

SPECIAL INCENTIVES FUND
(A Fund of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
BASIC FINANCIAL STATEMENTS AS OF AND
FOR THE YEAR ENDED JUNE 30, 2011



SPECIAL INCENTIVES FUND
(A Fund of the Commonwealth of Puerto Rico)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Special Incentives Fund (the "Fund"), a fund of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 the government activities for the Special Incentives Fund as of June 30, 2011, and the changes in financial position of those activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 1, the financial statements present only the Special Incentives Fund, a fund of the Commonwealth of Puerto Rico, and do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of the
Puerto Rico Industrial Development Company
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As discussed in Note 3 to the financial statements, certain errors resulting in understatement of liabilities as of June 30, 2010, were discovered by us during the current period. Accordingly, certain adjustments have been made to Due to Puerto Rico Industrial Development Company and Net Assets - beginning of year as of June 30, 2010, to correct the errors.

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are 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.

Scherrer Hernandez & Co.

March 2, 2012

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2619585 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report



SPECIAL INCENTIVES FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

Following is an overview and analysis of the financial activities of the Special Incentives Fund (the "Fund") for the fiscal years ended June 30, 2011 and 2010.

Overview of the Financial Statements

This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Fund's financial statements, which are comprised of the basic financial statements and the notes to the basic financial statement. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Government Wide Highlights

The statement of net assets and governmental fund balance sheet present information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net assets, which also indicates an improved financial position.

The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Net Assets present information showing how the Fund's net assets are reported as soon the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Highlights

The Fund's financial statements provide more detailed information about the Fund's most current financial resources. Funds are accounting devices that the Fund uses to keep track of specific sources of funding and spending for particular purposes.

The Fund's basic service is included in a governmental fund, which is used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental fund is prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Fund's programs. Because this information does encompass the additional long-term focus of the government-wide statements, there are no differences between the government-wide and fund statements.

The governmental fund statements focus on only one major fund. The Fund's major fund is the general fund which accounts for the main operating activities of the Fund.



SPECIAL INCENTIVES FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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FINANCIAL ANALYSIS OF THE FUND AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Governmental Revenues, Expenditures, 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 are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Net deficit – The condensed net deficit information is presented as follows (“in thousands”):

	2011	2010	Change	
			In dollars	Percentage
Current assets	\$ 21,111	\$ 28,987	\$ (7,876)	(27.17)%
Noncurrent assets	-	256	(256)	(100.00)%
Total assets	\$ 21,111	29,243	(8,132)	(27.81)%
Liabilities	\$ 47,479	\$ 54,696	\$ (7,217)	(13.19)%
Net deficit	(26,368)	(25,453)	(915)	3.59%
Total liabilities and net deficit	\$ 21,111	\$ 29,243	\$ (8,132)	(27.81)%

Analysis of Net Deficit at June 30, 2011 and 2010

Audited financial statements of the Special Incentives Fund (the “Fund”) (“*Fondo de Incentivos Especiales*”) for the year ended June 30, 2010, did not include a Due to Puerto Rico Industrial Development Company (“PRIDCO”) balance of \$43.4 million. The cumulative effect of the correction of this error was to decrease the Fund’s net assets - beginning balance as of June 30, 2010, for \$43.4 million.

The Fund is a fund of the Commonwealth of Puerto Rico and it is administered by PRIDCO, which is a component unit of the Commonwealth of Puerto Rico. The Fund was created to promote Puerto Rico’s economic development through economic incentives awarded to private enterprises.

Total net deficit for 2011 increased by approximately \$915 thousand or 3.59%, mostly as a result of a decrease in cash and cash equivalents of approximately \$10.4 million, an increase in investments of approximately \$3 million, a decrease in accounts receivable of approximately \$466 thousand, a decrease in balance due from PRIDCO of approximately \$256 thousand, and a decrease in balance due to PRIDCO of approximately \$6.9 million.

Current assets as of June 30, 2011, consist mainly of cash and cash equivalents and investments amounting to \$11.1 million and \$10 million, respectively. Cash and cash equivalents and investment mostly consist of certificates of deposits held with various commercial banks.



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Liabilities decreased approximately \$7.2 million or 13.19%, mostly due to a decrease in the amounts due to PRIDCO for approximately \$6.9 million and a decrease in the accounts payable of approximately \$334 thousand. Liabilities as of June 30, 2011, include accounts payable of approximately \$136 thousand, amounts due to the Special Fund for Economic Development ("SFED") of approximately \$3.5 million, amounts due to Rums of Puerto Rico Fund of approximately \$900 thousand, and amounts due to PRIDCO of approximately \$42.9 million. Amounts due to SFED, PRIDCO and Rums of Puerto Rico Fund are mostly related with advances for operating purposes.

