GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

____

Nine-digit CUSIP* numbers if available, to which the information relates:

____

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: **Puerto Rico Industrial Development Company**

Other Obligated Person's Name (if any): ____________________

Six-digit CUSIP* number(s): **745211 and 745215**

TYPE OF INFORMATION PROVIDED:

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered: ____________________

B. ☒ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: 2015-16

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required**

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez
Sebastián M. Torres Rodríguez
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: May 11, 2017

PO Box 42001 • San Juan, PR 00940-2001 • Telephone (787) 722-2525

FAFAA

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Other Supplementary Information for the Year Ended June 30, 2016, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the ***Puerto Rico Industrial Development Company*** (PRIDCO) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2016, and the related notes to the basic financial statements, which collectively comprise PRIDCO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion and Note Disclosure Regarding Pensions

As discussed in Note 12 to the basic financial statements, PRIDCO has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Statement 68).* Accordingly, PRIDCO has not been able to determine and account for its proportionate share of net pension liability, deferred inflow and outflow of resources related to pension costs, and has not recognized the effect of current period changes in net pension liability, deferred outflow and inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow and inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expense. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and pension expenses has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the Basis for Qualified Opinion and Note Disclosure Regarding Pensions paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Puerto Rico Industrial Development Company*** as of June 30, 2016 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

As discussed in Notes 2, 3, 10 and 11 to the basic financial statements, PRIDCO has significant balances and transactions with the Commonwealth and GDB. As of June 30, 2016, the financial condition and liquidity of the Commonwealth and GDB are significantly deteriorated and, therefore, the deposits held in the GDB and the collectability of amounts receivable from the Commonwealth for the payments to be made to GDB may be affected. Considering the relationship of PRIDCO with the Commonwealth and GDB, PRIDCO's financial condition and liquidity could be similarly affected. PRIDCO has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth and GDB on its basic financial statements as of June 30, 2016, PRIDCO will continue to operate as a going concern for a period not less than twelve months after such date.

Other Matters

Required Supplementary Information Omitted

PRIDCO has omitted the *Schedule of PRIDCO's Proportionate Share of the Net Pension Liability*, and the *Schedule of PRIDCO's Contributions to the Employees' Pension Plan*, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the ***Puerto Rico Industrial Development Company's*** basic financial statements. The schedule of changes in cash and sinking fund per trust indenture for the year ended June 30, 2016, included on page 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HLB Parissi PSC

San Juan, Puerto Rico
May 8, 2017

Stamp No. E272026 was affixed
to the original of this report
License No. 88 expires December 1, 2017

The ***Puerto Rico Industrial Development Company*** (PRIDCO) management provides this annual financial report and the discussion and analysis of PRIDCO's financial performance for the year ended June 30, 2016. This report includes management's discussion and analysis, the independent auditors' report, the basic financial statements, the notes that explain in more detail the information contained in the basic financial statements, and a supplemental schedule, which is not a required part of the basic financial statements.

Financial Analysis

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

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

	June 30,		Change	
	2016	2015	In dollars	Percent
Current assets	$ 62,164	$ 63,825	$ (1,661)	(3)%
Capital assets, net	655,904	661,771	(5,867)	(1)%
Other noncurrent assets	67,861	67,751	110	0.2 %
Total assets	785,929	793,347	(7,418)	(1)%
Deferred outflows of resources - Deferred loss on refundings	559	-	559	100 %
Total assets and deferred outflows of resources	$ 786,488	$ 793,347	$ (6,859)	(1)%
Current liabilities	$ 63,732	$ 75,271	$ (11,539)	(15)%
Noncurrent liabilitities	366,806	343,047	23,759	7 %
Total liabilities	430,538	418,318	12,220	3 %
Net position:				
Net investment in capital assets	400,196	389,246	10,950	3 %
Net restricted assets	20,558	13,690	6,868	50 %
Deficit	(64,804)	(27,907)	(36,897)	132 %
Total net position	355,950	375,029	(19,079)	(5)%
Total liabilities and net position	$ 786,488	$ 793,347	$ (6,859)	(1)%

In addition, the condensed changes in net position information is presented below (in thousands):

	June 30,		Change	
	2016	**2015**	**Amount**	**Percent**
Operating revenues:				
Rental income, net	$ 65,602	$ 61,832	$ 3,770	6 %
Non-operating revenues:				
Net gain on sale of properties	7,989	6	7,983	133,050 %
Net investment income, interest and other	422	559	(137)	(25)%
Total non-operating revenues	8,411	565	7,846	1,389 %
Total revenues	74,013	62,397	11,616	19 %
Operating expenses:				
Salaries and wages	16,173	16,410	(237)	(1)%
Administrative, general and other expenses	37,403	30,239	7,164	24 %
Depreciation and amortization	20,177	20,600	(423)	(2)%
Total operating expenses	73,753	67,249	6,504	10 %
Non-operating expenses:				
Custodial credit risk loss on deposits on GDB	2,018	-	2,018	100 %
Payment to PR Ports Authority	2,351	-	2,351	100 %
Interest Expense	21,627	18,787	2,840	15 %
Total non-operating expenses	25,996	18,787	7,209	38 %
Total expenses	99,749	86,036	13,713	16 %
Loss before capital contributions	(25,736)	(23,639)	(2,097)	9 %
Capital contributions	6,657	19,752	(13,095)	(66)%
Change in net position	(19,079)	(3,887)	(15,192)	391 %
Net position, beginning of year	375,029	378,916	(3,887)	(1)%
Net position, end of year	$ 355,950	$ 375,029	$ (19,079)	(5.09)%

