PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information
Fiscal Year Ended June 30, 2019

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(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Tourism Company

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Puerto Rico Tourism Company, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Puerto Rico Tourism Company'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 misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 control. 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the Puerto Rico Tourism Company, as of June 30, 2019 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Uncertainties

As discussed in Note 3 to the accompanying basic financial statements, the Puerto Rico Tourism Company's governmental activities reflect a net deficit of approximately $58.6 million, as of June 30, 2019. Such deficit is mainly due to the recognition of its long-term obligations related to pensions as part of its governmental activities. The enactment of Act No. 106 of 2017, adopted a pension reform and, modified the previous pension plan system to a new "Pay-As-You-Go" (PayGo) system for the payment of pensions. Accordingly, there are no required contributions to be made to the new PayGo system.

In addition, as discussed in Note 3 to the accompanying basic financial statements, the Puerto Rico Tourism Company's business–type activities reflect a net deficit of approximately $63 million. Such deficit is mainly attributed to Hotel Development Corporation, a component unit of the Puerto Rico Tourism Company, that for several years had not been able to recover the investments made in tourism projects and has recognized permanent impairment losses in the fair value of these investments. Also, Hotel Development Corporation has not been able to collect most of its notes and loans receivable that were granted in connection with the development of certain tourism projects.

Hotel Development Corporation is dependent on the Commonwealth of Puerto Rico for the payment of the notes payable due to Puerto Rico Finance Corporation (the PFC Notes). The Commonwealth of Puerto Rico is in the midst of a profound fiscal crisis and is in the process of restructuring its liabilities under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act. As such, this obligation will remain in default until the Commonwealth of Puerto Rico appropriations resume.

The financial statements do not include any adjustment that may result from these uncertainties. Our opinion is not modified with respect to these matters.

Other 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 18, the Schedule of Proportionate Share of Collective Total Pension Liability and Related Ratios on page 82 and the Schedule of Proportionate Share of CollectiveTotal Postemployment Benefit Liability and Related Ratios on page 83 and the Notes to the Required Supplementary Information on page 84, 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries 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.

San Juan, Puerto Rico
November 2, 2021.

RSM Puerto Rico

Stamp No. E474379 was affixed to
the original for this report

The following management's discussion and analysis (MD&A) of the financial performance of the Puerto Rico Tourism Company (the Company) provides an overview of the Company's activities for the fiscal year ended June 30, 2019. Its purpose is to provide explanations and insights into the information provided in the basic financial statements and required supplementary information. This MD&A is intended to be read in conjunction with the Company's basic financial statements for fiscal year ended June 30, 2019 taken as a whole.

This MD&A is intended to serve as an introduction to the Company's basic financial statements, which comprise the following components: (1) Government-Wide Financial Statements, composed of (i) statement of net position (deficit) and (ii) statement of activities; (2) Governmental Fund Financial Statements, composed of the General Fund, including (i) balance sheet, (ii) reconciliation of the balance sheet to the statement of net position (deficit), (iii) statement of revenues, expenditures, and changes in fund balances (deficit), and (iv) reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities; (3) Proprietary Fund Financial Statements, composed of four proprietary funds, including (i) statement of net position (deficit), (ii) statement of revenues, expenses, and changes in net position (deficit), and (iii) statement of cash flows; and (4) notes to basic financial statements.

