)	698,192
Machinery and equipment	59,967	2,956	(2,340)	60,583
Furniture and vehicles	9,275	2,989	(105)	12,159
Total capital assets being depreciated	<u>720,553</u>	<u>83,744</u>	<u>(33,363)</u>	<u>770,934</u>
Less accumulated depreciation for:				
Buildings and improvements	(253,403)	(20,291)	14,235	(259,459)
Machinery and equipment	(37,652)	(3,562)	1,129	(40,085)
Furniture and vehicles	(4,693)	(1,113)	75	(5,731)
Total accumulated depreciation	<u>(295,748)</u>	<u>(24,966)</u>	<u>15,439</u>	<u>(305,275)</u>
Total capital assets being depreciated, net	<u>424,805</u>	<u>58,778</u>	<u>(17,924)</u>	<u>465,659</u>
Total capital assets, net	<u>\$ 691,048</u>	<u>104,360</u>	<u>(93,852)</u>	<u>701,556</u>

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

	June 30, 2009			
	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land on leased projects	\$ 830	—	—	830
Total capital assets not being depreciated	830	—	—	830
Capital assets being depreciated:				
Buildings and improvements	22,808	—	(147)	22,661
Machinery and equipment	10,522	147	(537)	10,132
Total capital assets being depreciated	33,330	147	(684)	32,793
Less accumulated depreciation for:				
Buildings and improvements	(10,656)	(651)	—	(11,307)
Machinery and equipment	(5,022)	(57)	—	(5,079)
Total accumulated depreciation	(15,678)	(708)	—	(16,386)
Total capital assets being depreciated, net	17,652	(561)	(684)	16,407
Total capital assets, net	\$ 18,482	(561)	(684)	17,237

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

June 30, 2008				
Puerto Rico Industrial Investment Corp.				
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land on leased projects	\$ 2,003	—	(1,173)	830
Total capital assets not being depreciated	2,003	—	(1,173)	830
Capital assets being depreciated:				
Buildings and improvements	43,420	—	(20,612)	22,808
Machinery and equipment	10,514	8	—	10,522
Total capital assets being depreciated	53,934	8	(20,612)	33,330
Less accumulated depreciation for:				
Buildings and improvements	(19,169)	(1,233)	9,746	(10,656)
Machinery and equipment	(4,954)	(68)	—	(5,022)
Total accumulated depreciation	(24,123)	(1,301)	9,746	(15,678)
Total capital assets being depreciated, net	29,811	(1,293)	(10,866)	17,652
Total capital assets, net	\$ 31,814	(1,293)	(12,039)	18,482

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

9. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2009 and 2008 consist of the following (in thousands):

June 30, 2009				
	PRIDCO	PRIIF	PRIICO	Total
Accounts payable	\$ 7,111	8	—	7,119
Accrued vacations and payroll related expenses	9,548	—	—	9,548
Environmental and legal liabilities	20,846	—	—	20,846
Other accrued liabilities	22,830	—	130	22,960
Total	<u>\$ 60,335</u>	<u>8</u>	<u>130</u>	<u>60,473</u>
June 30, 2008				
	PRIDCO	PRIIF	PRIICO	Total
Accounts payable	\$ 14,677	8	—	14,685
Accrued vacations and payroll related expenses	9,776	—	—	9,776
Environmental and legal liabilities	16,164	—	—	16,164
Other accrued liabilities	12,859	—	293	13,152
Total	<u>\$ 53,476</u>	<u>8</u>	<u>293</u>	<u>53,777</u>

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

10. LINES OF CREDIT AND LONG-TERM DEBT ACTIVITY

Lines of credit and long-term debt activity for the years ended June 30, 2009 and 2008 were as follows (in thousands):

	June 30, 2009					
	PRIDCO					
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due within one year
Bonds payable	\$ 276,214	—	1,090	(11,320)	265,984	11,097
Less:						
Bond discount	(355)	—	—	9	(346)	(10)
Subtotal	275,859	—	1,090	(11,311)	265,638	11,087
Notes payable to GDB	91,566	277	—	(915)	90,928	90,928
Obligations under capital leases	63	595	—	(346)	312	190
Total	\$ 367,488	872	1,090	(12,572)	356,878	102,205
	June 30, 2008					
	PRIDCO					
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due within one year
Bonds payable	\$ 281,498	—	1,716	(7,000)	276,214	5,697
Less:						
Bond discount	(363)	—	—	8	(355)	(9)
Subtotal	281,135	—	1,716	(6,992)	275,859	5,688
Notes payable to GDB	84,996	12,306	—	(5,736)	91,566	91,566
Obligations under capital leases	159	—	—	(96)	63	55
Total	\$ 366,290	12,306	1,716	(12,824)	367,488	97,309

