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 ("PRIDCO")

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

Six-digit CUSIP* number(s): 745211

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: 2017-18 (audited financial statements and a disclosure separately posted)

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/ Manuel González del Toro

Manuel González del Toro
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for PRIDCO

Dated: June 22, 2021

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION, OTHER SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2018

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PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2018

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VALDES, GARCIA, MARIN & MARTINEZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of *Puerto Rico Industrial Development Company* (PRIDCO) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2018, 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.

1250 Ponce de Leon Ave. San Jose Bldg., Suite 702 San Juan, P.R. 00907 | P.O. Box 364831 San Juan, P.R. 00936-4831
Telephone: (787) 725-1600 | Fax: (787) 721-2795

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Puerto Rico Industrial Development Company* as of June 30, 2018 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 Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying basic financial statements have been prepared assuming that PRIDCO will continue as a going concern. As discussed in Note 2 to the financial statements, PRIDCO has incurred recurring losses, has significant balances and transactions with the Commonwealth of Puerto Rico, the Governmental Development Bank and the Economic Development Bank and is currently negotiating a restructuring of its debt under Title VI of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion on the basic financial statements is not modified with respect to this matter.

Adoption of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

As discussed in Note 1 to the basic financial statements, PRIDCO adopted the provisions of the Government Auditing Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment benefits Other than Pensions,* effective July 1, 2017. Our opinion is not modified with respect to this matter.

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, the Schedule of PRIDCO's Proportionate Share of the Net Pension Liability on page 54, the Schedule of PRIDCO's Contributions-Pension Plan on page 55, the Schedule of PRIDCO's Proportionate Share of Total OPEB Liability on page 57, and the Schedule of PRIDCO's Total OPEB Liability and Related Ratios on page 58, 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 *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, 2018, included on page 60, 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.

Valdés, García, Marín & Martínez, LLP

San Juan, Puerto Rico
February 24, 2021

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affixed to the original

Management Discussion and Analysis

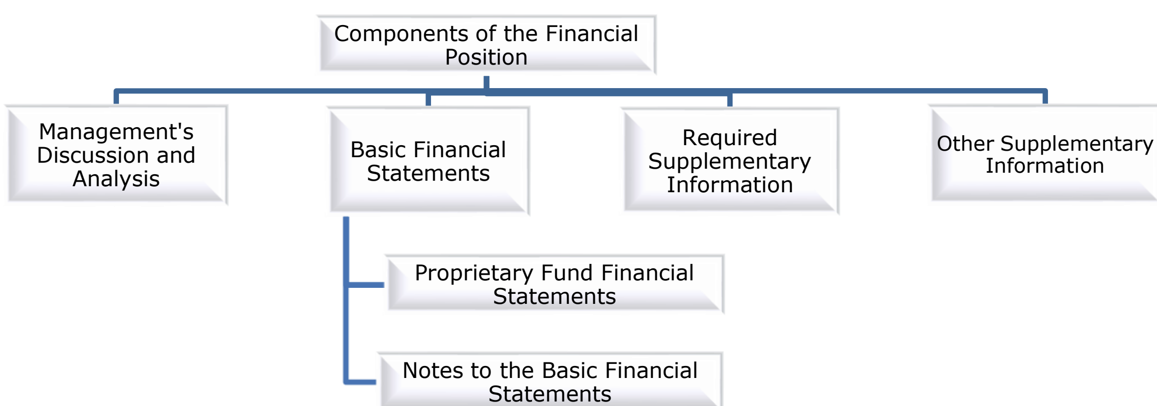
This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Industrial Development Company (PRIDCO) for the fiscal year ended June 30, 2018. The MD&A is intended to serve as an introduction to PRIDCO's basic financial statements, which have the following components: (1) proprietary fund financial statements, (2) notes to the basic financial statements (3) required supplementary information, and (4) other supplementary information. The MD&A is designed to (a) assist the reader in focusing on significant matters, and (b) provide an overview of PRIDCO's financial activities. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the PRIDCO's financial condition, the financial statements, and notes to the financial statements should be reviewed in their entirety.

Financial Highlights

- The assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources of PRIDCO at the close of the fiscal year 2018 by $168 million (net position). This amount includes $225 million of deficit.
- Total revenues increased $7.9 million or 12% and total expenses decreased by $3 million or 3%, when compared with fiscal year 2017. The change in net position decreased $11.5 million or 35%, with respect to prior year.
- The investment in capital assets as of June 30, 2018 was $622.7 million, net of depreciation.
- Long term debt activity (bonds, loans, notes payable and capital leases) decreased by $20.5 million when compared with fiscal year 2017.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to PRIDCO's basic financial statements. This report includes the management's discussion and analysis, the basic financial statements, the notes that explain in more detail the information contained in the financial statements, required supplementary information and other supplementary information.



Proprietary Fund Financial Statements

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. Proprietary fund statements of net position and revenues, expenses, and changes in net position are presented using the economic resources measurement focus and the accrual basis of accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the proprietary financial statements.

Required Supplementary Information

The financial statements and notes are followed by the required supplementary information that includes the schedules related to pension plan as required by GASB No. 68 and GASB No. 75.

Other Supplementary Information

The other supplementary information includes the schedule of changes in cash and sinking fund per trust indenture.

Financial Analysis

The following is an analysis of the financial position and changes in the financial position of PRIDCO's activities for fiscal year 2018:

Net Position

Condensed financial information from the statement of net position as of June 30, 2018 and 2017 is as follows (expressed in thousands):

	June 30,		Change	
	2018	**2017**	**In Dollars**	**Percent**
Assets				
Current assets	$ 60,334	$ 59,273	$ 1,061	2 %
Capital assets, net	622,690	642,034	(19,344)	(3) %
Other noncurrent assets	41,653	45,746	(4,093)	(9) %
Total assets	724,677	747,053	(22,376)	(3) %
Deferred outflows of resources				
Deferred loss on refunding	466	522	(56)	(11) %
Other post-employment benefits related	459	480	(21)	100 %
Pension related	26,111	40,815	(14,704)	(36) %
Total deferred outflows of resources	27,036	41,817	(14,781)	(35) %
Total assets and deferred outflows of resources	$ 751,713	$ 788,870	$ (37,157)	$ (38) %
Liabilities				
Current liabilities	$ 89,475	$ 61,269	$ 28,206	46 %
Noncurrent liabilities	471,428	535,371	(63,943)	(12) %
Total liabilities	560,903	596,640	(35,737)	(6) %
Deferred inflows of resources				
Deferred inflows related to pension	23,122	3,461	19,661	568 %
resources	584,025	600,101	(16,076)	(3) %
Net Position				
Net investment in capital assets	390,309	389,129	1,180	0 %
Net restricted assets	2,393	2,343	50	2 %
Deficit	(225,014)	(202,703)	(22,311)	11 %
Total net position	167,688	188,769	(21,081)	(11) %
Total liabilities, deferred inflows of resources and net position	$ 751,713	$ 788,870	$ (37,157)	(5) %

As of June 30, 2018, net position of $168 million is composed of $390 million of net investment in capital assets, $2.4 million of restricted net assets and a deficit of $225 million. Total net position changed from $189 million to $168 million, a decrease of approximately $21 million or 11%. This decrease is primarily due to the net effect of a decrease in total assets and deferred outflow of resources of $37 million and a decrease in total liabilities and deferred inflow of resources of $16 million.

Total assets decreased, compared with prior year, by $22.4 million or 3%. The decrease is mostly due to a decrease of capital assets of $19.4 million and the net effect of a decrease of $11 million of the sinking fund reserve accounts and the increase of $9 million of rent, loans and accounts receivable. Current assets increased, compared with prior year, approximately $1 million. The increase in current asset is due the net effect of an increase in cash of $2.6 million, a decrease in sinking funds reserved account of $11.3 million, an increase in rent, loans and accounts receivable of $9.3 million and the increase in prepaid expenses of $457 thousand. However, the increase in cash and cash equivalents was offset by a custodial credit risk loss of approximately $65 thousand on PRIDCO's deposit with GDB and EDB. Total deferred outflow of resources decreased by $15 million or 35% and the deferred inflow of resources increased by $19.7 in comparison with prior year figures due to the GASB 68 and GASB 75 adjustments.

Total liabilities decreased for the amount of $36 or 6% million, due to the net effect of an increase in current liabilities of $28 million and a decrease in non-current liabilities of $64 million in comparison with prior year figures. The increase in current liabilities was primarily due to an increase in accounts payable of $10 million, an increase in due to Commonwealth of $3 million, an increase in the current portion of bonds payable and an increase in accrued interest of $10.6. Non-current liabilities decreased by $64 million or 12% due to a decrease in bonds payable of $13.8, a decrease on loans and notes payable of $10.5 million, a decrease in due to Commonwealth of $4.7 million, a decrease in compensated absences of $1.6 million, a decrease in net pension liability of $30.4 million in comparison with prior year.

Restricted net position is mainly composed of amounts deposited in the sinking fund reserve for payments of bonds payable and related interest. Restricted net position decreased approximately $50 thousand or 2%.