Financial Highlights

- The Company continues to be impacted by the economic condition of the Commonwealth of Puerto Rico (the Commonwealth). As publicly disclosed, the Commonwealth of Puerto Rico is facing recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the capital markets. There has been a prolonged economic recession since year 2006, high unemployment, population decline, and high levels of debt and pension obligations.
- The Company's governmental activities reflect a negative net position (deficit) of approximately $58.6 million for the fiscal year ended June 30, 2019.
- The Company incurred approximately $52.6 million in expenses to promote Puerto Rico as a premier international tourist destination.
- Hotel room tax amounted to approximately $73.3 million for the fiscal year ended June 30, 2019. This represents a decrease in hotel room tax revenue of approximately $200,000 as compared to $73.5 million for the fiscal year ended June 30, 2018.
- During the fiscal year ended June 30, 2019, no appropriations were received to pay the principal and interest due on the notes payable to Public Finance Corporation (PFC), a component unit of the Government Development Bank for Puerto Rico (GDB), which in turn is a component unit of the Commonwealth. As a result, the Company was unable to pay in full the required debt payment service, and is not expected to make any additional debt service payments unless authorized to by either the Oversight Board (as defined herein) or the Commonwealth. As of June 30, 2019, the principal balance and the related accrued interest on the Company's PFC debt amounted to approximately $45.2 million and approximately $10.8 million, respectively. These balances will remain unpaid and in default until the Commonwealth's appropriations (which are now subject to a budget certified by the Oversight Board) resume. There is no guarantee any such appropriations will resume.
- On April 2, 2019, the board of directors of Congreso Internacional de la Lengua Española – CILE Puerto Rico 2016 (CILE) approved a resolution to cease the operation of CILE and dispose of all its assets. The cash available at the moment of the transfer was contributed to the Instituto de Cultura Puertorriqueña, another component unit of the Commonwealth. CILE was formally dissolved during the fiscal year ended June 30, 2019.
- Since January 2017, the Puerto Rico Medical Tourism Corporation's operations stopped due to budgetary constraints. On December 30, 2020, the Legislature of Puerto Rico (the Legislature) approved Act No. 171 of 2020, whereby the operations related to the development and promotion of the medical tourism in Puerto Rico will be transferred from the Puerto Rico Medical Tourism Corporation to a new entity that will be known as the Office of the Program of Medical Tourism for Puerto Rico and will be ascribed to the Puerto Rico Department of Economic Development and Commerce (DDEC).

- On August 23, 2017, the Governor of the Commonwealth of Puerto Rico (the Governor) signed into law Act No. 106 of 2017, known as the Law to Guarantee the Payment of Our Pensioners and Establish a New Plan of Defined Contributions for Public Servants (Act 106-2017). Act No.106-2017 approved a substantial pension reform for all of the Commonwealth's Retirement Systems and transitioned to a pay-as-you-go (PayGo) system. Accordingly, the Company transitioned from GASB Statement No. 68 to GASB Statement 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*". For the fiscal year ended June 30, 2019, the Company recognized a recovery on pension expense of approximately $7.6 million, due to the GASB Statement No. 73 implementation and other actuarial changes.
- On November 22, 2017, Resolution No. 18-005 was approved to terminate the operations of the Law 48 Slot Machines Airport fund because it was not self-sustaining. The termination of this fund resulted in a recognition of a gain on extinguishment of debt in the Proprietary Funds and a loss in the General Fund.
- The Company is in a reorganization process pursuant to Act No. 141 of 2018 known as the Law for Reorganization of the DDEC. This Act requires that a process be performed to consolidate the Company into the DDEC. A transition process has been initiated and it will require a final certification from the Secretary of the DDEC to be submitted to the Governor and the Legislature, once the transition process is completed.
- On July 29, 2019, the Governor signed into law Act No. 81 of 2019 (Act 81-2019), known as "Ley de la Comisión de Juegos del Gobierno de Puerto Rico," which creates a new agency called the Games Commission of the Government of the Commonwealth. Act 81-2019 transfers the slots machines operations from the Company to the Games Commission of the Government of Puerto Rico. The transfer was effective as of July 1, 2020.

Overview of the Financial Statements

The basic financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental entities. Accordingly, the basic financial statements include two kinds of statements that present different views of the Company.

The first two statements are government-wide financial statements that provide both short and long-term information about the Company's overall financial position and results of operations. These statements are presented on the accrual basis of accounting and comprise a statement of net position and a statement of activities.

The remaining statements are fund financial statements that focus on individual parts of the Company's government, thus, reporting the Company's operations in more detail than the government-wide financial statements. The governmental funds statements show how services, such as promotional activities and tourism development, were financed in the short-term as well as what remains for future spending, while the proprietary funds statements offer short and long-term financial information about the activities in which the government operates, similar to private sector companies.