Analysis of Net Position

As of June 30, 2016, net position of $356 million is composed of $400 million of net investment in capital assets, $21 million restricted and a deficit of $65 million. Total net position changed from $375 million to $356 million, a decrease of approximately $19 million or 5%. Current assets decreased, compared with prior year, approximately $1.7 million. The net decrease in current assets is related to an increase in cash and cash equivalents of approximately $18 million offset by a decrease in investments of approximately $22 million. The increase in cash and cash equivalents is mostly related to certificate of deposits of $9 million with maturity dates less than 90 days, which were also partially offset by a custodial credit risk loss of $2 million on PRIDCO's deposits with GDB. Also, cash and cash equivalents increased by $6.4 million from proceeds received from a note payable, $3 million received from the proceeds of the sale of capital assets made during the audit period and $2 million of retired investment that were deposited in sweep bank accounts.

Management concluded that the information available prior to the issuance of PRIDCO's financial statements for the year ended June 30, 2016 indicates that it is probable that a custodial credit risk loss on PRIDCO's certificates of deposit held with the GDB exists as of June 30, 2016.

As explained in the **Current Known Facts** Section, the Commonwealth and the GDB face significant uncertainties, including liquidity risks, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due.

Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by the GDB, imposed restrictions on the withdrawal and transfer of deposits from the GDB, and imposed a moratorium on debt obligations of the GDB, among other measures.

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, the GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of the GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain the GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on the GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to the GDB and the GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on the GDB emergency operational restrictions and debt moratorium described below. The GDB has continued to pay interest on its debt obligations.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as to the GDB's ability to continue as a going concern.

As a result, a custodial credit risk loss on deposits held with GDB of $2 million was recognized in PRIDCO's basic financial statements for the year ended June 30, 2016.

Investments decreased by approximately $22 million. Investments were retired mostly to reimburse the Special Fund for Economic Development by approximately $7.2 million for money received in prior years and not used. Also, approximately $2 million of the retirements were deposited in bank accounts and approximately $4 million were used to pay suppliers. Also, and as discussed before, approximately $9 million in investments were classified to cash equivalents due to maturities dates of less than 90 days. In addition, the net change in current asset is due to an increase in sinking fund of approximately $3.7 million to comply with sinking fund requirements and a decrease in accounts receivable of approximately $1 million related to an increase of the allowance for doubtful account.

Total liabilities increased approximately by $12 million or 3%. The increase in total liabilities is mostly related to the reserve for environmental liabilities which was increased by $8 million.

Restricted net position is mainly composed of amounts deposited in the sinking fund for payments of bonds payable and related interest. Restricted net position increased by approximately $6.9 million or 50%, mostly as a result of a net change related to a decreased in the current portion of bonds payable of approximately $2.8 million and an increase of $3.6 million paid as a deposit of principal of the debt, as required by debt agreements. The deficit increased to $64.8 million in 2016 from $27.9 million in 2015 mostly as a result of a new note payable issued of approximately $26 million for the improvements of the facilities in Juana Díaz.

Year Ended June 30, 2016 versus June 30, 2015

Net gain on sale of properties increased approximately $8 million, as a result of PRIDCO's sale of six properties, which compared to prior year, where there was no sale of properties.

Administrative, general and other expenses increased by approximately $7 million or 24%, mostly due to an environmental liability accrued of approximately $8 million.

Interest expense for the year ended June 30, 2016 amounted to approximately $22 million, an increase of approximately $2.8 million or 15%, related with the line of credits, bonds and with the notes payable to GDB. The increase in interest expense was more related to the increase of $4.5 million in interest on a line of credit of $41 million with GDB.

Capital contributions for the year ended June 30, 2016, amounted to approximately $6.7 million from the Special Fund for Economic Development and from the Special Incentives Fund for building and improvements. During the prior year, capital contributions included $19.8 million from a project of the PRIDCO's building division. During the audit period, PRIDCO reimbursed the Special Fund for Economic Development approximately $7.2 million.

Capital Assets

PRIDCO's investment in capital assets as of June 30, 2016 and 2015 amounted to approximately $655.9 million and $661.8 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, 2016 and 2015, PRIDCO invested approximately $38.9 million and $25.8 million, respectively, mainly related to addition of building and construction of buildings that will be leased to private organizations, as part of the industrial development activities. This construction activity was mainly financed through lines of credit and special financing from commercial banks which are later refinanced on a long-term basis. Rent from the buildings is pledged for the payment of long term debt (See Debt Administration below).

As disclosed in Note 8 to basic financial statements, certain properties, with a book value of $4.2 million, are mortgaged with GDB as a collateral of a financing agreement provided by GDB to the Puerto Rico Ports Authority.

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, 2016 and 2015, PRIDCO had approximately $167.5 million and $179.9 million, respectively, in outstanding bonds payable, including the current portion of $10.1 million at June 30, 2016.