Revenues, expenses, and changes in net position

Condensed financial information of the statement of revenues, expenses and changes in net position for the years ended on June 30, 2018 and 2017 is as follows (expressed in thousands):

	June 30,		Change	
	2018	**2017**	**In Dollars**	**Percent**
Operating Revenues				
Rental income, net	$ 60,149	$ 57,880	$ 2,269	4 %
Total non-operating revenues	11,883	6,251	5,632	90 %
Total revenues	72,032	64,131	7,901	12 %
Operating expenses:				
Salaries and wages	12,500	18,996	(6,496)	(34) %
Pension expense	3,934	8,848	(4,914)	(56) %
Other post-employment benefits	(1,338)	6,608	(7,946)	100 %
Administrative, general and other expenses	38,486	22,692	15,794	70 %
Depreciation and amortization	19,071	19,626	(555)	(3) %
Total operating expenses	72,653	76,770	(4,117)	(5) %
Total non-operating expenses	23,234	22,119	1,115	5 %
Total expenses	95,887	98,889	(3,002)	(3) %
Loss before capital contributions	(23,855)	(34,758)	10,903	(31) %
Capital contributions	2,774	2,180	594	27 %
Change in net position	(21,081)	(32,578)	11,497	(35) %
Net position, beginning of year	355,950	355,950	-	- %
Restatement	-	(134,603)	134,603	100 %
Net position, beginning of year, as restated	188,769	221,347	(32,578)	(15) %
Net position, end of year	$ 167,688	$ 188,769	$ (21,081)	(11) %

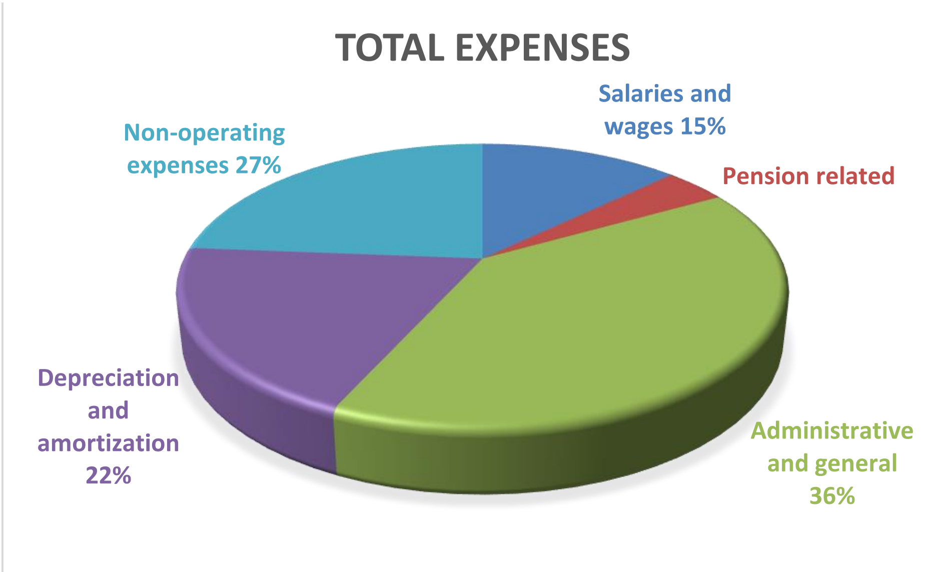
PRIDCO reported a negative change in net position of approximately $21 million, a decrease of $11.5 million or 35%, with respect to prior year's change in net position. This decrease is the result of an increase of total revenues of 12% and a decrease of total expenses of 3%, when compared with fiscal year 2017.

Total revenues consist mostly of rental revenue of approximately $60.1 million. Rental revenues increased $2.3 million or 4% when compared with 2017. Non-operating revenues increased $5.6 million or 90% mainly due to the net effect of an insurance recovery of $8.4 million and a decrease of $3 million in gain on sale of properties.

Operating expenses decreased by approximately $4.1 million or 5%, as a result of a net decrease in salaries and wages of $6.5 million due to a new retirement incentive plan, a decrease in pension expense of $5 million, a decrease in other post-employment benefits of $8 million offset by an increase in administrative and general expenses of approximately $15.8 million.

Non-operating expenses increased by approximately $1 million or 5%, mostly due to the net effect of increase of the impairment of capital assets of $2 million and a decrease in interest expense of $1 million when compared with fiscal year 2017.

PRIDCO's expense distribution for the year ended on June 30, 2018 is as follows:



Capital Assets

At the end of the fiscal year, PRIDCO has invested $622.7 million, net of accumulated depreciation, in a broad range of capital assets, including land held for improvements, land on leased projects, building and improvements, machinery and equipment, among others.

Long-Term Debt

At the end of the fiscal year, PRIDCO reported $310 million in bonds, loans and notes payable and obligations under capital leases. This represented a reduction of $21 million, with respect to the prior year. During the year PRIDCO did not obtain new long-term debt.

Current Known Facts

On May 27, 2020, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan).

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

GDB's fiscal plan establishes financial restructuring and closing of GDB operations that will allow for a smooth transition of GDB's current operations. Consequently, a Restructuring Support Agreement, dated May 15,2017 provides for the restructuring of a significant portion of GDB's liabilities. In June 2017, GDB submitted to the Oversight Board a proposed amended fiscal plan that incorporates the structure agreed. GDB's substantial operations ceased in March 2018. The RSA was finally executed on November 29, 2018.

Contacting PRIDCO's Financial Management:

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

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION (IN THOUSANDS)
JUNE 30, 2018

ASSETS	
Current assets:	
Cash and cash equivalents, net of custodial credit risk loss	$ 35,463
Sinking fund reserve accounts, at accreted cost, restricted	2,393
Rent, loans and accounts receivable, net	20,769
Prepaid expenses and other assets	1,709
Total current assets	60,334
Non-current assets:	
Due from Commonwealth of Puerto Rico	41,653
Capital assets	
Land and construction in progress	237,681
Building, improvements and machinery,net	385,009
Total non-current assets	664,343
Total assets	724,677
Deferred outflows of resources:	
Deferred loss on refundings	466
Other post-employment benefits related	459
Pension related	26,111
Total deferred outflows of resources	27,036
Total assets and deferred outflows of resources	$ 751,713
LIABILITIES	
Current liabilities:	
Accounts payable and other accrued liabilities	$ 17,472
Obligations under capital leases	186
Bonds payable	15,791
Loans and notes payable to commercial banks	18,345
Due to the Commonwealth of Puerto Rico	12,940
Compensated absences	509
Accrued interest	20,745
Termination benefits accrual	1,927
Environmental liabilities	1,560
Total current liabilities	$ 89,475

(Continues)

See the accompanying notes to the basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION (IN THOUSANDS)
JUNE 30, 2018

Non-current liabilities:	
Bonds payable	$ 134,012
Notes payable to Government Development Bank	77,772
Loans and notes payable to commercial banks	64,029
Net pension liability	150,378
Total other post-employment benefits liability	5,729
Termination benefits accrual	8,647
Compensated absences	638
Rent and other deposits	7,673
Legal liabilities	850
Contract retention	1,693
Environmental liabilities	19,652
Undistributed proceeds from sale	337
Obligations under capital leases	18
Total non-current liabilities	471,428
Total liabilities	560,903
Deferred inflows of resources -	
Pension related	23,122
Total liabilities and deferred inflows of resources	584,025
Net position:	
Net investment in capital assets	390,309
Net restricted assets	2,393
Deficit	(225,014)
Total net position	$ 167,688

See the accompanying notes to the basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES:	
Rental income, substantially from industrial properties, net	$ 60,149
OPERATING EXPENSES :	
Salaries and wages (including voluntary termination benefits)	12,500
Pension expense	3,934
Other post-employment benefits	(1,338)
Administrative and general	29,289
Depreciation and amortization	19,071
Maintenance and repairs, net	9,197
Total operating expenses	72,653
OPERATING LOSS	(12,504)
NON-OPERATING REVENUES (EXPENSES):	
Insurance recovery	8,420
Net gain on sale of properties	3,113
Net investment income	151
Interest income on loans	199
Custodial credit risk loss on deposits with governmental bank	(65)
Impairment loss on investment	(4,093)
Impairment loss in capital assets	(805)
Interest expense	(18,271)
Total non-operating revenues (expenses), net	(11,351)
Loss before capital contributions	(23,855)
CAPITAL CONTRIBUTIONS:	
Special Fund for Economic Development	2,774
CHANGE IN NET POSITION	(21,081)
NET POSITION - beginning of year as restated	188,769
NET POSITION - end of year	$ 167,688

See the accompanying notes to the basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOW (IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash collected from rental income	$ 45,614
Cash paid for salaries and benefits	(15,858)
Cash paid for supplies and services	(22,838)
Net cash provided by operating activities	6,918
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from insurance recovery	8,420
Proceeds from sales of capital assets	4,438
Collections of capital contributions	2,774
Payments for acquisition of capital assets	(1,653)
Payments of obligations under capital leases	(220)
Payments of bonds payable	(8,555)
Payments of notes and loans payable	(12,186)
Interest paid	(7,361)
Net cash used in capital and related financing activities	(14,343)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net payments to Commonwealth of Puerto Rico	(1,647)
Net cash used in non-capital and related financing activities	(1,647)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net change in sinking fund-redemption, and bond service accounts	11,330
Interest collected on investments, loans and other non-operating revenue	279
Net cash provided by investing activities	11,609
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,537
CASH AND CASH EQUIVALENTS - beginning of year	32,926
CASH AND CASH EQUIVALENTS - end of year	$ 35,463

See the accompanying notes to the basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOW (IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$ (12,504)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization expense	19,071
Provision for doubtful accounts	5,336
Changes in operating assets and liabilities:	
Increase in accounts receivable and deposits	(14,591)
Increase in prepaid expenses and other assets	(457)
Decrease in other post-employment benefits	(1,338)
Decrease in termination benefits accrual	(376)
Decrease in compensated absences	(2,596)
Increase in accounts payable and accrued liabilities	14,373
Total adjustments	19,422
Net cash provided by operating activities	$ 6,918

SUPPLEMENTAL INFORMATION ON NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Accretion of bonds payable	$ 289
Amortization of bond discount	$ 16

See the accompanying 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 Act 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 their business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

a. Reporting Entity – The basic financial statements include PRIDCO as well as all the operations of the component units, if any.