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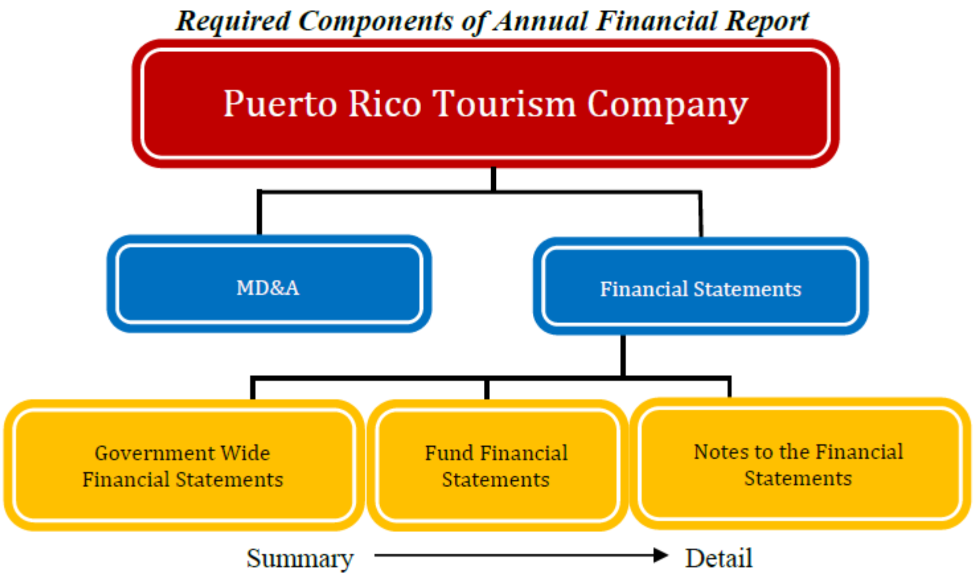
The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the basic financial statements.



Government-Wide Financial Statements

The government-wide financial statements report information about the Company as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources.

Net position (deficit) is composed of three categories: net investment in capital assets, restricted, or unrestricted. Restricted amounts are further classified as either net position restricted by enabling legislation or net position as otherwise restricted.

All the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. All changes in net position are reported as soon as the underlying event gives rise to the change occurs, regardless of the timing of the related cash flows. The government-wide financial statements report the Company's net position (deficit) and how they have changed during the year. Net position (deficit) is one of the measures of the Company's financial health. Increases or decreases in the Company's net position (deficit) are indicators of whether its financial health is improving or deteriorating. To assess the overall health of the Company, the reader needs to consider additional nonfinancial factors, such as increase competition for tourism industries of other Latin American and Caribbean destinations.

The government-wide financial statements of the Company are divided into two categories:

- Governmental activities – Most of the Company's basic services, such as tourism promotions development, general administration, regulation of gaming, tourism-related transportation services, and other related regulatory matters are included herein. These activities are mainly financed through hotel room taxes, legislative appropriations from the Commonwealth and transfers from the slot machines operations.

- Business-type activities – The Company charges fees to the hotels and other administrators of gaming activities in Puerto Rico. Such fees are substantially based on parameters established by law, taking into consideration the Company's regulatory and oversight activities for the slot machines operations. In addition, the Company promotes the development of the hotel and tourism industry including the construction and financing of tourism facilities in Puerto Rico.

Fund Financial Statements

Funds are groupings of related accounts that the Company uses to keep track of specific sources of funding and spending for particular purposes. The Company has two kinds of funds:

- Governmental funds – Most of the Company's basic services are included in governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flows in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that help readers determine whether there are more or fewer financial resources that can be spent in the near future to finance the Company's programs. Because this information does not encompass the additional long-term focus of government-wide statements, it provides additional information as a separate statement following the applicable fund statement that explains the relationship (or differences) between them.

- Proprietary funds – Services for which the Company charges users a fee that are reported in the proprietary funds. Proprietary funds provide both short and long-term financial information. In fact, the Company's enterprise funds are the same as its business-type activities, but provides more detail and additional information, such as cash flows.

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Government-Wide Financial Analysis

The following is an analysis of the financial position and changes in financial position of the Company's governmental and business-type activities:

Governmental Activities

Condensed financial information of governmental activities in the statement of net position (deficit) as of June 30, 2019 and 2018, is as follows:

	As of June 30, 2019	As of June 30, 2018	Increase (Decrease)	Variance Percentage
ASSETS				
Current assets	$ 134,457,503	$ 96,469,521	$ 37,987,982	39.4%
Capital assets, net	20,997,767	21,485,121	(487,354)	-2.3%
Noncurrent assets	450,000	450,000	0	0.0%
Total assets	155,905,270	118,404,642	37,500,628	31.7%
Deferred outflows of resources	5,820,976	30,894,984	(25,074,008)	-81.2%
LIABILITIES				
Current liabilities	99,924,816	77,536,626	22,388,190	28.9%
Noncurrent liabilities	113,760,504	136,893,141	(23,132,637)	-16.9%
Total liabilities	213,685,320	214,429,767	(744,447)	-0.3%
Deferred inflows of resources	6,641,455	16,091,602	(9,450,147)	-58.7%
NET POSITION (DEFICIT):				
Net investment in capital assets	20,676,583	20,984,360	(307,777)	-1.5%
Unrestricted (deficit)	(79,277,112)	(102,206,103)	22,928,991	-22.4%
Total net position (deficit)	$ (58,600,529)	$ (81,221,743)	$ 22,621,214	-27.9%

As of June 30, 2019, total assets of governmental activities amounted to approximately $155.9 million and total liabilities amounted to approximately $213.7 million, for a net deficit of approximately $58.6 million. The net deficit reflects a decrease of approximately $22.6 million as compared to the prior fiscal year ended June 30, 2018.