The credit rating of PRIDCO's public debt is "Caa3", as determined by Standards & Poor's in June 2016 and "Caa3", as determined by Moody's Investor Services in June 2016. Detailed information regarding long-term debt activity is included in Note 11 to the basic financial statements.

Current Known Facts

Failure to Implement Requirements of New Accounting Standard for Pensions

As disclosed in Note 12 to the basic financial statements, PRIDCO was not able to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pension*, (GASB 68). PRIDCO's inability to implement the requirements of GASB 68 resulted from the unavailability of the required information that was expected to be provided by The Employee Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS), a pension trust fund of the Commonwealth, which is not under the PRIDCO's management and control. Therefore, as of the date of this report, it is not known when the required information shall be provided to enable PRIDCO to implement the requirements GASB 68 and, therefore, PRIDCO is not able to determine the possible impact on its basic financial statements. This situation resulted in the expression of a qualified opinion from our external auditors.

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and the Government Development Bank for Puerto Rico (GDB)

As disclosed in Note 2, the financial condition and liquidity of the Commonwealth and GDB has deteriorated and, therefore, the collectability of certain amounts due from the Commonwealth that are designated for the payment of certain amounts due to GDB may not be collected (See Note 10). Considering the relationship of PRIDCO with the Commonwealth and GDB, PRIDCO's financial condition and liquidity could be similarly affected. PRIDCO has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth and GDB on its basic financial statements and operations, and has concluded that, as of June 30, 2016, PRIDCO will continue to operate as a going concern for a period not less than twelve months after such date.

On October 28, 2016, the Secretary of the Treasury of the Commonwealth of Puerto Rico issued Circular Letter Number 1300-08-17 requires that all entities with deposits and other investment instruments at GDB should recognize a loss equal to the unrealized or uncollected amount of deposits at June 30, 2016, subsequent to such date, and through the issuance of the financial statements. PRIDCO's management performed an analysis in accordance with the requirements of the Circular Letter and decided to recognize a custodial credit risk loss of $2 million as of June 30, 2016.

On April 5, 2017 Moody's Investors Service lowered the ratings on debt of the Company's commercial property rent-secured bonds to Ca from Caa3. While Moody's continue to believe that essentially all of Puerto Rico's debt will be subject to default and loss in a broad restructuring, the securities being downgraded face more severe losses than we had previously expected, in the light of Puerto Rico's projected economic pressures.

Contacting PRIDCO's Financial Management:

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

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (In thousands)
June 30, 2016

ASSETS		
Current assets:		
Cash and cash equivalents	$	31,550
Sinking fund, restricted		10,026
Rent and accounts receivable, net		18,543
Prepaid expenses and other assets		2,045
Total current assets		62,164
Non-current assets:		
Sinking fund reserve accounts, at accreted cost, restricted		22,018
Investment in equity securities, at cost		4,093
Due from the Commonwealth of Puerto Rico		41,750
Capital assets, net:		
Land and construction in progress		283,301
Buildings, improvements, machinery		372,603
Total non-current assets		723,765
Total assets		785,929
Deferred outflows of resources -		
Deferred loss on refundings		559
Total assets and deferred outflows of resources	$	786,488
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of:		
Loans and notes payable to commercial banks	$	9,702
Bonds payable		10,065
Obligations under capital leases		105
Accounts payable and other accrued liabilities		16,480
Due to the Commonwealth of Puerto Rico		20,282
Environmental liabilities		161
Accrued interest		5,972
Termination benefits accrual, current portion		965
Total current liabilities		63,732

(continues)

Statement of Net Position (In thousands)

Non-current liabilities:		
Bonds payable	$	157,477
Notes payable to Government Development Bank		94,471
Loans and notes payable to commercial banks		77,772
Termination benefits accrual		6,547
Rent and other deposits		7,603
Legal liabilities		6,406
Contract retention		2,157
Environmental liabilities		13,590
Undistributed proceeds of sale		577
Obligations under capital leases		206
Total non-current liabilities		366,806
Total liabilities		430,538
Net position:		
Net investment in capital assets		400,196
Net restricted assets		20,558
Deficit		(64,804)
Total net position		355,950
Total liabilities and net position	$	786,488

(concluded)

See notes to the 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 Position (In thousands)
For the Year Ended June 30, 2016

Operating revenue -		
Rental income, substantially from industrial properties, net	$	65,602
Operating expenses:		
Salaries and wages		16,173
Administrative and general		32,102
Depreciation and amortization		20,177
Maintenance and repairs, net		5,301
Total operating expenses		73,753
Operating loss		(8,151)
Non-operating revenues/(expenses):		
Net gain on sale of properties		7,989
Net investment income		149
Other income		25
Interest income on loans		248
Custodial credit risk loss on deposits with Government Development Bank		(2,018)
Payment to Puerto Rico Ports Authority		(2,351)
Interest expense		(21,627)
Total non-operating revenues/(expenses), net		(17,585)
Loss before capital contributions		(25,736)
Capital contributions -		
Special Fund for Economic Development		6,657
Change in net position		(19,079)
Net position, beginning of year		375,029
Net position, end of year	$	355,950