A component unit is a legally separate entity for which PRIDCO is financially accountable, or the nature or significance of their relationship with PRIDCO is such, that their exclusion would cause PRIDCO's basic financial statements to be misleading or incomplete. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity, or the potential exists for the other entity to (1) provide specific financial benefit to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements to be misleading or incomplete. U.S. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of PRIDCO's balances and transactions or discrete presentation of the component unit's financial data in columns separate from PRIDCO's balances and transactions.

Based on the above criteria the following component units are presented blended in the financial statements:

i. Puerto Rico Industrial Investment Corp. (PRIICO) owns a building in San Juan, where PRIDCO offices are located. These premises are leased to PRIDCO and other entities.

ii. Puerto Rico Industrial Incentives Fund, Inc. (PRIIF) was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the retention of employment in the industrial and service sectors of Puerto Rico's economy. Since 2014 PRIIF has no operational activities.

The financial statements of PRIICO and PRIIF, even though they are legally separate, are reported as it they are part of PRIDCO because its governing body is in substance the same of the component units and PRIDCO's management has operational responsibility for them.

Condensed financial information as of June 30, 2018 and for the fiscal year then ended of the component units is as follows:

	PRIICO	PRIIF
Statements of Net Position as of June 30, 2018 (In thousands):		
Current assets	$ 1,388	$ 172
Due from PRIDCO	142,625	-
Capital assets, net	11,227	-
Total assests	155,240	172
Deferred outflows of resources	466	-
Total assets and deferred outflows of resources	$ 155,706	$ 172
Current liablities	$ 18,855	$ -
Due to PRIDCO	163,089	-
Non-current liabilities	64,137	-
Total liabilities	246,081	-
Net position:		
Net investment in capital assets	11,227	-
Net position	(101,602)	172
Total net position (deficit)	(90,375)	172
Total liabilities and net position	$ 155,706	$ 172
Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2018 (In thousands):		
Operating revenues	$ 1,231	$ -
Operating expenses	3,145	-
Operating loss	(1,914)	-
Non-operating expense:		
Interest expense	(5,162)	-
Change in net position	(7,076)	-
Net position (deficit)-beginning of year	(83,299)	172
Net position (deficit)-end of year	$ (90,375)	$ 172
Statements of Cash Flows for the year ended June 30, 2018 (In thousands):		
Net cash used in operating activities	$ (860)	$ -
Net cash used in capital and related financing activities	(17,349)	-
Net cash provided by non-capital and related financing activities	18,139	-
Net change in cash	(70)	-
Cash-beginning of year	1,183	172
Cash-end of year	$ 1,113	$ 172

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. Concentration of Credit Risk – PRIDCO maintains cash on deposits with high rated financial institutions, the Economic Development Bank for Puerto Rico (EDB) and the Government Development Bank for 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 banks, PRIDCO would not recover its deposits. (Refer to Note 3).

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

e. 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. Investments in equity securities are stated at amortized cost and are mostly composed of common and preferred stock shares in private entities.

f. Rent, Loans and Notes 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 on notes receivable and loans receivable upon an evaluation of the risk's characteristics of those accounts, loss experience, economic conditions and other pertinent factors. Write-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously written-off are credited to the allowance. Notwithstanding, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions.

Notes and loans receivable 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.

g. Restricted Assets - Restricted assets as of June 30, 2018, consist of the following (in thousands):

Sinking fund required by trustee	$ 18,150
Unfunded balance	(15,757)
Sinking fund balance as of June 30, 2018	2,393
Liabilities payable from restricted assets consists of the following:	
Bonds and discount payable within one year	15,791
Accrued bond interest payable as of June 30, 2018	6,643
Total liabilities payable from restricted assets	22,434
Deficit	$(20,041)

h. Capital Assets - Capital assets are stated at cost, net of accumulated depreciation and amortization. Cost of construction includes, among other things, interest costs, and indirect costs consisting of payroll taxes and other fringe benefits. Depreciation and amortization are computed on the straight-line method at rates considered adequate to allocate the cost of the various types 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:

	Useful Life (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 their 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.

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

j. Revenue Recognition - Revenue from rental activities related to industrial properties is reported as revenue on the accrual basis over the term of the lease 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, 2018, amounted to $2.8 million received from the Special Fund for Economic Development.

k. Compensated Absences - Vacation and sick leave may be accumulated at a maximum of 60 days and 90 days, respectively. Employees earned 30 days of vacations and 18 days of sick leave, annually, until April 28, 2017. Effective April 29, 2017, when Act No. 26 became effective, all employees in each calendar year, will earn up a maximum of 15 and 12 days of vacations and sick leave, respectively.

l. Voluntary Termination Benefits - PRIDCO recognizes a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated.

m. Accounting for Pension Costs - PRIDCO accounts for pension costs under the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68,* which was adopted by PRIDCO effective July 1, 2016. GASB Statement No. 68 replaced the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and requires that employers report a net pension liability and related pension accounts, such as pension expense and deferred outflows/inflows of resources as determined by the Retirement System, as applicable, under the requirements contained in GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension, and pension expense, the balances have been determined on the same basis as the Plan and reported by the ERS.

n. Other Post-Employment Obligation- GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for PRIDCO starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring the OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, the balances have been determined on the same basis as the Plan and reported by the ERS. PRIDCO’s contribution for OPEB is included in the PayGo charges billed on a monthly basis by the ERS.

o. 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.

p. Deferred Outflows/Inflows - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* and GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.*

q. New Accounting Standard Adopted - Effective July 1, 2017, PRIDCO adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* which replaced GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, that is effective for fiscal years beginning after June 15, 2017. GASB 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of the implementation of GASB 75, PRIDCO recognized a $6.6 million adjustment on the beginning net position as of July 1, 2017.

r. Accounting Pronouncements Issued but Not Yet Effective

- GASB Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

- GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- GASB Statement No. 90*, Majority Equity Interests.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statements information for certain components units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

- GASB Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

  This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

  This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

- *GASB Statement No. 92, Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3*, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and *No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

- *GASB Statement No. 93, Replacement of Interbank Offered Rates (IBOR).* The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

  This statement achieves its objective by:

  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
  - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
  - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
  - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Clarifying the definition of *reference rate,* as it is used in Statement 53, as amended.
  - Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

  The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

- *GASB Statement No. 94, Public Private and Public-Public Partnership and Availability Payment Arrangement.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

  The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- *GASB Statement No. 95, Postponement of the effective dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

  The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

  - *Statement No. 83, Certain Asset Retirement Obligations*
  - *Statement No. 84, Fiduciary Activities*
  - *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
  - *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
  - *Statement No. 90, Majority Equity Interests*
  - *Statement No. 91, Conduit Debt Obligations*
  - *Statement No. 92, Omnibus 2020*
  - *Statement No. 93, Replacement of Interbank Offered Rates*

- *Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- *Implementation Guide No. 2018-1, Implementation Guidance Update—2018*
- *Implementation Guide No. 2019-1, Implementation Guidance Update—2019*
- *Implementation Guide No. 2019-2, Fiduciary Activities.*

The effective dates of the following pronouncements are postponed by 18 months:

- *Statement No. 87, Leases*
- *Implementation Guide No. 2019-3, Leases.*

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The requirements of this Statement are effective immediately.

- *GASB Statement No. 96, Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended.

  The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- *GASB Statement No. 97, Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

Management is evaluating the impact that these statements will have, if any, on PRIDCO's basic financial statements.

2. GOING CONCERN AND UNCERTAINTIES

Management believes there is substantial doubt about PRIDCO's ability to continue as a going concern because of the following factors:

- PRIDCO has experienced recurring losses from operations.