The condensed change in net deficit information is presented below ("in thousands"):

	2011	2010	Change	
			In dollars	Percentage
Non-operating revenues:				
Incentives recovery	\$ 30	\$ 523	(493)	(94.26)%
Interest income	222	247	(25)	(10.12)%
Other	323	200	123	61.50%
Total revenues	575	970	(395)	(40.72)%
Operating expenses:				
Incentives	10,850	6,108	4,742	77.64%
Administrative	3,747	23	3,724	16191.30%
Total expenses	14,597	6,131	8,466	138.09%
Excess of expenses over revenues before transfers and capital contributions				
	(14,022)	(5,161)	(8,861)	171.69%
Transfers in from Special Fund for Economic Development				
	10,000	-	10,000	100.00%
Transfers in from Puerto Rico Sales Tax Financing Corporation				
	3,750	1,576	2,174	137.94%
Capital contributions to PRIDCO	(643)	(4,735)	4,092	(86.42)%
Change in net deficit	(915)	(8,320)	7,405	(89.00)%
Net deficit, beginning of year, as restated	(25,453)	(17,133)	(8,320)	48.56%
Net deficit, end of year	\$ (26,368)	\$ (25,453)	(915)	3.59%

Analysis of Changes in Net Deficit for the Years Ended June 30, 2011 and 2010

During the year ended June 30, 2011, the Fund disbursed industrial incentives amounting to approximately \$10.8 million, an increase of approximately \$4.7 million, or 77.64%.

Incentives disbursed during the year ended June 30, 2011 increased by approximately \$4.7 million as there was an overall increase in the incentives granted during the year ended June 30, 2011.



**SPECIAL INCENTIVES FUND
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JUNE 30, 2011**

In addition, the Fund incurred in administrative expenses amounting to approximately \$3.7 million, mostly related with bad debt expenses related with uncollectible accounts receivables of approximately \$385 thousand, expense allocations made by PRIDCO of approximately \$3.3 million, professional services of approximately \$30 thousand, and other miscellaneous expenses of approximately \$35 thousand.

Capital contributions to PRIDCO decreased approximately \$4.1 million, or 86.42%, due to a decrease in the incentives granted to PRIDCO, that were considered as capital contributions as they were granted for improvements of infrastructure pertaining to PRIDCO.

During the year ended June 30, 2011, SFED made a transfer in of funds amounting to \$10 million to the Fund to increase the granting of industrial incentives to private enterprises.

During the year ended June 30, 2011, transfers in from Puerto Rico Sales Tax Financing Corporation ("COFINA") amounted to approximately \$3.7 million, a decrease of approximately \$2.1 million when compared with the year ended June 30, 2010. This decrease is due to a decrease in the funds received by the Fund from COFINA for the repayment of lines of credit established between the Government Development Bank for Puerto Rico and PRIDCO.

GOVERNMENTAL FUND

The focus of the Incentive Fund's Governmental Fund is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Fund's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Fund's net resources available at the end of a fiscal year.

For the fiscal year ended June 30, 2011, the governmental fund reported an ending net deficit of approximately \$26.3 million, a net increase of approximately \$915 thousand million or 3.59%.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Fund's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Executive Director's Office, Puerto Rico Industrial Development Company, PO Box 362350, San Juan, and Puerto Rico 00936-2350.



SPECIAL INCENTIVES FUND
(A Fund of the Commonwealth of Puerto Rico)
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2011

	General Fund Balance Sheet (in thousands)	Adjustments (in thousands)	Statement of Net Assets (in thousands)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents in commercial banks	\$ 11,111	\$ -	\$ 11,111
Investments	10,000	-	10,000
Accounts receivable, net of allowance for doubtful accounts of \$1,412	-	-	-
Total assets	\$ 21,111	\$ -	\$ 21,111
 LIABILITIES AND FUND BALANCE/NET DEFICIT			
CURRENT LIABILITIES:			
Accounts payable	\$ 136	\$ -	\$ 136
Due to the Puerto Rico Industrial Development Company	42,943	-	42,943
Due to the Special Fund for Economic Development	3,500	-	3,500
Due to Rums of Puerto Rico Fund	900	-	900
Total current liabilities	47,479	-	47,479
 FUND BALANCE/NET DEFICIT:			
Fund balance	(26,368)	26,368	-
Total liabilities and fund balance	\$ 21,111		
Total net deficit		\$ (26,368)	\$ (26,368)