See notes to the basic financial statements.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (In thousands)
For the Year Ended June 30, 2016

Cash flows from operating activities:		
Cash collected from rental income	$	67,784
Cash paid for salaries and benefits		(16,897)
Cash paid for supplies and services		(38,848)
Net cash provided by operating activities		12,039
Cash flows from capital and related financing activities:		
Proceeds from sale of properties		10,562
Collection of capital contributions		6,657
Payments for capital assets		(19,539)
Payments of obligations under capital leases		(14)
Payments of bonds payable		(12,865)
Proceeds from notes and loan payables		48,152
Payments of notes and loan payables		(23,299)
Interest paid		(17,078)
Net cash used in capital and related financing activities		(7,424)
Cash flows from non-capital and related financing activities:		
Net payments from Commonwealth of Puerto Rico		5,199
Payments to Puerto Rico Ports Authority		(2,351)
Payment of notes payable GDB		(8,553)
Net cash used in non-capital and related financing activities		(5,705)
Cash flows from investing activities:		
Net change in sinking fund - redemption and bond service accounts		(3,703)
Redemption in certificate of deposit		22,467
Interest collected on investments, loans and other non-operating revenue		422
Net cash provided by investing activities		19,186
Net increase in cash and cash equivalents		18,096
CASH AND CASH EQUIVALENTS, beginning of year		13,454
CASH AND CASH EQUIVALENTS, end of year	$	31,550

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (In thousands)
For the Year Ended June 30, 2016

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(8,151)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense		20,177
Decrease in accounts receivable and deposits		1,282
Increase in prepaid expenses and other assets		(302)
Decrease in termination benefits accrual		(724)
Increase in rent deposits and other assets		574
Decrease in accounts payable and accrued liabilities		(817)
Net cash provided by operating activities	$	12,039
Supplemental cash flow information:		
Accretion of bonds payable	$	533
Amortization of bond discount	$	15
Capital contributions - Special Fund for Economic Development	$	382
Capital additions through obligations under capital leases	$	5,199

See notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. ***Reporting Entity*** – The basic financial statements include all funds and activities administered by PRIDCO.

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

c. ***Use of Estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

d. ***Concentration of Credit Risk*** – PRIDCO maintains cash on deposit with high rated financial institutions, with the Economic Development Bank for Puerto Rico (EDB) and with the Government Development Bank in Puerto Rico (GDB), both components unit of the Commonwealth. The laws of the Commonwealth require from commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth. Deposits with GDB and EDB, are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the bank, PRIDCO would not recover its deposits. ***(See Note 3)***

e. ***Cash Equivalents*** – PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents. As of June 30, 2016, cash equivalents amounted to $9.1 million. ***(See Note 3)***

f. ***Investments*** – PRIDCO is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments, its agencies or instrumentalities, including mortgage loans secured or guaranteed under federal housing laws. The investment in certificates of deposit is restricted for the payment of construction works performed on one of the PRIDCO's industrial facilities. Investments in equity securities are stated at amortized cost and are mostly composed of common and preferred stock shares in private entities.

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

Notes and lease financing receivables are presented at the outstanding unpaid principal balance reduced by the allowances for losses. These are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. No impairment was deemed necessary for the year ended June 30, 2016.

h. ***Restricted Assets*** – Restricted assets at June 30, 2016, consist of sinking fund to be used for the payment of debt service and sinking fund requirements are composed of the following (in thousands):

Debt service and sinking fund balance with Trustee	$	32,044
Liabilities payable from restricted assets consists of the following:		
Bonds payable within one year		10,065
Interest payable		1,421
Total liabilities payable from restricted assets		11,486
Net restricted assets	$	20,558

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

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

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

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

k. ***Revenue Recognition*** – Revenue from rental activities related to industrial properties is reported as revenue on the accrual basis over the term of the leases based on the monthly rental fees established by each lease agreement. Most of the leases in effect are cancelable, subject to penalty in case of early termination. Revenue from non-exchange transactions consists of intergovernmental grants, including contributions in aid for construction, mainly from two funds of the Commonwealth. These are recorded as revenue as soon as all eligibility requirements are met. Contributions received by PRIDCO for construction and improvements of capital assets during the year ended June 30, 2016, amounted to $6.7 million received from the Special Fund for Economic Development.

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

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

2. SIGNIFICANT DEPENDENCY ON COMMONWEALTH OF PUERTO RICO

As part of its normal operating activities, and as disclosed in Notes 3, 10 and 11 to the basic financial statements, PRIDCO has significant balances and transactions with the Commonwealth of Puerto Rico (the Commonwealth), with the Economic Development Bank (EDB) and with the Government Development Bank for Puerto Rico (GDB). As of June 30, 2016, the Commonwealth and GDB face significant uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Because of these uncertainties, the amounts due from Commonwealth, disclosed in Note 10, may not be collected in the near future, and PRIDCO's management is unable to determine when such amounts will be appropriated by the Legislature of the Commonwealth. Concurrently, these amounts due from Commonwealth are the sole source for the payment of the note payable to GDB, as disclosed in Note 11 to the basic financial statements.

PRIDCO has evaluated the possible effects of the uncertainties and liquidity risks being faced by the Commonwealth and GDB, on its basic financial statements and operations, and has concluded that, as of June 30, 2016, PRIDCO will continue to operate as a going concern for a period not less than twelve months after such date.