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

	June 30, 2009				
	PRIICO				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Loan payable	\$ 47,285	115	(2,035)	45,365	2,035
Notes payable	41,245	122	(2,729)	38,638	2,640
Total	\$ 88,530	237	(4,764)	84,003	4,675
	June 30, 2008				
	PRIICO				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Loan payable	\$ 49,066	—	(1,781)	47,285	522
Notes payable	47,415	259	(6,429)	41,245	3,969
Total	\$ 96,481	259	(8,210)	88,530	4,491

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

Loans and notes payable to commercial banks, amounts due to Government Development Bank for Puerto Rico (GDB), obligations under capital leases and amounts due to PR Land Administration as of June 30, 2009 and 2008 consist of the following (in thousands):

Amounts due to commercial banks:

<u>Type</u>	<u>Purpose</u>	<u>Collateral - Mortgages</u>	<u>Interest</u>	<u>Payment</u>	<u>Payable Through Date</u>	<u>2009</u>	<u>2008</u>
Term Loan	Construction	Related building	5.1000%	59/Month	June 23, 2012	1,548	2,091
Line of credit	Construction	Related building	5.2600%	Variable	August 1, 2016	3,992	4,479
Loan	Construction	Related building	6.4785%	Variable	March 1, 2018	16,360	16,881
Loan	Acquisition	Related land and building	6.0000%	110/Month	December 5, 2024	13,240	13,726
Line of credit	Construction	Related building	6.7285%	118/Month	December 5, 2024	8,588	8,911
Note	Construction	Related building	5.0000%	118/Month	Variable	11,269	12,038
Term Loan	Construction	Related building	6.0585%	269/Month	June 22, 2022	29,006	30,404
Total amounts due to commercial banks						\$ 84,003	88,530

Obligations under capital leases:

Other loans including capital lease agreements, collateralized by leased assets bearing interest at rates ranging from 7% to 8%	\$ 312	63
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Amounts due to PR Land Administration

Note payable in annual installments of \$1,305, due on December 1, 2009, plus accrued interest at 5.25%	\$ 1,306	2,611
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Notes payable to GDB are comprised of four line of credit agreements due to GDB which totaled approximately \$91 million and \$92 million as of June 30, 2009 and 2008, respectively. The first agreement represents a non-revolving line of credit up to \$75 million with GDB to provide for the voluntary separation and early retirement plans. The note bears interest at LIBOR plus 125 base points reviewed on a quarterly basis and is due on December 2009. The outstanding balance amounted to \$46 million as of June 30, 2009 and 2008. PRIDCO identified several properties to be disposed of for repayment of this debt and placed as collateral several other non-trusted properties.

The remaining three notes payable are managed by PRIDCO for providing industrial incentives under the Special Incentives Fund, which operations are excluded from PRIDCO's financial statements. Repayments for these notes are provided by the Commonwealth under legislative appropriations. The outstanding balance amounted to \$44.4 million and \$45.9 million as of June 30, 2009 and 2008, respectively.

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

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

	Due to commercial banks			Obligations under capital leases		
	Principal	Interest	Total	Principal	Interest	Total
Year ending June 30,						
2010	\$ 4,675	5,031	9,706	190	7	197
2011	5,042	4,742	9,784	59	4	63
2012	5,067	4,449	9,516	53	2	55
2013	4,989	4,152	9,141	10	—	10
2014	5,317	3,823	9,140	—	—	—
2015 to 2019	38,501	13,127	51,628	—	—	—
2020 to 2024	18,449	2,836	21,285	—	—	—
2025	1,963	30	1,993	—	—	—
Total	\$ 84,003	38,190	122,193	312	13	325

	Due to PR Land Administration		
	Principal	Interest	Total
Year ending June 30,			
2010	\$ 1,306	68	1,374

Bonds Payable

As required by the Trust Indenture dated July 1, 1964, as amended, between PRIDCO and U.S. Bank (the 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.

In August 2003, PRIDCO issued the general purpose revenue and refunding bonds amounting to \$161.2 million. These bonds were issued for the purpose of, among other things, to repay the line of credit with GDB amounting to approximately \$78.7 million, to provide for approximately \$52.1 million in funds for the construction of additional industrial facilities, to pay underwriters, discount and issuance costs of approximately \$2.1 million and \$2.7 million were deposited in the debt service reserve account. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining \$25.6 million principal amount of the 1991 Series General Purpose Revenue and Refunding Bonds, which the agent fully repaid the bonds in January 2004. As a result, the 1991 Series bonds are considered to be defeased and the liability for those bonds has been removed from PRIDCO's balance sheet.