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



SPECIAL INCENTIVES FUND
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STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN NET DEFICIT
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund (in thousands)	Adjustments (in thousands)	Statement of Activities (in thousands)
EXPENDITURES/EXPENSES:			
Incentives—operations	\$ 10,850	\$ -	\$ 10,850
Administrative	3,747	-	3,747
Total expenditures/expenses	<u>14,597</u>	<u>-</u>	<u>14,597</u>
GENERAL REVENUES:			
Investment earnings	222	-	222
Incentives recovery	30	-	30
Miscellaneous	323	-	323
Total general revenues	<u>575</u>	<u>-</u>	<u>575</u>
EXCESS OF EXPENDITURES/EXPENSES OVER REVENUES BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(14,022)</u>	<u>-</u>	<u>(14,022)</u>
Transfers in from Special Fund for Economic Development	10,000	-	10,000
Transfers in from Puerto Rico Sales Tax Financing Corporation	3,750	-	-
Capital contributions to PRIDCO	(643)	-	(643)
Total transfers and capital contributions	<u>13,107</u>	<u>-</u>	<u>9,357</u>
Change in fund balance/net assets	<u>(915)</u>	<u>-</u>	<u>(915)</u>
FUND BALANCE/NET ASSETS, beginning of year	17,950	-	17,950
Adjustments to correct errors in financial statements	(43,403)	-	(43,403)
FUND BALANCE/NET DEFICIT, end of the year	<u>\$ (26,368)</u>	<u>-</u>	<u>\$ (26,368)</u>

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



SPECIAL INCENTIVES FUND
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

1. REPORTING ENTITY

The Special Incentives Fund (the “Fund”), was created through Law No. 381 of May 8, 1951, and is a fund of the Commonwealth of Puerto Rico. It is administered by the PRIDCO, which is a component unit of the Commonwealth of Puerto Rico.

The Fund was created to enhance the Puerto Rico’s economic development through economic incentive grants granted to private enterprises. The different types of incentives are described as follows:

- a. *Quality Control* – Granted to conserve, modify and develop the quality of products made in Puerto Rico.
- b. *Clothing and Furniture Industries* – Granted to Puerto Rican companies, operating in Puerto Rico, dedicated to the sale of finished goods and manufacture of furniture and clothing.
- c. *Special Incentives* – Consist of grant to compensate for certain costs incurred to establish or expand a company’s unit.
- d. *Importance of the Project* – Consists of grant to companies for extraordinary importance projects for the economy of Puerto Rico, as defined by PRIDCO’s board.
- e. *Infrastructure* – Grants to finance projects in certain municipalities which lack of basic facilities to establish an operating manufacturing organization.
- f. *Location* – Incentives granted by location and the number of persons to be employed.
- g. *Enhancement* – Special grants for improving grantee’s operations in order to avoid stoppage of their activities. The grants can be spent for management, finance, production, marketing and research.
- h. *Development of the Puerto Rican Craftsmanship* – To help artisans in acquiring materials, tools, equipment and any other goods for the crafts production.
- i. *Training of Manufacturing Personnel* – To develop industrial skills to the management, supervisors and to train manufacturing personnel in its respective jobs.
- j. *Marketing* – Consist of grant for industrials business advertising and promotion. The promotion includes: booth rent, brochures and graphics designs among others.

The source of funding, each year, is provided by funds transfers from the Commonwealth through the approval of Legislative Resolutions. In addition, the Fund receives contributions from COFINA and SFED. The Fund did not receive any funding from the Commonwealth during the year ended June 30, 2011.



SPECIAL INCENTIVES FUND
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NOTES TO BASIC FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Fund conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”), as applicable to governmental entities.

Government Wide and Fund Financial Statements – The government-wide financial statements report information on all of the activities of the Fund as a whole. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a function, which is to provide industrial incentives or grants. Program revenues include (1) nonexchange revenue (“legislative appropriations”) and (2) interest income from investments.

The fund financial statements provide information about the governmental fund, which is the only fund category.

The statement of net assets presents the Fund’s assets and liabilities, with the difference reported as net assets. Net assets are reported as restricted net assets. Restricted net assets are amounts that are restricted to specific purposes and arise from special resolutions of the Government of the Commonwealth of Puerto Rico.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation – Basis of accounting refers to when the Fund recognizes revenue and expenditures/expenses and the related assets and liabilities and reports them in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Industrial incentives are recognized as expenditures as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund follows the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Fund considers revenue to be available if they are collected within 60 days of the end of the current year-end. Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. In applying the “susceptible to accrual” concept to intergovernmental revenues (“incentive grants”) pursuant to the Governmental Accounting Standards Board (the “GASB”) Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions (the Fund may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.



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Fund Balance – In accordance with GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent, as follows:

Non-spendable Fund Balance – Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – Amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The Fund's restricted fund balance consists of amounts arise from special resolutions of the Government of the Commonwealth of Puerto Rico.

Committed Fund Balance – Amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Directors (the “Board”). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.

Assigned Fund Balance – Amounts in the assigned fund balance classification are intended to be used by the Fund for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or Fund official delegated that authority by Board resolution.