Net position has been broken down into a net investment in capital assets of approximately $20.7 million and unrestricted net deficit of approximately $79.3 million.

Total assets increase by approximately $37.5 million, mainly due to an increase in cash and restricted cash as result of the net operations and the distributions of room tax to cover the Puerto Rico Convention Center District Authority's (PRCCDA) debt service repayment.

Total liabilities decreased by approximately $750,000 during fiscal year 2019, as result of an increase of $28.3 million on amount Due to Puerto Rico Convention Center District Authority, decrease of $23 million on Total Pension Liability due to the implementation of GASB Statement No. 73, decrease of approximately $194,000 on OPEB, decrease in accounts payable of $4.7 million, decrease of other liabilities by approximately $792,000 and decrease of compensated abscences of approximately $360,000.

Condensed financial information of governmental activities in the statement of activities for the fiscal years ended June 30, 2019 and 2018, is shown below:

	Year ended June 30,			
	2019	2018	Increase (Decrease)	Variance Percentage
Program revenues				
Charges for services	$ 1,885,840	1,522,887	$ 362,953	23.8%
General revenues:				
Hotel room taxes	73,384,599	73,541,796	(157,197)	-0.2%
Investment earnings	1,109,679	164,970	944,709	572.7%
Total general revenues	74,494,278	73,706,766	787,512	1.1%
Total revenues	76,380,118	75,229,653	1,150,465	1.5%
Functions/programs:				
General government	53,374,029	68,667,615	(15,293,586)	-22.3%
Advertising and promotion	52,580,842	34,064,368	18,516,474	54.4%
Programs and services	1,481,870	2,140,243	(658,373)	-30.8%
Public relations	2,403,896	3,586,152	(1,182,256)	-33.0%
Total function/programs	109,840,637	108,458,378	1,382,259	1.3%
Excess of expenditures over revenues	(33,460,519)	(33,228,725)	(231,794)	0.7%
Transfers in	56,081,733	55,722,160	1,950,328	3.5%
Change in net position (deficit)	22,621,214	22,493,435	127,779	0.6%
Net deficit - beginning of year	(81,221,743)	(103,715,178)	22,493,435	-21.7%
Net deficit - end of year	$ (58,600,529)	$ (81,221,743)	$ 22,621,214	-27.9%

Total revenues increase by approximately $1.1 million, which mainly related to the increase in investment earnings of approximately $950,000 as the result of an increase in interest income and charges for services of approximately $364,000.

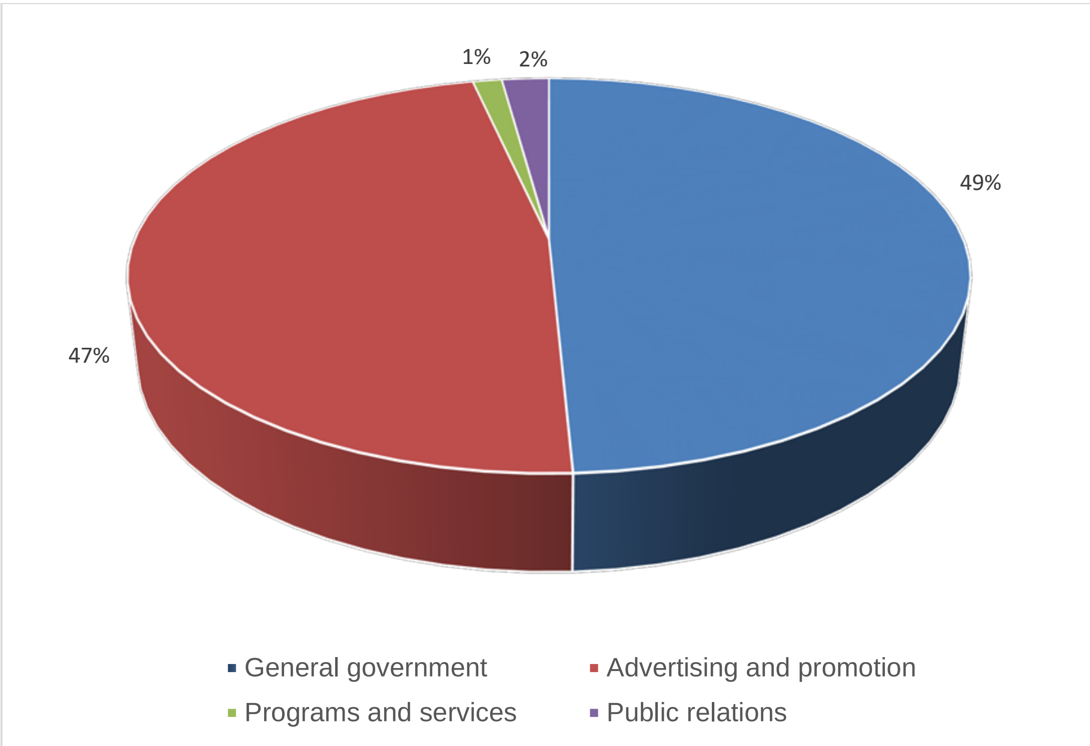
Hotel room tax revenues remained without any significant variance when compared with fiscal year June 30, 2018 and it is still the main source of income for the government activities.