The current refunding resulted in a loss of \$760 thousands, which represent the difference between the reacquisition price and the net carrying amount of the old debt of \$760 thousands. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2007 following a method substantially equivalent to the interest method. The economic gain obtained by this advance refunding is the difference between the present value of old debt

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

service requirements and the new debt service. This refunding resulted in a debt service saving of approximately \$2.1 million and an economic gain of approximately \$2.0 million.

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 issuance, certain debt issue costs amounting to approximately \$2.7 million were deferred. These deferred issue costs are being amortized over the average terms of the 1998 and 2003 bonds, respectively, following a method substantially equivalent to the interest method. At June 30, 2009 and 2008, deferred debt issue costs amounted to approximately \$2.6 million and \$2.9 million, respectively.

Revenue refunding and general purpose revenue bonds outstanding at June 30, 2009 and 2008 are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Revenue Refunding Bonds and General Purpose Revenue Bonds:		
Series A 1997:		
Term bonds, 6.50%, due on July 1, 2011	23,780	23,780
Term bonds, 6.65%, due on July 1, 2015	54,845	54,845
Term bonds, 6.70%, due on July 1, 2021	21,405	21,405
Capital appreciation bonds, implicit interest rate of 6.68% to 6.71%, due on July 1, 2008 through July 1, 2009	11,320	22,496
Series B 1997, 5.375%, due on July 1, 2016	16,910	16,910
Series 2003 General Purpose Revenue Bonds:		
Serial Bonds, 5.10% to 5.15% due July 1, 2017 and 2018	2,395	2,395
Capital appreciation bonds, implicit interest rates of 5.15% to 5.20%, due on July 1, 2017 and July 1, 2018.	7,148	6,193
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>265,638</u>	<u>275,859</u>
Less current maturities	<u>(11,087)</u>	<u>(5,688)</u>
Bonds payable - noncurrent	<u>\$ 254,551</u>	<u>270,171</u>

Series 1997 and 2003 of the capital appreciation bonds will accrete to a maximum of \$22.6 million and \$11.6 million, respectively, through their corresponding maturity dates.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

The annual debt service requirements to maturity, including principal and interest, for bonds payable as of June 30, 2009 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2010	\$ 11,087	20,324	31,411
2011	11,885	13,784	25,669
2012	12,680	12,999	25,679
2013	13,530	12,147	25,677
2014	14,445	11,233	25,678
2015 to 2019	60,190	49,263	109,453
2020 to 2024	62,350	28,394	90,744
2025 to 2029	71,883	9,758	81,641
	<u>258,050</u>	<u>157,902</u>	<u>415,952</u>
Plus accreted discount	7,934		
Less deferred amounts:			
Bond discount	<u>(346)</u>		
Total	<u>\$ 265,638</u>		

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.

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 20 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 \$400 per month.

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

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

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. PRIDCO is required to contribute 9.275% of its employees' gross salaries.

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

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

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

Funding Policy

Contribution requirements are established by law and are as follows:

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

PRIDCO's contractually required contributions for the years ended June 30, 2009, 2008 and 2007 amounted to \$1.3 million, for each year. The percentage of PRIDCO's required contributions were equal to the ones actually made to the System for the years ended June 30, 2009, 2008, and 2007.

Additional information on the System is provided in its financial statements for the years ended June 30, 2009 and 2008, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940-2003.

12. REORGANIZATION PLAN AND VOLUNTARY SEPARATION PLAN

PRIDCO entered into a reorganization plan during the year ended June 30, 2007. As a result, effective November 22, 2006, as per Law No. 143, PRIDCO established an early retirement plan (the Retirement Plan) to allow all those employees with at least 24 ½ years or more of service as participants of the System to be entitled to receive 75% of the last year's average salary, total liquidation of accrued sick and vacation days and medical plan coverage for the next two (2) years after retirement.

In addition to the above mentioned plan, PRIDCO established the Voluntary Separation Plan (the Separation Plan) which main objective was to reduce the workforce by offering wages incentives.

Total expense amounted to approximately \$885 thousand and \$323 thousand for the years ended June 30, 2009 and 2008, respectively.

13. COMMITMENTS

Construction Program

For the fiscal year ending June 30, 2010, PRIDCO estimates to invest approximately \$37.8 million for construction, land acquisition, and development. The investment in property will be financed through internally generated funds, federal grants, legislative infrastructure incentives, and external financing sources.

