HLB PARISSI
Certified Public Accountants, Tax & Business Advisors

November 12, 2014

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

In planning and performing our audit of the financial statements of the Puerto Rico Industrial Development Company (the Company) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Company's internal control listed in Appendix A to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Company's internal control listed in Appendix B to be significant deficiencies.

650 Muñoz Rivera Ave. Suite 502 San Juan, PR 00918-4149 • PO Box 195607 San Juan, PR 00919-5607
Phone 787.641.9801 • Fax 787.641.9809 • www.parissicpa.com

This communication is intended solely for the information and use of management, the Board of Directors and others within the Company, and is not intended to be, and should not be, used by anyone other than these specified parties.

Cordially,

HLB Parissi PSC

HLB Parissi, P.S.C.

Appendix A – Significant Deficiencies Considered Material Weaknesses

14-01 Operating Deficit

- ***Condition*** – The Company's basic financial statements for the year ended June 30, 2013 presented that the Corporation closed its 2013 fiscal year with a deficit of $7 million. During the fiscal year ended June 30, 2014, the Company closed with a deficit of $14 million.

- ***Recommendation*** – The management of the Company should undertake a project to analyze its current financial situation and should establish a financial plan to provide for the funding of the aforementioned deficit and take the proper actions to prevent further accumulation of more deficits.

Appendix B – Significant Deficiencies

14-01 ***The Company's Accounts Receivable and Unapplied Payments***

- ***Condition*** – We examined the account number 0125706750019-Unapplied Payments-FAS, which had an ending balance as of June 30, 2014 of $1,225,668. From our exam, we noted that 71% of the account balance was from collections received and recorded in Unapplied Payments for over 120 days. The aging of the account is as follow:

Aging in days	Ending Balance	Percent
Current	$194,234	15%
0-29	(199,881)	(16)%
30-59	92,579	7%
60-89	74,456	6%
90-119	217,131	17%
120 +	847,149	71%
	$1,225,668	100%

The Unapplied Payments is used to record advance rent payments received from tenants. When the payment is received in advance, they charge the collection, with a debit to Cash and a credit to Unapplied Payments-FAS account, which a liability account. Once the payment is trace to an invoice, then an adjusting entry is made, eliminating the amount from Unapplied Payments-FAS and crediting the corresponding Revenue account.

- ***Recommendation*** – The Company should expedite the current process to finalize the analysis and make the necessary corrections. To avoid this situation in the future, the Company should establish a formal process to analyze these transactions and provide for its disposition expeditiously.

14-02 ***The Company Needs to Improve its Administration of Payment Plan Agreements***

- ***Condition*** – The Company routinely enters into payment plan agreements with certain of its tenants, as part of its efforts to promote different industries. However, the Company needs to improve the follow-up processes and procedures after entering these agreements to ensure that the tenants comply with the revised terms of the agreements. For example, during our audit we noted that F.W. Colobos had, as of June 30, 2014, a payment plan with the Company. The balance as of our audit date was $378,842. This account has no movement since 2000. The F.W. Colobos was not a tenant of the Company when we performed our audit procedures. After our test, the management reserved that amount.

- ***Recommendation*** – The Management of the Company should constantly evaluate all balances that have no movement and immediately take the corresponding action against the tenant by either a legal proceeding demanding full amount, reaching an alternate effective and efficient collection or, if unsuccessful, proceed with the eviction process.

14-03 **Puerto Rico Industrial Investment Corporation and Puerto Rico Industrial Incentives Fund**

- **Condition** - As of June 30, 2014, the Company had two components units, the Puerto Rico Industrial Development Corporation (PRIICO) and the Puerto Rico Industrial Incentives Fund (PRIIF), which are presented in the Company's financial statements. The Company keeps all the accounting records and all the operational transactions of both entities. Also, as of June 30, 2014, PRIIF did not have any operational transactions.

- **Recommendation** – We recommend the Company's management, that for financial statement purposes, the financial operations of both components units are consolidated with the Company's financial operations, so they can be presented as one unit and no as three units.