General government expenses decreased by approximately $15.3 million.

Advertising and promotion expenses experienced an increase of approximately $18.5 million as compared with the prior fiscal year ended June 30, 2018.

Transfer in increase by approximately $1.9 million when compared to fiscal year ended June 30, 2018 as a result of the write-off of debt amounting to approximately $1.5 million between the Slot Machines Airport and the Company, in connection with the liquidation of the Slot Machines Airport Fund.

The following chart summarizes the Company's function/programs expenses for the governmental activities for the fiscal year ended June 30, 2019.



Advertising and Promotions are one of the main expenses of the Company, constituting 47% of Government-activity expenses. In accordance with PROMESA, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) will continue to enforce compliance with budgetary cuts implemented in its certified budget for the Commonwealth.

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Business-Type Activities

Condensed financial information of business-type activities in the statement of net deficit as of June 30, 2019 and 2018, is as follows:

	As of June 30,		Increase (Decrease)	Variance Percentage
	2019	2018		
Assets				
Current assets	$ 13,717,311	$ 11,035,673	$ 2,681,638	24.3%
Capital assets, net	12,941	10,450	2,491	23.8%
Other noncurrent assets	3,341,108	2,236,803	1,104,305	49.4%
Total assets	17,071,360	13,282,926	3,788,434	28.5%
Deferred outflows of resources:				
Loss on note refunding	1,093,453	1,210,221	(116,768)	-9.6%
Liabilities				
Current liabilities	34,753,202	33,078,547	1,674,655	5.1%
Noncurrent liabilities	46,040,452	45,182,436	858,016	1.9%
Total liabilities	80,793,654	78,260,983	2,532,671	3.2%
Net Position (Deficit)				
Net investment in capital assets	12,941	10,450	2,491	23.8%
Unrestricted	(62,641,782)	(63,778,286)	1,136,504	-1.8%
Total net deficit	$ (62,628,841)	$ (63,767,836)	$ 1,138,995	-1.8%

Business-type activities include the Hotel Development Corporation (HDC) Fund, Slot Machines Operations Fund (SMO), Medical Tourism Company (MTC) Fund and Law 48 Slot Machine Airport Fund. Total assets increased approximately $3.8 million from approximately $13.3 million as of June 30, 2018 to approximately $17 million as of June 30, 2019. That increase was driven by HDC's increase in cash and loans receivable by approximately $1.8 million and $100,000, respectively, and SMO's increase in accounts receivable of approximately $800,000.

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Condensed financial information of business-type activities in the statement of activities for the fiscal years ended June 30, 2019 and 2018, is shown below:

	Year ended June 30,			
	2019	2018	Increase (Decrease)	Variance Percentage
Program revenues				
Charges for services - financing and investing	$ 1,784,181	$ 1,689,549	$ 94,632	5.6%
Charges for services - other	163,474,551	156,994,386	6,480,165	4.1%
Total programs revenues	165,258,732	158,683,935	6,574,797	4.1%
Functions/programs				
Hotel Development Corporation	3,541,366	24,122,050	(20,580,684)	-85.3%
Slot Machines Operations	104,496,502	99,635,576	4,860,926	4.9%
Medical Tourism Company	136	949	(813)	-85.7%
Slot Machines Airport	-	1,130,305	(1,130,305)	-100.0%
Total function/programs	108,038,004	124,888,880	(16,850,876)	-13.5%
Net income before transfers	57,220,728	33,795,055	23,425,673	69.3%
Transfers out	(56,081,733)	(55,722,160)	(359,573)	0.6%
Change in net position	1,138,995	(21,927,105)	23,066,100	-105.2%
Net deficit - beginning of year	(63,767,836)	(41,840,731)	(21,927,105)	52.4%
Net deficit - end of year	$ (62,628,841)	$ (63,767,836)	$ 1,138,995	-1.8%