Unassigned Fund Balance – The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. These fund balances are available for any purpose and management will determine how to spend it.

The Fund applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Fund does not have a formal minimum fund balance policy.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk – The Fund maintains cash on deposit with high rated financial institutions and with the Puerto Rico Treasury Department. The laws of the Commonwealth of Puerto Rico require public funds deposited in commercial banks to be collateralized by the bank when funds exceed the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth of Puerto Rico. Deposits with GDB and Economic Development Bank



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of Puerto Rico (“EDB”), component units of the Commonwealth are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the bank, the entity would not recover its deposits. As of June 30, 2011, the Fund was not exposed to custodial risk.

Cash Equivalents – The Fund considers all highly liquid investments with original maturity of three months or less to be cash equivalents. At June 30, 2011, cash equivalents amounted to approximately \$8.8 million, and represent two time deposits with two financial institutions. One of the time deposit amounted to approximately \$3 million and bears interest at 1.00%. The other time deposit amounted to approximately \$5.8 million and bears interest at 1.10%.

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable arises from the incentives recovery related with none compliance with grants contracts requirements by grantees. The Fund provides for estimated losses on accounts receivable based on an analysis of receivables deemed to be uncollectible. The Fund writes off the balances of those receivables determined by management to be uncollectible.

Budgetary Accounting – The Fund is not required to submit a budget for approval by the Legislature of the Commonwealth; consequently, no formal budgetary accounting procedures are followed.

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

3. RESTATEMENT OF FINANCIAL STATEMENTS

Audited financial statements for the year ended June 30, 2010, did not include a Due to Puerto Rico Industrial Development Company balance of \$43.4 million. The cumulative effect of the correction of this error was to decrease the Fund’s net assets - beginning balance as of June 30, 2010 for \$43.4 million and increase the Due to Puerto Rico Industrial Development Company for \$43.4 million.

The net assets and Due to Puerto Rico Industrial Development Company amounts as previously reported and restated as of June 30, 2010, are as follows (in thousands):

	<u>As Previously Reported</u>	<u>As Restated</u>
Net assets	\$ 17,950	\$ (25,453)
Due to Puerto Rico Industrial Development Company	\$ -	\$ 43,403



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4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011, consist of the following (“in thousands”):

	<u>2011</u>
Incentives recovery	\$ 1,412
Less: Allowance for doubtful accounts	<u>(1,412)</u>
Accounts receivable, net	<u>\$ -</u>

5. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts during the year ended June 30, 2011, are as follows (“in thousands”):

	<u>2011</u>
Allowance for doubtful accounts, beginning of year	\$ 1,027
Plus: Provision for doubtful accounts	<u>385</u>
Allowance for doubtful accounts, end of year	<u>\$ 1,412</u>

6. DUE TO SFED, PRIDCO AND RUMS OF PUERTO RICO

Amounts due to the SFED and Rums of Puerto Rico Fund, which are funds of the Commonwealth administered by PRIDCO, represent operating advances received of approximately \$3.5 million and \$900 thousand, respectively.

Amounts due to PRIDCO are related with funds received by the Fund from PRIDCO to provide industrial incentives. Prior to June 30, 2004, the Fund received monies from a line of credit established with the GDB through an agreement between the bank and PRIDCO, the Fund’s administrator. Therefore, the outstanding balance of the line of credit was recorded in PRIDCO’s books and amounted to approximately \$42.9 million and \$43.4 million as of June 30, 2011 and 2010, respectively. The Fund has outstanding balances Due to PRIDCO amounting to approximately \$42.9 million and \$43.4 million as of June 30, 2011 and 2010, respectively, related with the monies that were received from PRIDCO by the issuance of the lines of credit. Repayments for these notes are to be provided by COFINA through legislative appropriations. The Fund’s net assets - beginning balance as of June 30, 2010, were restated (“decreased”) for \$43.4 million to recognize the amounts due to PRIDCO as of June 30, 2010, as disclosed in Note 3.

7. INVESTMENTS

Investment held at June 30, 2011, consisted of the following:

	<u>Date</u>		<u>Face Amount</u>	<u>Interest</u>
	<u>Settlement</u>	<u>Maturity</u>	<u>(in thousands)</u>	<u>Rate</u>
Certificate of deposit held with commercial bank	6/20/2011	9/22/2011	\$ 10,000	1%



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Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Fund may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper and banker's acceptance.

8. COMMITMENTS

The Fund has entered into various contracts with private enterprises for economic incentive grants to help these enterprises to override any difficulties encountered in the course of operations. The Fund records the liability for these contracts when the applicable eligibility requirements including time requirements, are met. The non-granted portion of these contracts amounted to approximately \$16.5 million and has been presented as restricted fund balance as of June 30, 2011.