3. CASH AND CASH EQUIVALENTS

PRIDCO's cash and cash equivalents as of June 30, 2016 consisted of the following (in thousands):

	Deposit book balance	Custodial credit risk loss	Book balance after loss
Cash deposited in commercial banks	$ 24,474	$ -	$ 24,474
Cash equivalents:			
Deposits accounts with:			
Government Development Bank for Puerto Rico	2,018	(2,018)	-
Economic Development Bank for Puerto Rico	7,076	-	7,076
Total cash equivalents	9,094	(2,018)	7,076
Total cash and cash equivalents	$ 33,568	$ (2,018)	$ 31,550

Custodial Credit Risk Loss on Deposits with Governmental Development Bank

As explained in Note 2, the Commonwealth and the GDB face significant uncertainties, including liquidity risks, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due.

Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium described below. The GDB has continued to pay interest on its debt obligations.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as the GDB's ability to continue as a going concern.

On October 18, 2016, the Secretary of the Treasury of the Commonwealth of Puerto Rico issued its Circular Letter 1300-08-17 confirming that there is substantial doubt that GDB may be able to continue operating as a going concern, and that GDB is currently without financial liquidity. Based on this information, the Secretary recommended to all component units and other entities with deposits at GDB to evaluate the possibility of recognizing a loss as of June 30, 2016, for amounts held at GDB.

As a result of the above matters, PRIDCO recognized a custodial credit risk loss on deposits held with GDB of approximately $2 million.

4. SINKING FUND

As of June 30, 2016, PRIDCO held a sinking fund with U.S. Bank (the Trustee), to be used for the payment of bonds payable debt service and sinking fund requirements. At June 30, 2016, investments held by said sinking fund are all due within one year and consist of $32 million of money market funds held at U.S. Bank Trust National Association.

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

The credit ratings for the investments held in sinking fund as of June 30, 2016, were A-1^{+} by Standards & Poors, and A1 by Moody's Investor Services.

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

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

At June 30, 2016, summarized information regarding SIDCO's assets follows (in thousands):

Current assets	$	702
Land and plant		90,118
Total assets		90,820
Contribution by pharmaceutical company		(90,023)
Other liabilities		(355)
Investment in SIDCO, net	$	442

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

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

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

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

6. RENT AND ACCOUNTS RECEIVABLE

Rent and accounts receivable as of June 30, 2016, consist of the following (in thousands):

Rent receivable	$	19,780
Loans receivable		11,167
Others		11,315
Total		42,262
Less: Allowance for doubtful accounts		(23,719)
Rent and accounts receivable, net	$	18,543

Changes in the allowance for doubtful accounts during the year ended June 30, 2016 is as follows (in thousands):

Allowance for doubtful accounts, beginning of year	$	20,520
Plus: Provision of doubtful accounts		3,199
Less: Accounts written-off		-
Allowance for doubtful accounts, end of year	$	23,719

7. NOTES RECEIVABLE

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIDCO to qualifying exempt businesses for the purpose of partially financing the acquisition of machinery and land premises and working capital needs. Notes receivable as of June 30, 2016 consist of the following (in thousands):

Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 4.25% during the term of the loan. This note is due in monthly installments of $5 thousand commencing on March 1, 2010 to September 1, 2023 and a final monthly payment of $4 thousand due on October 1, 2023 and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	$	439
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments of $2 thousand commencing on December 1, 2004 over a 20-year period, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.		452
Total		891
Less: Allowance for doubtful accounts		(891)
Total, net of allowance for doubtful accounts	$	-

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

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8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 consists of the following (in thousands):

	Beginning balance	Additions	Reductions	Ending balance
Capital assets not being depreciated:				
Land held for improvement	$ 163,174	$ -	$ (2,325)	$ 160,849
Land on leased projects	72,156	48	(204)	72,000
Construction in progress	36,454	35,404	(21,406)	50,452
Total capital assets not being depreciated	271,784	35,452	(23,935)	283,301
Capital assets being depreciated:				
Buildings and improvements	775,691	3,132	(3,848)	774,975
Machinery and equipment	73,142	242	(589)	72,795
Furniture and vehicles	13,791	54	(135)	13,710
Total capital assets being depreciated	862,624	3,428	(4,572)	861,480
Less: Accumulated depreciation for:				
Buildings and improvements	(399,737)	(17,103)	3,220	(413,620)
Machinery and equipment	(60,865)	(2,288)	586	(62,567)
Furniture and vehicles	(12,036)	(786)	132	(12,690)
Total accumulated depreciation	(472,638)	(20,177)	3,938	(488,877)
Total capital assets being depreciated, net	389,986	(16,749)	(634)	372,603
Total capital assets, net	$ 661,770	$ 18,703	$ (24,569)	$ 655,904

PRIDCO evaluated its capital assets for impairment and no impairment charges were recorded during the year ended June 30, 2016.