Total revenues increased by approximately $6.6 million during the fiscal year ended June 30, 2019. This was a result of the increase in Slot Machine Operations plus collections by HDC. Total expenses also decreased by approximately $16.9 million.

Analysis of Fund Financial Statements

The Company has two major governmental funds (the General Fund and CILE) and four major proprietary funds (the Hotel Development Corporation, the Slot Machine Operations, Medical Tourism Company and Law 48 Slot Machines Airport). The following is an analysis of the financial position and changes in financial position by major fund.

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General Fund

The General Fund's assets as of June 30, 2019 consist substantially of cash totaling of approximately $119.5 million and accounts receivable of approximately $10 million.

Cash increased by approximately $38.7 million, from approximately $80.8 million in fiscal year 2018 to approximately $119.5 million in fiscal year 2019, due to an increase in collections from the hotel room tax. Hotel room taxes receivables, net of uncollectible amounts, increased by approximately $500,000, from approximately $9.6 million to approximately $10.1 million, as a result of an increase in hotel room tax revenues.

Liabilities increased by approximately $42.6 million, from approximately $77.5 million in fiscal year 2018 to approximately $120.1 million in fiscal year 2019.

Revenue from hotel room taxes decreased approximately by $160,000, from approximately $73.6 million in fiscal year 2018 to approximately $73.4 million in fiscal year 2018 due to a decrease in occupancy.

General government expenditures decreased by approximately $10.9 million, from approximately $70.9 million in fiscal year 2018 to approximately $60 million in fiscal year 2019.

Meanwhile, advertising and promotion expenditures increased by approximately $18.8 million, from approximately $33.7 million in fiscal year 2018 to approximately $52.4 million in fiscal year 2019.

The General Fund received approximately $57.6 million of the total transfer from the Slot Machines Operations Fund. Also, the General Fund transferred approximately $1.5 million to the Slot Machine Airport Fund as part of the liquidation of such fund.

The Company is not required to present a budgetary comparison schedule (or statement) for the General fund since the General Fund does not have a legally adopted budget.

Corporación Congreso Internacional de la Lengua Española – CILE Puerto Rico 2016 Fund (CILE)

For the fiscal year ended June 30, 2019, there were no contributions from the Company to CILE.

Hotel Development Corporation

HDC's assets and deferred outflows of resources as of June 30, 2019, consist primarily of approximately $8.8 million in cash, approximately $5.6 million in loans receivable, approximately $2.6 million in real estate held for future tourism development, and approximately $1.1 million of deferred loss on note refunding. Total liabilities consist of accounts payable of approximately $65,000, interest payable of approximately $10.8 million due to another fund of approximately $25 million, and notes payable of approximately $45.2 million. Fund deficit increased by approximately $450,000 as compared to the prior fiscal year ended June 30, 2018.

Total operating revenues increased by approximately $100,000, from approximately $3 million in fiscal year 2018 to approximately $3.1 million in fiscal year 2019 mainly due to a loan collection.

Total operating expenses decreased by approximately $21 million, from approximately $21.4 million in fiscal year 2018 to approximately $800,000 in fiscal year 2019 due to default on notes receivable related to tourism projects that were reserved and impairment on investment in tourism projects during fiscal year 2018.

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Slot Machines Operations

Slot Machines Operations Fund's assets as of June 30, 2019, consist primarily of accounts receivable of approximately $4.4 million, and due from other fund of approximately $20.2 million and capital assets net of depreciation of approximately $13,000. Total liabilities consist of unremitted distributions to the Commonwealth, the University of Puerto Rico, and Participants of Slot Machines Operations of approximately $2.1 million, $5.7 million, and $14 million, respectively, account payable of approximately $1.8 million, and accrued compensated absences and other liabilities of approximately $400,000.

Total operating revenues increased approximately by $6.8 million, from $155.3 million to $162.1 million, mainly due to an increase in collections net of distributions to Slot Machines Operations' participants.