Other Commitments

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

PRIDCO also administers certain federal financial assistance programs, and is required to comply with the audit requirements established by Office of Management and Budget Circular A-133, Audits of State and Local Governments. During the year ended June 30, 2009, PRIDCO only received approximately \$13 thousand from federal programs.

PRIDCO is in charge of the administration as well as the construction process of the Bioprocess Development and Training Complex in Mayagüez. This project consisted of an initial investment of \$12.5 million to be contributed as follows: \$2.5 million by the Federal Economic Development Administration, \$5 million by the Commonwealth and \$5 million by the University of Puerto Rico. During the year ended June 30, 2009, PRIDCO received \$4.5 million from the Special Fund for Economic Development Fund, a fund of the Commonwealth, in order to cover for the \$5 million share that the University of Puerto Rico did not provide. The construction concluded during 2009 and costs approximated \$11.3 million as of June 30, 2009.

PRIDCO maintains a joint interagency agreement along with the Puerto Rico Tourism Company (TC). Both entities agreed to provide \$1 million each for the newly created Office of Land Use Plan. 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 TC and total expenditures amounted to \$672 thousands. The Company has not made any contribution during the years ended June 30, 2009 and 2008.

14. CONTINGENCIES

Environmental Matters

Various claims and lawsuits to which PRIDCO was a party, and which related among other matters to the Federal Environmental Protection Agency (EPA) and Puerto Rico's Environmental Quality Board (EQB) of the Commonwealth of Puerto Rico, have been settled or otherwise resolved.

The resolution of those legal actions included various environmental issues to which PRIDCO did not stipulate liability under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund) and other federal legislation. CERCLA establishes procedures and standards for responding to the release of hazardous substances, pollutants, and contaminants.

Under CERCLA and its regulations, liability for the cleanup costs and damage to natural resources and any assessment of health effects may be imposed on the present and past owners or operators of a facility from which there was a release of hazardous substances. In addition, any person who arranged for the disposal or treatment of hazardous substances at a site from which there was a release may also be liable.

Financial responsibility cleanup costs have been and/or are being undertaken by the industrial potentially responsible parties (PRP's) at the two CERCLA sites (Vega Alta and Guayama) where the federal government named PRIDCO as a PRP solely for being a part owner of both sites.

Vega Alta Site

EPA notified PRIDCO that it is a PRP for volatile organic compounds in the groundwater and soil at this site, along with PRPs that are or have been tenants of PRIDCO at the Vega Alta Industrial Park.

On September 23, 2002, PRIDCO entered into a Settlement Agreement and Release with two of the industrial PRP's (the Agreement), which provided that one of those PRPs, a current tenant, would be granted economic incentives pursuant to special incentives by importance of project contract and the industrial PRP's committed to continue implementing all remedial activities and to defend, hold harmless, and indemnify PRIDCO with respect to claims by the government and third parties. Included in the protection provided to PRIDCO in the agreement by the industrial PRP's, the performance of whose obligations is guaranteed by the tenant's corporate parent is indemnification of claims against PRIDCO by the federal government, including EPA, both for remedial activities and for all past and future oversight and administrative costs.

PRIDCO has been approached by potential buyers interested in acquiring parcels, which are situated within the industrial parks. It has sold one parcel and is in the process of selling additional parcels. PRIDCO has complied, or is in complying, with provision of applicable orders which require notice to EPA upon transfers of property within the defined "Vega Alta Site" and which require PRIDCO to retain rights of access and the ability to implement institutional controls or other deed restrictions if subsequently required by EPA under any other.

In view of the Agreement, PRIDCO does not foresee significant additional legal liability, if any, with respect to this site.

Guayama Site

PRIDCO owns property, which comprises a portion of the site known as the Fibers Public Supply Wells Superfund Site in Guayama. EPA listed the Fibers Public Supply Wells Site in Guayama, Puerto Rico, on its National Priorities List of inactive hazardous waste disposal sites under Superfund when public supply wells operated by Puerto Rico Aqueduct and Sewer Authority were contaminated. A wholly owned subsidiary of PRIDCO holds title to property which comprises a portion of the Fibers Public Supply Wells Site, having acquired the land, as is, from the Puerto Rico Land Administration in 1984.