- As part of its normal operating activities, and as disclosed in Notes 3, 11, and 12 to the basic financial statements, PRIDCO has significant balances and transactions with the Commonwealth of Puerto Rico (the Commonwealth), with the Economic Development Bank for Puerto Rico (EDB) and with the Government Development Bank for Puerto Rico (GDB). As of June 30, 2018, the Commonwealth and GDB face significant uncertainties, including liquidity risk, which is the risk of not having enough liquid financial resources to meet their obligations when they come due. Because of these uncertainties, the amounts due from Commonwealth, disclosed in Note 11, 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, the amounts due from the Commonwealth are the sole source for the payment of the line of credit and notes payable to GDB, as disclosed in Note 12 to the basic financial statements.

- PRIDCO has been unable to fund all of its outstanding obligations from operating cash flows and is negotiating a restructuring of the debt under Title VI of PROMESA.

In response to the financial difficulties and the economic and liquidity crisis the Commonwealth is facing PRIDCO's management is working in a ten-year business plan. This plan will include a series of initiatives for increasing revenues through the renewal of existing lease contracts and sale of properties, and reducing administrative costs, including payroll costs, by the transfer of employees to the Department of Economic Development and Commerce, as considered in the reorganization plan. In addition, PRIDCO is currently negotiating a restructuring of its debt under Title VI of PROMESA. This title establishes an out-of-court process for modifying the debt.

3. CASH AND CASH EQUIVALENTS

PRIDCO's cash and cash equivalents as of June 30, 2018 consist of the following (in thousands):

	Book balance	Accumulated custodial credit risk loss	Book balance after accumulated custodial credit risk loss	Depository bank balance	Amount uninsured and uncollateralized
Cash deposited in commercial banks	$ 35,463	$ -	$ 35,463	$ 37,750	$ -
Cash equivalents:					
Deposits accounts with:					
Government Development Bank	2,068	(2,068)	-	2,068	2,045
Economic Devolpment Bank	2,061	(2,061)	-	2,061	2,061
	4,129	(4,129)	-	4,129	4,106
Total cash and cash equivalents, net	$ 39,592	$ (4,129)	$ 35,463	$ 41,879	$ 4,106

Custodial Credit Risk Loss on Deposits with Government Development Bank for Puerto Rico and Economic Development Bank for Puerto Rico

GDB faced a critical and economic situation and deposits held at GDB were subject to strict restrictions and limitations. GDB served as the primary depository agent of the Commonwealth, its instrumentalities and municipalities' funds; depositors' cash and cash equivalents with GDB were thus subject to custodial credit risk.

In addition, loans to the Commonwealth and its instrumentalities constitute a significant portion of GDB's assets. Thus, the rating downgrade severely affected those entities which resulted in operational deficits, lack of access to capital markets and consequently, delays in the repayment of loans outstanding with GDB, which left GDB with significant non-performing assets, limited liquidity and the inability to repay its debts when they come due.

Although a Restructuring Support Agreement, dated May 15, 2017, was certified and approved by the Financial Oversight and Management Board (the Oversight Board), a seven-member board established under PROMESA, on July 12, 2017 to provide for the restructuring of a significant portion of GDB's liabilities, GDB's substantial operations ceased in March 2018.

EDB has traditionally promoted the development of the private sector of the economy of Puerto Rico. This is accomplished by making direct loans, loan guarantees, loan participations, and/or direct investments available to any person or business organization devoted to manufacturing, agriculture, trade, tourism or other service enterprises.

Due to the spiral of economic deterioration affecting the Commonwealth, including downgrades in credit ratings of the Commonwealth's bonds led the private sector to retire deposits from EDB. Also, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB, reducing EDB's capacity to issue commercial loans or make investments in financial instruments. In addition to these situations, the investments held by EDB had declined in value and EDB was running only on the interest income generated by its loan's portfolio. Due to the high default rate on its loans portfolio, the ability to raise cash through loan repayments was limited.

Even though EDB took several measures to control the decline in its operations, they were not enough. On October 23, 2018, the Oversight Board approved the Commonwealth Fiscal Plan which included the closure of the EDB.

In addition, on October 18, 2016, the Secretary of the Treasury of the Commonwealth of Puerto Rico issued the Circular Letter 1300-08-17 confirming that there was substantial doubt that GDB may be able to continue operating as a going concern, and that GDB was 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-mentioned matters, PRIDCO has recognized a custodial credit risk loss on time deposits held in EDB of approximately $37 thousand and $28 thousand in GDB for the year ended June 30, 2018.

4. SINKING FUND RESERVE

As of June 30, 2018, PRIDCO holds a $ 2.4 money market deposited in a sinking fund reserve account with U.S. Bank Trust National Association (the Trustee), that will be used for the payment of bonds debt service and sinking fund requirements.

PRIDCO was included in the debt restructuring petition filed by the Oversight Board in the U.S. District Court in Puerto Rico under Title VI of PROMESA. The Title VI provisions allows for an out-of-court debt restructuring process akin to Chapter 9 of the U.S. Code bankruptcy protection. Since then, PRIDCO suspended its deposits in the sinking fund accounts. Consequently, repayments of bonds debt have not been honored from the required sinking fund reserve account. As of June 30, 2018, total sinking fund reserve account is $15.7 million under the required amount.

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.

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 rental agreement calls for the payment of an annual rent equal to the amounts due and payable by SIDCO under various notes payable 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 period of 20 years after the date of commencement of operations or 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. The first renewal period of the leased expired in 2017.

At June 30, 2018, summarized information regarding SIDCO's assets follows (in thousands):

Current assets	$ 684
Land and plant	90,118
Total assets	90,802
Contribution by pharmaceutical company	(90,271)
Other liabilities	(89)
Investment in SIDCO, net	$ 442

SIDCO's only activity is the leasing of this facility. During 2001, SIDCO acquired a land property 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 into.

- 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. INVESTMENT IN EQUITY SECURITIES

As of June 30, 2018 PRIDCO has an investment in shares of a private entity for approximately $4 million. Due to the fact that the company in which PRIDCO has invested entered a bankruptcy process, PRIDCO determined to register an impairment for the total balance of the investment as of June 30, 2018.

7. RENT, LOANS AND ACCOUNTS RECEIVABLE

Rent, loans and accounts receivable as of June 30, 2018 consist of the following (in thousands):

Rent receivable	$ 29,893
Other	16,690
Total	46,583
Less: Allowance for doubtful accounts	(25,814)
Rent, loans and accounts receivable, net	$ 20,769

Changes in the allowance for doubtful accounts during the year ended June 30, 2018 are as follows (in thousands):

Allowance for doubtful accounts, beginning of year	$ 27,313
Plus: Provision for doubtful accounts	5,336
Less: Accounts written-off	(6,835)
Allowance for doubtful accounts, end of year	$ 25,814

On September 2017 Puerto Rico was impacted by Hurricanes Irma and María, major category four hurricanes, causing a level of widespread destruction in many areas including infrastructure, housing, environment, public and private property, and disrupting the Commonwealth and Company's operations. Hurricanes Irma and María severely damaged 9% and 74% of PRIDCO's property, respectively. PRIDCO performed significant mitigation and recovery efforts financed by operating funds.

PRIDCO estimated all damages suffered in about $187 million. At present, management has submitted claims to PRIDCO's and tenants' insurance companies, and evidence of recovery related costs to the Federal Emergency Management Agency (FEMA) for reimbursement through public assistance grants. Currently, PRIDCO continues negotiations with FEMA and the insurance company but amounts to be collected from these entities cannot be determined. As of June 30, 2018, PRIDCO recorded insurance claims receivable in the amount of $6.9 million included in other receivables, that were subsequently collected.

8. NOTES RECEIVABLE

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIDCO to qualified exempt businesses for the purpose of partially financing the acquisition of machinery and land premises and working capital needs. The notes agreements provide that the outstanding principal may be prepaid without penalty. Notes receivable as of June 30, 2018 consist of the following (in thousands):

Non-revolving note receivable from qualified exempt business for the purpose of partially financing the acquisition of machinery and

working capital needs, bearing annual 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 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 from qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing annual interest at 8% during the term of the loan. The 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
	891
Less: Allowance for doubtful accounts	(891)
Notes receivable, net	$ -

9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 consists of the following (in thousands):

	Beginning balance	Additions	Reclass	Retirements	Ending balance
Capital assets not being depreciated:					
Land held for improvement	$ 160,732	$ -	-	$ (403)	$ 160,329
Land on leased projects	73,921	-	-	(77)	73,844
Construction in progress	2,136	1,506	-	(134)	3,508
Total capital assets not being depreciated	236,789	1,506	-	(614)	237,681
Capital assets being depreciated:					
Buidings and improvements	823,652	-	(2,834)	(1,556)	$ 819,262
Machinery and equipment	72,797	96	(39)	(283)	72,571
Furniture and vehicles	13,718	184	2,881	(335)	16,448
Total capital assets being depreciated	910,167	280	8	(2,174)	908,281
Less: Accumulated depreciation of:					
Buidings and improvements	(427,352)	(18,231)	2,637	1,134	$ (441,812)
Machinery and equipment	(64,299)	(1,382)	178	199	(65,304)
Furniture and vehicles	(13,271)	(395)	(2,825)	335	(16,156)
Total accumulated depreciation	(504,922)	(20,008)	(10)	1,668	(523,272)
Total capital assets being depreciated, net	405,245	(19,728)	(2)	(506)	385,009
Total capital assets, net	$ 642,034	$ (18,222)	$ (2)	$ (1,120)	$ 622,690

PRIDCO evaluated its capital assets for impairment and recorded a charge of $805 thousand during the fiscal year ended June 30, 2018.