On December 5, 2014, the Puerto Rico Ports Authority (Ports), another component unit of the Commonwealth, entered into an $8 million financing agreement with GDB and used the proceeds for the development of certain repair, maintenance and overhaul aerospace facilities, at Rafael Hernández Airport, in Aguadilla, Puerto Rico, a property of Ports. Also, the Special Development Economic Fund agreed to provide a $6.4 million incentive for the creation of new employment at that project, and the Special Incentives Fund, both fiduciary funds of the Commonwealth, agreed to provide $40 million to supplement the construction of the facilities at the Airport.

To secure the $8 million financing provided by GDB to Ports, on that same date, PRIDCO entered into a voluntary mortgage agreement with GDB, and mortgaged certain non-bonded properties, with a carrying value of $4.2 million, as collateral for this financing, for an amount not to exceed $10 million. This agreement establishes that PRIDCO is not a debtor or co-debtor for the Ports financing, and does not have any other responsibility, other than to provide these properties as collateral in case of default or non-compliance by Ports, up to $10 million. The mortgage note is due and payable on December 5, 2044.

9. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2016 consist of the following (in thousands):

Accounts payable	$	4,809
Compensated absences		5,078
Accrued payroll related expenses		399
Other accrued liabilities		6,194
Total	$	16,480

10. DUE TO AND FROM THE COMMONWEALTH OF PUERTO RICO

Amounts due from the Commonwealth as of June 30, 2016 consist of funds provided for granting industrial incentives to the Special Incentives Fund, a fiduciary fund of the Commonwealth, for $41.7 million with maturity date June 30, 2040. 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 financial statements and amounted to approximately $41.7 million as of June 30, 2016. Repayments for these notes are to be provided by COFINA through legislative appropriations. Amounts due from the Commonwealth also consists of $97 thousand from the Special Fund for Economic Development.

Amounts due to the Commonwealth as of June 30, 2016 consist of the following (in thousands):

Payable to	Purpose		Amount
Rums of Puerto Rico Fund	Operating advances	$	7,456
Puerto Rico Department of Economic Development	Management Fees		12,826
		$	20,282

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

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11. LINES OF CREDIT AND LONG-TERM DEBT ACTIVITY

Lines of credit and long-term debt activity for the year ended June 30, 2016 were as follows (in thousands):

	Beginning balance	Additions	Accretion	Reductions	Ending balance	Due within one year
Bonds payable	$ 180,129	$ -	$ 533	$ (12,865)	$ 167,797	$ 10,050
Less: Bond discount	(270)	-	-	15	(255)	15
Bond payable, net	179,859	-	533	(12,850)	167,542	10,065
Notes payable to GDB	86,325	-	-	(8,553)	77,772	-
Loans and notes payable	78,760	48,712	-	(23,299)	104,173	9,702
Obligations under capital leases	325	191	-	(205)	311	105
Total	$ 345,269	$ 48,903	$ 533	$ (44,907)	$ 349,798	$ 19,872

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

Term loan payable in 180 monthly installments of $268 thousand including interest with a balloon payment for the remainder balance including interest due in June 2022. The loan bears interest at 6.06%.	$ 16,453
Term loan payable in 138 monthly installments of $208 thousand including interest with a balloon payment for the remainder balance including interest due in June 2022. The loan bears interest at 5.38%.	12,904
Term loan payable in 180 monthly installments of $137 thousand including interest and is due in March 2018. The loan bears interest at 6.98%.	11,607
Non-revolving line of credit with 24 interest only payments then converted into a term loan payable in 216 monthly installments of $110 thousand including interest and is due in December 2024. The loan bears interest at 6.06%.	8,866
Term loan payable in 179 monthly installments of $118 thousand including interest, bearing interest at 5.46% and a final balloon payment due in October 2019. The loan is jointly and severally guaranteed by PRIDCO.	4,518
Non-revolving line of credit with 24 interest only payments then converted into a term loan payable in 216 monthly installments of $72 thousand including interest and is due in December 2024. The loan bears interest at 6.061%.	5,700
Promissory note payable in 180 monthly payments of $229 thousand including interests and is due in December 2030. The note bears interest at 6.25%.	26,154

Term loan payable in 179 monthly installments of $140 thousand including interest and one final installment on the 180 month of a balloon payment of the then outstanding balance of the principal plus accrued interest and any other accrued and unpaid interest, fees, expenses and/or charges owed under term loan. The term loan is due on December 2030. The loan bears interest at 4.650% .		17,651
Note payable in monthly payments of $6 thousand and with due date of August 18, 2019. The note bears interest at 5.99%.		201
Term loan payable in monthly installments of $56 thousand including interest and is due in August 2016. The loan bears interest at 5.26% .		119
Total debt		104,173
Less: Current maturities		(9,702)
Loans and notes payable to commercial banks, non-current portion	$	94,471

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

Non-revolving line of credit up to $75 million with GDB to provide for payment of expenses related to the voluntary separation and early retirement plans, bearing interest at 7%, due November 1, 2024. Meanwhile, PRIDCO has agreed with GDB to continue making monthly installments of principal and interest according to original terms. PRIDCO identified several properties to be disposed of for repayment of this debt and placed as collateral several other non-trusted properties.	$	36,119
Notes payable that were used to grant industrial incentives under the Special Incentives Fund, a fund of the Commonwealth, which is administered by PRIDCO. Repayments for these notes are provided by the Puerto Rico Sales Tax Financing Corporation (COFINA) and Commonwealth under legislative appropriation. The notes are due on June 30, 2040 and bear interest at 7%. Since these lines of credit are payable only from resources to be provided by COFINA and Commonwealth appropriations, PRIDCO has recorded an amount due from Commonwealth for the same amount. (See Note 2)		41,653
Total notes payable to GDB	$	77,772

For the year ended June 30, 2016, PRIDCO did not received appropriations from the Commonwealth for the payment of interest of the line of credit of $41.6 million. Due to this situation, PRIDCO recognized an interest payable of $4.6 million.