Pursuant to EPA orders, private industrial parties, which at various times have owned and/or operated manufacturing facilities at the site, have performed investigations of environmental conditions at the site. In May 1998, EPA required an expanded investigation of the site and informed PRIDCO that (as site owner) it was a potentially responsible party under CERCLA along with the private parties. In 1991, when EPA selected a groundwater remedy for the site, it formally notified PRIDCO to participate in the remedy to be implemented by the private parties. The selected remedy was a groundwater pump and treatment system, the construction and operation of which was estimated to cost \$10 thousands (present value) over 30 years. The private industrial parties, but not PRIDCO, entered into a consent decree to perform the remedial design/remedial action.

PRIDCO declined to participate financially in the performance of the remedy where viable current or former tenants existed to perform the remedy, although PRIDCO offered to provide in-kind assistance to the industrial parties to facilitate coordination with the Puerto Rico agencies. In 1993, PRIDCO entered into an agreement with the private industrial parties performing the remedy agreeing to provide \$465 thousands of in-kind services to support the implementation of the remedy, and PRIDCO has been carrying out that agreement with the objective of protecting the property and PRIDCO's rights as a landowner without admitting any fact, responsibility, faults, or liability in connection with the site. PRIDCO has learned from EPA that the private industrial responsible parties are installing the remedy. Under that agreement, the private industrial responsible parties assumed payment of past response costs at the site including \$150 thousands, plus interest, which EPA has sought to recover from PRIDCO. During 2004, various meetings were held between the private industrial parties and PRIDCO in an effort to obtain PRIDCO's assistance relative to the implementation of the remedy, specifically, pursuant to the in-kind services agreement, the private industrial parties are requesting that PRIDCO work with them to limit the scope of the remediation. PRIDCO agreed to seek proposals from experts to assist it in evaluating the private industrial parties' request in this regard. EPA has recently published a notice stating that, in accordance with the provisions of CERCLA, it is conducting a five-year review of the remedy for the site. It is not known if that review will result in changes in or additions to the remedy.

Other Sites

In addition to the cases outlined above, PRIDCO has taken vigorous actions to identify any other potential claims or liability arising from environmental deficiencies and has provided in the accompanying balance sheets as of June 30, 2008 and 2007 for any of these deficiencies where a probable loss is foreseen. Management believes that any unidentified environmental deficiencies and related costs will not have a material adverse effect on PRIDCO's results of operations and financial condition.

To that effect, PRIDCO is presently implementing an EPA approved environmental program as part of a pilot supplemental environmental project aimed at reducing environmentally related risks at its properties. The objectives of the project are to systematically identify tenants who manage regulated chemicals or wastes and to follow up their operations at their facilities.

Other Litigation Matters

PRIDCO is a party to certain other lawsuits resulting from 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.

During the year ended June 30, 2009, PRIDCO recorded \$14.1 million as part of the legal reserve for the payment of land expropriated in the municipality of Canóvanas as ordered by the Puerto Rico Department of Justice.

15. RISK MANAGEMENT

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

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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

Year Ended June 30, 2009

(In thousands)

	Total	General fund	U.S. Bank Trust Indenture Sinking Fund	
			Principal and interest	Reserve account
Balance, June 30, 2008	\$ 88,252	37,245	15,728	35,279
Cash provided by (used in) operating activities	12,198	(13,468)	25,666	—
Sale of property and equipment and land held for improvement or sale	5,862	5,862	—	—
Additions to property and equipment and land held for improvement or sale	(7,024)	(7,024)	—	—
Payment of bonds, due on July 1, 2008 and January 1, 2009	(11,320)	(5,978)	(5,342)	—
Payment of interest	(17,629)	2,695	(20,324)	—
Appreciation (depreciation) in fair value of investments	—	(1,548)	46	1,502
Proceeds from notes payable to Government Development Bank	277	277	—	—
Payment for early retirement and voluntary separation plan	(885)	(885)	—	—
Payment of note and capital lease obligations	(2,409)	(2,409)	—	—
Contributions received from the Special Incentives Fund and federal agencies	4,500	4,500	—	—
Purchase of certificate of deposit	—	—	—	—
Collections from notes receivable	93	93	—	—
Interest collected	2,431	2,431	—	—
Net payments to component units	(5,195)	(5,195)	—	—
Balance, June 30, 2009	\$ 69,151	16,596	15,774	36,781
Balance, June 30, 2009 represented by:				
Cash and cash equivalents and available for operations	\$ 16,596	16,596	—	—
Cash and cash equivalents held by the Trustee	15,774	—	15,774	—
Investment in U.S. Treasury bond strips, held by the Trustee, at market value	36,781	—	—	36,781
	\$ 69,151	16,596	15,774	36,781