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 Hernandez 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 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. The agreement established 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.

10. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2018 consist of the following (in thousands):

Accounts payable	$5,785
Accrued payroll related expenses	17
Other accrued liabilities	11,670
	$17,472

11. DUE TO AND FROM COMMONWEALTH OF PUERTO RICO

Amounts due from Commonwealth as of June 30, 2018 consist of funds provided for granting industrial incentives to the Special Incentives Fund, a fund of the Commonwealth (the Fund), of $41.7 million with maturity date on June 30, 2040. Prior to June 30, 2004, the Fund received advances 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 is recorded in PRIDCO's financial statements in the amount of $41.7 million as of June 30, 2018. Repayments of these notes shall be provided by COFINA through legislative appropriations.

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 they do not constitute funds of PRIDCO. Accordingly, they are not presented in the accompanying basic financial statements.

Amounts due to the Commonwealth as of June 30, 2018 consist of the following (in thousands):

Payable to	Purpose	Amount
Rums of Puerto Rico Fund	Operating advances	$ 7,371
Puerto Rico Department of Economic Development	Management fees	5,569
		$12,940

During fiscal year 2016-2017, PRIDCO and the Puerto Rico Department of Economic Development (the Department) reached an agreement for restructuring the amount due for management fees from previous years. The Department agreed to forgive one-third (1/3) of the amount due of approximately $3 million. Also, PRIDCO applied to the debt the amount of $3 million of certain administrative expenses paid on behalf of the Department. The remaining balance at the agreement date of $10 million is payable in 23 installments of $272 thousand beginning on August 19, 2016 and a final payment of $4 million due not later than October 19, 2018.

12. LONG-TERM DEBT ACTIVITY

Long-term debt activity for the year ended June 30, 2018 is as follows (in thousands):

	Beginning balance	Additions	Accretions	Reductions	Ending balance	Due within one year
Bonds payable	$ 152,560	$ -	$ -	$ (5,623)	$146,937	$ 12,717
Plus: Accreted discount	5,734		289	(2,932)	3,091	3,091
Less: Bonds discount	(240)	-	-	15	(225)	(17)
Bonds payable, net	158,054	-	289	(8,540)	149,803	15,791
Line of credit and notes payable to GD	77,772	-	-	-	77,772	-
Loans and notes payable	94,560	-	-	(12,186)	82,374	18,345
Obligations under capital leases	291	133	-	(220)	204	186
Totals	$ 330,677	$ 133	$ 289	$ (20,946)	$310,153	$ 34,322

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 Revenue Refunding Bonds and General-Purpose Revenue Bonds, Series 1991 to 1997. In case the gross revenue from trusteed properties and the amounts deposited with the Trustee are insufficient, PRIDCO shall deposit with the Trustee the amount necessary to meet the debt service requirements.

During fiscal year 1998, PRIDCO issued approximately $150 million in revenue refunding 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 defeated and the liability for those bonds was considered extinguished and has been removed from the accompanying basic financial statements.

Revenue Refunding Bonds and General-Purpose Revenue Bonds outstanding as of June 30, 2018 are as follows (in thousands):

Series A 1997, term bonds, 6.70%, due on July 1, 2017	$ 9,925
Series 2003 General-Purpose Revenue Bonds:	
Series bonds, 5.15% due on July 1, 2018	1,225
Capital appreciation bonds, implicit annual interest rates of 5.15% to 5.20%, due on July 1, 2017 and 2018	10,818
Term bonds, 5.20%, due on July 1, 2023	48,925
Term bonds, 5.25%, due on July 1, 2028	78,910
	149,803
Less: Current maturities	(15,791)
Bonds payable, noncurrent	$134,012

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, 2018 are as follows (in thousands):

Fiscal Year ending June 30,	Principal	Interest	Total
2019	$ 15,791	$10,657	$ 26,448
2020	11,135	7,012	18,147
2021	11,785	6,367	18,152
2022	12,465	5,684	18,149
2023	13,140	5,011	18,151
2024-2028	76,900	13,846	90,746
2029	8,795	231	9,026
	150,011	$48,808	$198,819
Less: Unamortized bond discount	(208)		
Bonds payable, net	$149,803		

Line of Credit and Notes Payable to Government Development Bank for Puerto Rico (GDB)

Line of credit and notes payable to GDB as of June 30, 2018 are comprised as follows (in thousands):

Non-revolving line of credit up to $75 million with GDB (restructured as of November 24, 2014) to provide for the payment of expenses related to the voluntary separation and early retirement plans, bearing interest at prime plus 1.5% with a floor of 6%, due November 1, 2024 (6% as of June 30, 2018). PRIDCO identified several non-trusted properties to be disposed of for the repayment of this debt and placed them as collateral.	$ 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 of these notes are provided by the Puerto Rico Sales Tax Financing Corporation (COFINA) and the Commonwealth under legislative appropriation. The notes are due on June 30, 2040 and bear interest at 7%. Since these notes 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 Notes 2 and 11)	41,653
Line of credit, and notes payable to GDB	$ 77,772

For the year ended June 30, 2018, PRIDCO did not receive appropriations from the Commonwealth for the payment of principal and interest accrued under line of credit nor for the payment of the principal of the notes. Due to this situation, as of June 30, 2018 PRIDCO recognized an interest payable of $13.9 million.

Loans and notes payable to commercial banks

Loans and notes payable to commercial banks 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 plus interest and due in June 2022. The loan bears annual interest at 6.0585%.	$ 11,760
Term-loan payable in 138 monthly installments of $208 thousand including interest, with a balloon payment for the remainder balance plus interest and due in June 2022. The loan bears annual interest at 5.375%.	9,102
Term-loan payable in 180 monthly installments of $137 thousand including interest, and due in August 2018. The loan bears annual interest at 6.4785%.	9,800

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 due in December 2024. The loan bears annual interest at 6.061%.	7,236
Non-revolving line of credit with 24 interest only payments and then converted into a term-loan payable in 216 monthly installments of $72 thousands including interest, and due in December 2024. The loan bears annual interest at 6.061%.	4,622
Promissory note payable in 180 monthly payments of $229 thousand including interests, and due in December 2030. The note bears annual interest at 6.25%.	23,895
Note payable in monthly installments of $139 thousand including interest, with due date of December 16, 2030. The note bears annual interest at 4.65%.	15,870
Note payable in monthly payments of $6 thousand including interest with due date of August 18, 2019. The note bears annual interest at 5.99%.	89
	82,374
Less: Current maturities	(18,345)
Loans and notes payable to commercial banks, noncurrent portion	$64,029

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

Fiscal Year Ending June 30,	Due to Commercial Banks		
	Principal	Interest	Total
2019	$ 18,345	$ 3,960	$ 22,305
2020	8,895	3,454	12,349
2021	9,403	2,923	12,326
2022	10,582	2,366	12,948
2023	4,720	1,881	6,601
2024 - 2028	20,090	5,575	25,665
2029 - 2031	10,339	682	11,021
Total	$ 82,374	$ 20,841	$ 103,215

PRIDCO is subject to compliance with certain covenants on its loans and notes payable with three commercial banks. During the year ended June 30, 2018, PRIDCO did not comply with some of those covenants.

On June 30, 2016, PROMESA was enacted to bring stability to Puerto Rico's economy and establish a framework for Puerto Rico to restructure its debt. PROMESA created a new and unique remedy specifically designed to allow the Commonwealth and other territories to restructure their debts, using procedures that combine elements of traditional Chapter 9 and Chapter 11 Bankruptcy Act of the United States of America.

PROMESA provided an automatic stay of all litigations against the Commonwealth and its instrumentalities and any other judicial, administrative, or other action or proceeding to enforce or collect claims until February 15, 2017. PROMESA provides two mechanisms to restructure the Commonwealth's debt, Title III, a bankruptcy like procedure and Title VI, a mechanism to formalize agreements negotiated between the Commonwealth and its creditors out-of-court. Moreover, the way PROMESA is written, Title VI negotiations are indispensable for eligibility to Title III.

Title VI of PROMESA provides some of the framework for negotiation and Sections 206(a) and 405(n) establish that the Commonwealth will conduct these negotiations. On September 30, 2016, the Oversight Board designated the Commonwealth and certain other territorial instrumentalities as covered entities under PROMESA. PRIDCO was included under the Commonwealth through the Department of Commerce and Economic Development and is currently negotiating its obligations under Title VI.

Obligations under capital lease

PRIDCO finances the acquisition of certain office equipment through capital leases from various financial institutions. Capital leases outstanding as of June 30, 2018, are payable in monthly installments of principal and interest ranging from $2 hundred to $2 thousand through the year 2021. The obligations under capital leases are secured by the corresponding office equipment and bear annual interest rates ranging from 4.00% to 5.22% in 2018.