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

Year Ending	Due to Commercial Banks			Obligations under capital leases		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2017	$ 9,702	$ 5,835	$ 15,537	$ 105	$ 11	$ 116
2018	19,961	5,093	25,054	92	7	99
2019	9,787	4,036	13,823	84	3	87
2020	9,568	3,460	13,028	26	1 .	27
2021	9,407	2,918	12,325	4	-	4
2022 to 2025	45,748	10,588	56,336	-	-	-
Totals	$ 104,173	$ 31,930	$ 136,103	$ 311	$ 22	$ 333

PRIDCO is subject to compliance with certain covenants on its loans and notes payable with three commercial banks. During the year ended June 30, 2016, PRIDCO did not comply with some of those covenants and the financial institutions waived the non-compliance as of May 8, 2017.

Bonds Payable

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

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

Revenue refunding and general purpose revenue bonds outstanding at June 30, 2016 are as follows (in thousands):

Revenue Refunding Bonds and General Purpose Revenue Bonds:	
Series A 1997:	
Term bonds, 6.75%, due on July 1, 2021	$ 19,905
Series B 1997, 5.375%, due on July 1, 2016	6,955
Series 2003 General Purpose Revenue Bonds:	
Series bonds, 5.10% to 5.15% due on July 1, 2017 and 2018	2,395
Capital appreciation bonds, implicit interest rates of 5.15% to 5.20%, due on July 1, 2017 and July 1, 2018	10,452
Term bonds, 5.20%, due on July 1, 2023	48,925
Term bonds, 5.25%, due on July 1, 2028	78,910
Total bonds payable	167,542
Less: Current maturities	(10,065)
Bonds payable - non-current	$ 157,477

Series 2003 of the capital appreciation bonds will accrete to a maximum of $11.6 million, through their corresponding maturity dates. The annual debt service requirements to maturity, including principal and interest, for bonds payable as of June 30, 2016 are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
2017	$ 10,065	$ 8,280	$ 18,345
2018	7,333	7,851	15,184
2019	11,007	3,782	14,789
2020	11,135	7,012	18,147
2021	11,785	6,367	18,152
2022-2026	68,977	21,410	90,387
2027-2029	42,323	3,361	45,684
	162,625	$ 58,063	$ 220,688
Plus: Accreted discount	5,172		
Less: Unamortized bond discount	(255)		
Total	$ 167,542		

Obligations Under Capital Leases

PRIDCO finances the acquisition of certain office equipment through capital leases from various financial institutions. Capital leases outstanding as of June 30, 2016, are payable in monthly installments of principal and interest ranging from $192 hundred to $2,395 thousand in 2016, through the year 2021. The obligations under capital leases are secured by the corresponding office equipment and bear interest rates ranging from 4.00% to 5.22% in 2016.

12. RETIREMENT PLAN

Substantially all full-time employees of PRIDCO participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended (Act 447) and a component unit of the Commonwealth.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS, which became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS as further discussed below.

Members that entered the ERS before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 (Act 447 Participants) were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 (Act 1 Participants) were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 (Act 1 of 1990).

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

Retirement and related benefits provided by the ERS, and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 (Act 116), the statutory employer contribution for the ERS increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2016 is 14.275%.

The ERS provides basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2015 (most recently available) reflects a fiduciary net déficit of $578 million, total pension liability of $32.7 billion and a net pension liability of $33.2 billion.

Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

As of the date of the release of this report, the ERS has not issued its 2015 basic financial statements, nor has it provided PRIDCO with the required information to implement the requirements of GASB 68. Therefore, the accompanying financial statements do not have any adjustments that will be necessary for PRIDCO to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of July 1, 2015 and June 30, 2016, as well as the effect in the recorded pension expense in the statement of revenue, expenses and changes in net position for the year ended June 30, 2016. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

13. COMMITMENTS

Construction Program

As of June 30, 2016, PRIDCO estimates to invest approximately $2 million for construction, land acquisition, and development.

Other Commitments

PRIDCO has only administrative responsibilities with regards to the Special Incentives Fund, Special Fund Economic Development, and Rums of Puerto Rico Fund.

PRIDCO maintains a joint agreement with the University of Puerto Rico for the administration of the Bioprocess Development and Training Complex (BDTC) in Mayagüez. Under said agreement, PRIDCO constructed a modern building with state of the art facilities for rental by pharmaceutical and high end technological industries with research and development projects. PRIDCO is therefore renting the building to BDTC. For the year ended June 30, 2016, the BDTC has received funding from the Special Fund for Economic Development, University of Puerto Rico and the Puerto Rico Science, Technology and Research Trust.