Total operating expenses increased by approximately $2.1 million mainly due to increase in rent. Total non-operating expenses (distributions to the Commonwealth and the University of Puerto Rico) increased by approximately $3 million, from $85.7 million to $88.7 million, directly related to the increase in operating revenues. Consequently, interfund transfers to the General Fund increased by approximately $2 million, from approximately $55.7 million to approximately $57.7 million.

Medical Tourism Company

No contributions were made to the MTC for the fiscal year ended June 30, 2019.

Law 48 Slot Machines Airport Fund

This operation was created on an amendment to Act No. 221 of 1948, Game of Chance Act (Act No. 48 of 2013). This operation had the purpose of empowering the Company to authorize the operation of slot machines in rooms located at the airports and ports of Puerto Rico. On November 22, 2017, Resolution No. 18-005 was approved to terminate the operations of this fund, since it was not self-sustaining.

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Capital Assets

Governmental

As of June 30, 2019, and 2018, capital assets for governmental activities are composed of the following:

	As of June 30,		
	2019	**2018**	**Increase (Decrease)**
Land	$ 3,035,000	$ 3,035,000	$ -
Works of art	2,018,320	2,018,320	-
Total capital assets – not being depreciated	5,053,320	5,053,320	-
Building	14,130,641	14,324,536	(193,895)
Improvements	966,158	1,309,433	(343,275)
Leasehold improvements	48,026	93,195	(45,169)
Furniture and equipment	774,436	685,066	89,370
Vehicles	25,186	19,571	5,615
Total capital assets, net of accumulated depreciation	15,944,447	16,431,801	(487,354)
Total	$ 20,997,767	$ 21,485,121	$ (46,155)

The Company's capital assets as of June 30, 2019 and 2018 amounted to approximately $21 million and $21.4 million, respectively, net of accumulated depreciation. Capital assets consist of land, works of art, buildings and improvements, leasehold improvements, furniture and equipment, and vehicles. See note 10 to the basic financial statements for additional details on capital assets at year-end and on activity during the fiscal year ended June 30, 2019.

Business type

As of June 30, 2019, and 2018, capital assets for business type activities are composed of the following:

	As of June 30,		
Description	**2019**	**2018**	**(Decrease)**
Furniture and equipment	$ 12,941	$ 10,450	$ 2,491

Long-Term Debt

Significant long-term debt activity during fiscal year 2019 was as follows:

- Long-term debt in the governmental activities amounted to approximately $112 million as of June 30, 2019. Long-term debt consists primarily of termination benefits of approximately $3.9 million, accrued legal claims of approximately $50,000 and capital lease obligations of approximately $321,000. Long-term debt obligations primarily consist of total pension liability that amounts to approximately $105 million and OPEB of $2.2 million. Long-term debt decreased by approximately $14 million, from $136 million in fiscal year 2018 to $112 million in fiscal year 2019, mainly due to the effect of GASB Statement No. 73 related to actual employer contributions and change in proportionate share.
- The transition from GASB Statement No. 68 to GASB Statement No. 73 resulted in a decrease of total pension liability of approximately $23.1 million.
- Long-term debt due within one year is $6.9 million.
- Long-term debt in business-type activities amounted to approximately $45.2 million as of June 30, 2019 and consist primarily of a long-term notes payable to PFC.
- See note 11 to the basic financial statements for additional information and activity of the Company's long-term debt.

Economic Factors

During fiscal year ended June 30, 2019, the number of persons registered in lodgings endorsed by the Company, including residents of Puerto Rico and outer tourists, was approximately 1.5 million, an increase of 21% over the number of persons registered during the prior fiscal year ended June 30, 2018. The average occupancy rate in these lodgings during fiscal year ended June 30, 2019 was 73.2%, a decrease of 3.3% from the prior fiscal year. Also, during fiscal year ended June 30, 2019, the average number of rooms available in lodgings endorsed by the Company decreased by approximately 1.44% (-62,000 rooms) compared to the same period of fiscal year ended June 30, 2018.

According to a Payroll Survey, employment in the leisure and hospitality sector was approximately 74,600 for fiscal year ended June 30, 2018, a decrease of 2.06% over employment for fiscal year ended June 30, 2017 that its final employment numbers was 80,600.