Debt service requirements of future minimum payments under capital lease obligations are as follows (in thousands):

Fiscal Year Ending June 30,	
2019	$ 136
2020	52
2021	21
2022	4
Total minimum lease payments	213
Less: Amount representing interest	(9)
Present value of minimum lease payments	204
Less: current maturities	(186)
Obligations under capital lease, non-current	$ 18

13. COMPENSATED ABSENCES

Compensated absences as of June 30, 2018 are as follows:

	Beginning balance	Net change	Ending balance	Due within one year
Vacation accrual	$ 1,188	$ (41)	$ 1,147	$ 509
Sick leave benefits	2,555	(2,555)	-	-
	$ 3,743	$ (2,596)	$ 1,147	$ 509

14. VOLUNTARY TERMINATION BENEFITS

The Legislature of the Commonwealth of Puerto Rico approved two retirement incentive plans for all regular employees of the central government agencies and certain public corporations under Act No. 70 of July 2, 2010 and Act No. 211 of December 8, 2015, as amended by Act No. 170 of August 9, 2016.

Act No. 70 included early retirement incentives for employees not eligible for retirement and retirement incentives for employees who are eligible. Under this plan, employees could select one of three options as follows:

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

Years of Service in Public Sector	Incentive Gross Amount
Up to 1 year	1 month of salary
From 1 year and 1 day up to 3 years	3 months of salary
From 3 years and 1 day and up	6 months of salary

Article 4(b) provides early retirement, for employees meeting certain number of years of service criteria (between 15 and 29 years) and will receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but lower than what they would have been entitled to under full vesting requirements. Annuity pension payment is based on the following parameters:

Credited Years of Service	Pension Payment (As a % of salary)
15	37.50%
16	40.00%
17	42.50%
18	45.00%
19	47.50%
20 to 29	50.00%

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

Employees selecting options 4(a) or 4(b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive awarded on article 4(a) but not entitled to the incentives awarded on article 4(b). Employees who have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited. At June 30, 2018, voluntary termination benefits granted under Act Num. 70 were discounted at present value.

Act No. 211, as amended, and commonly known as Voluntary Pre-Retirement Program, aims to provide incentives for employees of the Commonwealth of Puerto Rico, who have begun to quote for the Puerto Rico Retirement System before April 1, 1990 or who having begun to quote after that date have paid services accrued prior to April 1, 1990 without having received a refund of their contributions and have a minimum of twenty years of service quoted under the structure of benefits of the Act No. 447, supra.

Incentives under Act No. 211, as amended, include employee's compensation equivalent to sixty percent of their average remuneration as of December 31, 2015 while participating in the program; the settlement of payment of licenses of vacation and sick leave, exempt of contributions and limited to a maximum established by Law. It also provides for the payment of the employer contribution to Social Security and Medicare, to either maintain the coverage of the health plan or to keep on receiving the employer contribution to health plans under same terms and conditions as if employed for up to a term of two years. Even more, PRIDCO should continue making both employee and employer contributions to the Retirement System, which will ensure an increase in employee's future retirement annuity to at least fifty percent of its average remuneration at June 30, 2015.

Voluntary termination benefits, as detailed below, are discounted at a rate of 1.013%, which is the average of the prevailing annual interest rate over outstanding certificates of deposits as of June 30, 2018:

	Beginning balance	Net change	Ending balance	Due within one year
Act No. 70	$ 3,966	$ (302)	$ 3,664	$ 431
Act No. 211	6,984	(74)	6,910	1,496
	$ 10,950	$ (376)	$ 10,574	$ 1,927

15. RETIREMENT PLAN

Plan description

PRIDCO is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers employees of certain public corporations not having their own retirement systems, employees of the Fire and Police Departments of Puerto Rico, all regular full-time public employees working for the executive and legislative branches of the Commonwealth, and the municipalities of Puerto Rico. Prior to July 1, 2013 the system operated under the following benefits structures:

- *Act No. 447 of May 15, 1951* (Act No. 447) effective on January 1, 1952 for members hired up to March 31, 1990,

- *Act No. 1 of February 16, 1990* (Act No. 1) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,

- *Act No. 305 of September 24, 1999*, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000 up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 are participants of a cost-sharing multiple employers defined benefit plan. Act No. 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000 there was a pool of pension assets invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Effective July 1, 2013, Act No. 3 of 2013 (Act No. 3) amends the provisions of the different benefits structures under the ERS. Act No. 3 moves all participants (employees) under the defined benefit pension plans (Act No. 447 and Act No. 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act No. 447 and Act No. 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year.

Benefits provided

Eligibility for retirement. Members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time under the provisions of the applicable law. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Under Act No. 447 and Act No. 1 public officers in high-risk positions (state and municipal police, firefighters and custody officials) who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire from active service upon attainment of age 55 with 30 years of credited service, System 2000 employees upon attainment of age 55, and Act No. 3 employees upon reaching 58 years.

After the approval of Act No. 3, members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013, are eligible to retire upon attainment the following new retirement eligibility requirements: (1) Act No. 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act No. 1 employees upon attaining 65 years with 10 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act No. 3 employees hired after June 30, 2013 upon reaching 67 years.

Accrued benefits. All members are entitled to a lifetime annuity based on the annuitized value of the balance in the hybrid individual contribution account at the time of the retirement calculated based on a factor that will incorporate the individual's life expectancy and a rate of return. For Act No. 447 and Act No. 1 participants will receive a pension at retirement age equivalent to what they have accrued under Act No. 447 and Act No. 1 up to June 30, 2013, plus the lifetime annuity corresponding to contributions made to the individual account on July 1, 2013 and going forward. Act No. 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits (Coordinated Plan). Under this option, participants are subject to a benefit recalculation upon attainment of the Social Security retirement age. For all members, if the balance of the defined contribution individual account is less than $10,000, the amount shall be paid as a lump-sum instead of an annuity.

Compulsory retirement. All Act No. 447 and Act No. 1 public officers in high-risk positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Fire Department or supervising authority, as applicable.

Contributions

Effective July 1, 2013, Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers, and other contributing entities are established.

Members. All participants are required to contribute 10% of gross salary. However, Act No. 447 participants who selected the Coordination Plan (only with benefits coordinated with social security benefits, as described above) are required to contribute 10% of gross salary effective July 1, 2015. Members may voluntarily make additional contributions to their defined contribution individual account.

Payroll-based employer contribution. PRIDCO contributed $6 million (49.58% of gross salary) for fiscal year 2018. This contribution was reported during prior year as part of the deferred outflow of resources related to PRIDCO's contributions subsequent to the measurement date and recognized as a reduction of the net pension liability in the fiscal year 2018. This amount represented 100% of the required contribution for the corresponding year.

Supplemental contribution. In accordance with Act No. 3 of 2013, effective July 1, 2013 the ERS will receive a supplemental contribution of $2,000 ($800 for the pension plan and $1,200 to the post-employment healthcare benefits plan) each fiscal year for each pensioner who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by certain public corporations with own treasuries (including PRIDCO), the Commonwealth's General Fund for central government and certain public corporations without own treasuries or municipalities for their former employees. Prior to July1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions up to 1.725% of compensation prior to July 1, 2013. Effective July1, 2017, contributions by members consist of 8.5% of compensation. However, in the case of members of the rank system of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the rank system of the Puerto Rico Bureau which have less than 10 years to qualify for retirement as established by Act. No. 447, the reduction in the percentage of contribution will be voluntary.

Additional uniform contribution. Act No. 32 of 2013, provide for an Additional Uniform Contribution (AUC) which will be financed by all participating employers (including PRIDCO) of the ERS. Beginning with the 2014-2015 until 2032-2033 fiscal year, the AUC will be the uniform contribution certified by the external actuary of the ERS at least 120 days prior to the start of each fiscal year, as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below $1 billion. The ERS will determine the amount of AUC to be billed and paid by each employer during each fiscal year. Commonwealth laws provide for a subsidy of the AUC obligation, applicable to all participating employers (including PRIDCO) of the ERS that the Puerto Rico Office of Management and Budget (OMB) determine do not have financial capability to pay the AUC obligation. The additional uniform contribution was eliminated by Act No. 106-2017 as of the beginning of the fiscal year 2018.

PayGo Pension Reform

The ERS was severely underfunded, its ratio (fiduciary net position as a % of total pension liability) as of June 30, 2017 was negative 6.57% and the net pension liability was approximately $34,218 billion.

On June 27, 2017 the Treasury Department of the Commonwealth of Puerto Rico, issued Circular Letter No.1300-46-17 in order to convey to central government agencies, public corporations and municipalities the implementation procedures to adopt, effective July 1, 2017, the new "pay as you go" (PayGo) system for the payment of pensions of all the Commonwealth Retirements Systems. On July 1, 2017, employer's contributions, contributions ordered by special laws and Additional Uniform Contributions were eliminated.

On August 23, 2017, the Governor signed into law Act No. 106-2017, known as the "Act to Guarantee the Payments to our Pensioners and Establish a New Plan of Defined Contributions for Public Employees" which provides the legal framework for the Commonwealth to implement the PayGo system.