PRIDCO maintains a joint interagency agreement along with the Puerto Rico Tourism Company (PRTC). Both entities agreed to provide $1 million each for the Office of Land Use Planning. PRIDCO is responsible for the purchase of office equipment as well as professional services necessary for the operations of said office. PRIDCO received $1 million from PRTC and total expenditures amounted to $672 thousand. PRTC did not make any contribution during the year ended June 30, 2016.

PRIDCO leases office in New York City under an operating lease with a third party expiring in the year 2022. Rent expense including common area maintenance, taxes and other charges amounted to approximately $412 thousand for the year ended June 30, 2016. Said office space is shared with GDB and Rums of Puerto Rico aiming towards the presence of the Commonwealth of Puerto Rico in one of the most important cities of the world. PRIDCO charges rent back to the previously mentioned governmental agencies based on space occupancy allocation.

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Future annual minimum lease payments under the operating lease agreement at June 30, 2016, are as follows (in thousands):

Year Ending June 30,	Amount
2017	$ 883
2018	905
2019	926
2020	926
2021	926
2022-2024	2,315
Total	$ 6,881

14. CONTINGENCIES

PRIDCO is a defendant in a number of legal proceedings arising in the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases. Contingency reserves as of June 30, 2016 amounted to approximately $6 million, and its included as part of accounts payable and other accrued liabilities.

15. POLLUTION REMEDIATION CONTINGENCIES

Because of the nature of the operations of the different tenants, under certain circumstances PRIDCO is responsible for pollution remediation in all its facilities. Pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. At June 30, 2016, PRIDCO's reserve for pollution remediation obligations amounted to approximately $14 million, and was reported as environmental liabilities, $161 thousand presented as current liability, and $13.6 million presented as non-current liability.

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

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

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

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

16. RISK MANAGEMENT

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

17. SUBSEQUENT EVENTS

PRIDCO evaluated subsequent events through May 8, 2017, the date on which the financial statements were available to be issued.

On July 20, 2016, the Governor of Puerto Rico signed the Law 74 which authorized the GDB to consolidate all financing agreements made to governmental entities which are payable with appropriations from the Puerto Rico legislature. Article 4 of such law lists all the governmental entities with financial agreements and the outstanding principal balance and accrued interest as of December 31, 2015. PRIDCO is listed with an outstanding principal balance of $41.7 million and accrued interest of $3.1 million as of December 31, 2015 .

Also, on March 13, 2017, the Puerto Rico Oversight Board approved and certified the fiscal plan submitted by the Governor of the Commonwealth. This plan, among other things, established that the Government's various taxes, fees and other revenues are used to fund, subsidize or guarantee payments of the debt of many covered entities by various means. Accordingly, the Fiscal Plan does provide for payment of expenses and capital investments in, among other covered entities, the PRIDCO. From a management standpoint, PRIDCO has already taken steps towards reducing its annual operating obligations in order to promote a positive cash flow trend to provide for bondholder obligations. Issued governmental executive orders applied by PRIDCO enforce said steps and serve as complementary tools enroute to comply with the approved Fiscal Plan.

On April 5, 2017 Moody's Investors Service lowered the ratings on debt of the Company's commercial property rent-secured bonds to Ca from Caa3. While Moody's continue to believe that essentially all of Puerto Rico's debt will be subject to default and loss in a broad restructuring, the securities being downgraded face more severe losses than we had previously expected, in the light of Puerto Rico's projected economic pressures.

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OTHER SUPPLEMENTARY INFORMATION

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Changes in Cash and Sinking Fund per Trust Indenture (In thousands)
For the Year Ended June 30, 2016

			U.S. Bank Trust Indenture Sinking Fund	
	Total	General Fund	Principal and Interest	Reserve Account
Balance at June 30, 2015	$ 41,795	$ 13,454	$ 6,336	$ 22,005
Cash provided by operating activities	12,039	(13,816)	25,842	13
Collections from capital contributions	6,657	6,657	-	-
Payments for capital assets	(19,539)	(19,539)	-	-
Payment of bonds	(12,865)	-	(12,865)	-
Proceeds from the sale of property	10,562	10,562	-	-
Proceeds from notes and loan payables	48,152	48,152	-	-
Payments of notes and loan payables	(23,299)	(23,299)	-	-
Payment of notes payable to GDB	(8,553)	(8,553)	-	-
Payment of interest	(17,078)	(7,791)	(9,287)	-
Payment of obligations under capital lease	(14)	(14)	-	-
Investment in certificates of deposit	22,467	22,467	-	-
Interest collected on investments, loans and other non-operating revenue	422	422	-	-
Payments to Puerto Rico Ports Authority	(2,351)	(2,351)	-	-
Net payments from Commonwealth of Puerto Rico	5,199	5,199	-	-
Balance at June 30, 2016	$ 63,594	$ 31,550	$ 10,026	$ 22,018
Balance at June 30, 2016 represented by:				
Cash and cash equivalents available for operations	$ 31,550	$ 31,550	$ -	$ -
Cash and cash equivalents held by the Trustee	10,026	-	10,026	-
Investment in U.S. Treasury bond stips, held by the Trustee, at market value	22,018	-	-	22,018
	$ 63,594	$ 31,550	$ 10,026	$ 22,018

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