As of July 1, 2017, the effective date of Act 106-2017, also reformed the ERS in order that their active participants would deposit their individual contributions in a new defined contribution plan, similar to a 401(K) plan. The new plan would be managed by a private entity. Act 106-2017 covered employers should pay a monthly PayGo charge to cover their current retirees and beneficiaries, excluding employees recruited after July 1, 2017, which are under a defined contribution plan.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2018, PRIDCO reported a liability of $150.4 million for its proportionate share of the net pension liability. The collective net pension liability which amounts to $34.2 billion was determined by an actuarial valuation as of July 1, 2016 that was rolled forward to June 30, 2017 and assuming no gains or losses. PRIDCO'S proportion of the net pension liability was based on a projection of PRIDCO share of contributions to the pension plan relative to the projected contributions of all ERS participants, actuarially determined. At June 30, 2017, PRIDCO's proportion was 0.43947%.

For the year ended June 30, 2018, PRIDCO recognized pension expense of $10.3 million. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2018, PRIDCO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

Source	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 102	$ 2,662
Changes in assumptions	19,658	15,305
Net difference between projected and actual earnings on pension plan investments	—	879
Changes in proportion and differences between actual contributions and proportionate share	—	4,276
Contributions subsequent to the measurement date	6,351	—
Total	$ 26,111	$ 23,122

For the fiscal year 2018 there were contributions made after the measurement date amounting to $6.4M reported as deferred outflow of resources, since for fiscal year 2018 the retirement systems operate on a pay-as-you-go basis.

Actuarial methods and assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Actuarial methods:

Valuation date	July 1, 2016, projected forward to June 30, 2017
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal

Actuarial assumptions:	
Compensation increases	3.0% per year, no compensation increases are assumed until July 1, 2021, as a result of Act No. 3-2017, four-year extension of Act No. 66-2014 and the current general economy
Inflation rate	Not applicable
Mortality	<u>Pre-retirement mortality:</u> For general employees not covered under Act No. 127, RP-2014 Employee Mortality rates for males and females adjusted to reflect Mortality Improvement Scale, MP-2017 from the 2006 base year and projected forward using MP-2017 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. For employees covered by Act No. 127 while in active service, a 100% of death was assumed to be occupational. <u>Post-retirement healthy mortality:</u> Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement disabled mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Most other demographic assumptions used in the July 30, 2017 valuation were based on the results of a 2009 actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

Long-term Rate of Return on Investments

The long-term expected rate of return on pension benefits investments is applicable as of June 30, 2017. Net assets of the ERS are negative as of June 30, 2017 and accordingly, it is not possible to determine a rate of return on net assets during the fiscal year.

In addition, after June 30, 2017, due to the PayGo system under which the Commonwealth guarantees payment of pensions. ERS assets are no longer necessary to generate investment returns to pay pension benefits. The approximate actual rate of return on gross assets is 8.74% as of June 30, 2017.

Discount rate

The ERS is in a deficit position, therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) is applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to measure the total pension liability is 3.58% as of June 30, 2017.

Sensitivity of the PRIDCO's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability as of June 30, 2017 calculated using the discount rate of 3.58%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1 percent-point level lower (2.58%) or 1 percent-point higher (4.58%) than the current rate (in thousands):

	1% Decrease (2.58%)	Current discount rate (3.58%)	1% Increase (4.58%)
Total net pension liability measured as of June 30, 2017	$ 170,522	$ 150,378	$ 134,160

Pension Plan fiduciary net position

Detailed information about the pension plan's fiduciary net position as of June 30, 2018 is available in the separately issued ERS's financial report.

16. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

PRIDCO is a participating employer in the Other Postemployment Benefits Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the OPEB Plan).

The OPEB Plan is an unfunded, cost sharing multi-employer defined benefit other postemployment healthcare benefits plan sponsored by the Commonwealth. The Plan is administered on a pay-as-you-go basis as required by Act No. 106 of 2017. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other than Pensions* (GASB Statement No. 75).

Benefits provided

The OPEB Plan provides a payment of up to $100 per month to the eligible medical insurance plan selected by retired participants of the employees' retirement system provided that the participants retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Employees covered

Commonwealth' employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages. Act No. 3 of 2013 eliminated this healthcare benefit to Commonwealth's employees that retired after June 30, 2013.

At July 1, 2016, the Commonwealth's OPEB Plan members covered by the benefit terms consisted 103,345 retired members of which 569 were from PRIDCO.

Contributions

The contribution requirement of the OPEB Plan is established by Act No. 95 approved on June 29, 1963. There is no contribution requirement from the plan members during their active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

This up to $100 monthly benefit to the eligible medical insurance plan selected by the member provided that the member retired prior to July 1, 2013, is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB Plan is provided through legislative appropriations each July 1 by the Commonwealth's General Fund for primary government and certain public corporations without their own treasuries' employees, and by certain public corporations with their own treasuries and municipalities. The legislative appropriations are considered estimates of the payments to be made for healthcare benefits throughout the year. However, the Commonwealth claims reimbursement from each employer, on a monthly basis, for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer.

Total OPEB liability

At June 30, 2018, PRIDCO reported a liability of $5,729 thousand for its proportionate share of total collective OPEB liability. Total OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

PRIDCO's proportion of total OPEB liability was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date, which is consistent with the manner in which the amounts that are paid as benefits come due are determined. The discount rate to measure total OPEB liability as of June 30, 2018 was 3.58%.

The following table illustrates changes in PRIDCO's the total OPEB liability for the year ended June 30, 2018 (in thousands):

Balance at beginning of the year, as restated	$ 7,088
Changes for the year:	
OPEB expense	(879)
Benefit payments	(480)
Net changes	(1,359)
Balance at end of year	$ 5,729

OPEB expense

For the year ended June 30, 2018, PRIDCO recognized negative OPEB expense of $1,338 thousand. The components of OPEB expense allocated to PRIDCO for the year then ended is as follows (in thousands):

Interest on total OPEB liability	$ 203
Effect of economic/demographic gains and losses	(76)
Effect of assumptions changes or inputs	(1,294)
Proportionate share of OPEB expense	(1,167)
Net amortization from changes in proportion	288
Total OPEB expense as of June 30, 2017	(879)
OPEB benefits paid after measurement date	(459)
Total OPEB expense as of June 30, 2018	$ (1,338)

OPEB deferred outflows of resources and deferred inflows of resources

The implementation of GASB No. 75 required to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement date. However, as of June 30, 2018, $459 thousand reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of total OPEB liability in the year ended June 30, 2019.

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	Not applicable
Municipal bond index	3.58%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality:

Pre-retirement Mortality:

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale

MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement health and disabled mortality assumptions used in the June 30, 2017 valuation were based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

Discount Rate

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Bond Index and was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate to measure total OPEB liability as of June 30, 2018 was 3.58%.

Other actuarial assumptions:

Other actuarial assumptions used to measure the total OPEB liability as of the following measurement dates:

Assumption	**June 30, 2017**	**June 30, 2016**
Valuation date	July 1, 2017	July 1, 2016
Actuarial cost method	Entry Age Normal	Entry Age Normal
Investment return rate	Not applicable	6.55%
Projected mortality improvement scale	Scale MP-2017	Scale MP-2016
Medical trend rate	Not applicable	Not applicable

Sensitivity of PRIDCO's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate

The following presents PRIDCO's proportionate share of total OPEB liability calculated using the discount rate of 3.58%, as well as what PRIDCO's proportionate share of total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate (in thousands).

	1% Decrease (2.58%)	**Discount Rate (3.58%)**	**1% Increase (4.58%)**
Total OPEB liability	$ 6,604	$ 5,729	$ 5,243

17. 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, Puerto Rico. Under this agreement, PRIDCO constructed a modern building with state-of-the-art facilities for rental to pharmaceutical and high-end technological industries with research and development projects. PRIDCO is thereafter renting the building to BDTC.

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. In prior years, 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, 2018.

18. CONTINGENCIES

PRIDCO is a defendant in a number of legal proceedings arising in the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases. Contingency reserves as of June 30, 2018 amounted to $850 thousand separately disclosed as legal liabilities.

19. POLLUTION REMEDIATION OBLIGATIONS

The nature of PRIDCO tenants' manufacturing operations is highly susceptible to pollution obligations. PRIDCO, as owner, has the financial responsibility for cleanup costs and pollution remediation process in case of tenants' default.

Pollution remediation obligations, which include contamination, are obligations incurred to address the current or potential detrimental effects of existing pollution by participating in remediation activities such as site assessments and cleanups but excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. At June 30, 2018, PRIDCO's liability for pollution remediation amount to $21.2 million.

Pollution remediation is a process that can last several years and involves different stages. PRIDCO has called former or current tenants to make them accountable for cleanup or pollution remediation costs; otherwise PRIDCO has assumed the responsibility. Notwithstanding, PRIDCO has been considered a responsible party in a lawsuit, at initial stage, and in several claims, at the regulating agencies level, related to pollution remediation obligations. Federal Environmental Protection Agency (EPA), the Puerto Rico Department of Environment and Natural Resources (DENR) and the Puerto Rico Environmental Quality Board (EQB) have the oversight and the enforcement responsibility in cases of pollution.

Federal claims are covered pursuant the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA, or commonly known as Superfund), which provides broad Federal authority to respond directly to releases or threatened releases of hazardous substances that may endanger public health or the environment, and the Resource Conservation Recovery Act (RCRA) of 1976, which provides for proper disposal of solid waste and hazardous waste.

Agencies are authorized by law to identify parties responsible for the pollution of sites and compel the parties to remediate it.

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 definite 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 the results of operations in a future year.

20. RISK MANAGEMENT

The Treasury Department of PRIDCO is responsible for ensuring 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.

21. RESTATEMENT OF NET POSITION

Description	Net Position
Net position at July 1, 2017, as previously reported	$ 195,377
Impact of implementation of GASB Statements No.75:	
Recognition of other post-employment benefits liablity	(7,088)
Recognition of deferred outflow of resources for Other post-employment benefits	480
Net position at July 1, 2017, as restated	$ 188,769

22. SUBSEQUENT EVENTS

PRIDCO has evaluated subsequent events through February 24, 2021, the date on which the financial statements were available to be issued. Management believes that the following events should be disclosed:

a. Reorganization of the Department of Economic Development and Commerce (the Department)

   Act No. 122 of December 18, 2017 (The New Government Act), allows the Governor of Puerto Rico (the Governor) to maximize efficiency of the Executive Branch's resources and personnel through transfers, consolidation, reorganization, privatization and creation of governmental structures and agencies by means of Reorganization Plans that will have to be approved by the Legislative Body.

   On July 11, 2018, the Governor signed the Reorganization Plan of the Department of Economic Development and Commerce Execution Act of 2018 (Act 141), which implements the Reorganization Plan established on The New Government Act.

   With this reorganization, the following governmental entities will be consolidated with the Department, except for the last three that are just ascribed to the Department.

   - Puerto Rico Trade and Export Company
   - Office of Industrial Tax Exemptions
   - State Office of Energy Policy
   - Commonwealth of Puerto Rico Regional Center Corporation
   - Permits Management Office
   - Puerto Rico Tourism Company
   - Planning Board
   - Puerto Rico Industrial Development Company
   - Local Redevelopment Authority for Roosevelt Roads

   On May 9, 2019, the Oversight Board in its Fiscal Plan for Puerto Rico, acknowledged the above reorganization plan.

b. Subsequent to June 30, 2018, PRIDCO entered into a program to sell its properties, including land and buildings, to third parties. Also, PRIDCO is working with the Puerto Rico Trade and Export Company (PRTEC) with a transaction in which PRTEC will transfer some properties to PRIICO as payment for the loan owed by PRTEC to PRIICO.

c. On August 15, 2019, PRIDCO paid to the ERS the amount of $7.3 million related with the fiscal year 2018 PayGo invoices issued by the Employee Retirement System of the Commonwealth of Puerto Rico (ERS). Also, PRIDCO established a payment plan with the ERS for seventy-two (72) monthly payments of $161 thousand to liquidate the amount of $11.6 million owed by PRIDCO under the PayGo system related with invoices of the fiscal year ended on June 30, 2019.

d. On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to the infrastructure, an island-wide power outage, water shortages and threatening the lives of its people. In order to safeguard the health and public safety of its citizens, the Governor issued Executive Orders (EO) 2020-01 and (EO) 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management. Puerto Rico continues to experience aftershocks that are not expected to stop any time soon.

e. On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez-Garced issued Executive Order (EO) 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The EO authorizes the Secretary of the Department of Treasury and the Executive Director of the Office of Management and Budget to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. PRIDCO approved a lease rent moratorium to its lessees in the amount of $1.1 million due to business interruption caused by the COVID-19 pandemic.

f. On May 27, 2020, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which includes the following categories of structural reforms and fiscal measures:

(i) Human Capital and Welfare Reform
(ii) Ease of Doing Business Reform
(iii) Energy and Power Regulatory Reform
(iv) Infrastructure and Capital Investment Reform
(v) Establishment of the Office of the CFO
(vi) Agency Efficiency Measures
(vii) Healthcare Reform
(viii) Tax Compliance and Fees Enhancement
(ix) Reduction in UPR and Municipality Appropriations
(x) Pension Reform
(xi) Fiscal Controls and Transparency

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth’s ability to reduce its deficit and to achieve a balanced budget in future fiscal years depend on a number of factors and risks, some of which are not wholly within its control.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PRIDCO'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(IN THOUSANDS) (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017	2016	2015	2014
Proportion of the Net Pension Liability	.4395%	.4796%	0.4856%	.4881%	.4356%
Proportionate Share of the Net Pension Liability	$ 150,378	$ 180,808	$ 161,881	$ 147,100	$ 122,944
Covered - Employee Payroll	$ 12,123	$ 13,499	$ 14,530	$ 14,760	$ 15,847
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	1240.41%	1339.42%	1114.12%	996.61%	775.82%
Plan Fiduciary Net Position as a Percentage of the Net Pension Liability	-6.16%	-3.47%	-2.05%	-0.27%	2.47%

The accompanying notes are an integral part of this required supplementary information.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PRIDCO'S CONTRIBUTIONS - PENSION PLAN (IN THOUSANDS) (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017	2016	2015	2014
Statutory required contribution	$ 6,011	$ 2,096	$ 1,890	$ 1,803	$ 1,701
Contributions in relation to the statutorily required contribution	6,011	2,096	1,890	1,803	1,701
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
PRIDCO'S covered-payroll	$ 12,123	$ 13,499	$ 14,530	$ 14,760	$ 15,847
Contributions as a percentage of covered payroll	49.58%	15.53%	13.01%	12.22%	10.73%

The accompanying notes are an integral part of this required supplementary information.

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to PRIDCO and not the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico.

2. The Schedule of PRIDCO's Contributions provides information about the annual required contributions (ARC) and the extent to which contributions were made to cover the ARC. The ARC is the annual required contribution for the year. It is established by law and calculated in accordance with certain parameters, which include, actuarial methods and assumptions.

3. The data provided in the schedules is based as of the measurement date of the net pension liability, which is as of the prior fiscal year ended June 30th.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PRIDCO'S PROPORTIONATE SHARE OF TOTAL OPEB LIABILITY (IN THOUSAND) (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2017
PRIDCO's proportion of the total OPEB liability	.62236%
PRIDCO's proportionate share of the total OPEB liability	$ 5,729
PRIDCO's covered-employee payroll	N/A
PRIDCO's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	N/A

The accompanying notes are an integral part of this required supplementary information.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PRIDCO'S TOTAL OPEB LIABILITY AND RELATED RATIOS (IN THOUSANDS) (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

Total OPEB liability as of measurement date	June 30, 2017
Interest	$203
Differences between expected and actual experience	($76)
Changes of assumptions or other inputs	($1,294)
Net amortization from changes in proportion	$288
Benefit payments	($480)
Net change in total OPEB liability	($1,359)
Total OPEB liability-beginning	$7,088
Total OPEB liability-ending	$5,729
Covered-employee payroll	N/A
Total OPEB liability as a percentage of covered employee payroll	N/A

The accompanying notes are an integral part of this required supplementary information.

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to PRIDCO and not the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System.

2. Changes of assumptions:

In the June 30, 2017 actuarial valuation, no plan assets exist to generate investment returns thus, the investment return rate is no longer applicable. Also, due to a pay-as you-go basis for funding benefits no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other than Pensions* (GASB Statement No. 75). The discount rate increased from 2.85% to 3.58%. The projected mortality improvement scale was updated from Scale MP-2016 to Scale MP-2017 to reflect the projected mortality improvement scale issued in the valuation year. Finally, the percentage of disability retirees who retired before July 1, 2013 who are assumed to receive a monthly medical insurance continuation benefit of $100 per month, has been decreased from 85% to 75%.

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, 2018

	Total	General Fund	US Bank Trust Indenture Sinking Fund
Balance at June 30, 2017	$46,649	$32,926	$ 13,723
Cash provided (used) by operating activities	6,918	7,438	(520)
Proceeds from insurance claims	8,420	8,420	-
Proceeds from sale of capital assets	4,438	4,438	-
Collections of capital contributions	2,774	2,774	-
Payments for acquisition of capital assets	(1,653)	(1,653)	-
Payments of obligations under capital lease	(220)	(220)	-
Payments of bonds	(8,555)	-	(8,555)
Payments of loans and notes	(12,186)	(12,186)	-
Payments of interest	(7,361)	(5,106)	(2,255)
Net payments to Commonwealth of Puerto Rico	(1,647)	(1,647)	-
Interest collected on investments, loans and other non-operating revenue	279	279	-
Balance at June 30, 2018	$37,856	$35,463	$ 2,393
Balance at June 30, 2018 represented by:			
Cash and cash equivalent available for operations	$35,463	$35,463	$ -
Investment in US Treasury bond strips, hel by the Trustee, at market value	2,393	-	2,393
	$37,856	$35,463	$ 2,393