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The City of San Juan, Puerto Rico is the largest homeport for cruise ships in the Caribbean and one of the largest homeports for cruise ships in the world. The following tables summarize the number of visitors and their expenditures during the last 10 years:

Tourism Data[(1)]

Number of Visitors [(1)]

	Tourist Hotels[(2)]	Excursionists [(3)]	Other [(4)]	Total
Fiscal year ended June 30:				
2010	1,349,400	1,185,800	1,836,200	4,371,400
2011	1,414,600	1,165,000	1,639,400	4,219,000
2012	1,504,700	1,127,800	1,561,100	4,193,600
2013	1,587,500	1,038,000	1,585,900	4,211,400
2014	1,634,800	1,213,100	1,611,200	4,459,100
2015	1,745,000	1,509,300	1,804,500	5,058,800
2016	1,795,600	1,341,500	1,940,200	5,077,300
2017	1,831,200	1,469,400	1,980,200	5,280,800
2018	1,178,300	1,191,600	1,889,900	4,259,800
2019	1,496,600	1,750,600	1,683,200	4,930,400

Total Visitors' Expenditures
(In millions)

	Tourist Hotels [(2)]	Excursionists [(3)]	Other [(4)]	Total
Fiscal year ended June 30:				
2010	$ 1,542	$ 171	$ 1,498	$ 3,211
2011	1,619	169	1,355	3,143
2012	1,707	168	1,318	3,193
2013	1,812	156	1,343	3,311
2014	1,874	182	1,382	3,439
2015	2,048	228	1,550	3,825
2016	2,118	202	1,665	3,985
2017	2,168	213	1,709	4,090
2018	1,434	185	1,684	3,303
2019	1,833	273	1,506	3,612

(1) Includes information about non-resident tourists registering in tourist hotels. They are counted once even if registered in more than one hotel

(2) Includes visitors in guesthouses

(3) Includes cruise ship visitors and transient military personnel

(4) Includes visitors in homes of relatives, friends, and in hotel apartments

Mainly due to effects of Hurricanes Irma and Maria in 2017 there was a significant increase in visitors for the fiscal year 2019, over 650,000 visitors. Prior to the hurricanes, the number of visitors consistently increased between 2013 and 2017, which was recovered during fiscal year 2019.

Related to the expenditure, there was also an increase of about $300 million. Like the visitors chart, there was a steady expenditure increase between 2013 and 2017. Even though both visitors and expenditures where significantly more, the average expenditure by visitors slightly decreased from an average of $775.37 in fiscal year 2018 to $732.54 in fiscal year 2019, representing a decrease of about $42.83 per visitor.

Subsequent Events

Refer to Note 19 of the accompanying basic financial statements for a description of subsequent events.

Request for Information

This financial report is designed to provide a general overview of the Company for all those with an interest in the Company's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Puerto Rico Tourism Company, Tanca Street #500, Ochoa Building 3rd Floor, Old San Juan, San Juan, PR, 00902-3960.

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

STATEMENT OF NET POSITION (DEFICIT)
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	$ 46,501,194	$ 9,183,482	$ 55,684,676
Restricted cash	72,973,659	-	72,973,659
Accounts receivable:			
Hotel room taxes – net	10,093,916	-	10,093,916
Hotels and casinos	-	4,533,829	4,533,829
Other	5,135	-	5,135
Investments in tourism projects, net of allowance of $75,719,861	-	-	-
Prepaid expenses and other assets	6,695	-	6,695
Internal balances	4,876,904	(4,876,904)	-
Real estate held for future tourism development	-	2,600,001	2,600,001
Notes and loans receivable – net	450,000	5,618,011	6,068,011
Capital assets:			
Land and other nondepreciable assets	5,053,320	-	5,053,320
Depreciable assets and vehicles, net of accumulated depreciation	15,944,447	12,941	15,957,388
	155,905,270	17,071,360	172,976,630
DEFERRED OUTFLOWS OF RESOURCES			
Loss arising from notes refunding	-	1,093,453	1,093,453
Pension related	5,637,261	-	5,637,261
Other postemployment benefits related	183,715	-	183,715
	5,820,976	1,093,453	6,914,429

Continues…

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

STATEMENT OF NET POSITION (DEFICIT)
June 30, 2019

Continued…

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Unremitted distributions of slot machines operations to:			
Commonwealth of Puerto Rico	-	2,106,294	2,106,294
University of Puerto Rico	-	5,772,308	5,772,308
Participants of slot machines operations	-	14,071,339	14,071,339
Accounts payable and accrued liabilities	15,792,498	1,851,442	17,643,940
Other liabilities	158,247	109,803	268,050
Interest payable	-	10,842,016	10,842,016
Due to Puerto Rico Convention Center District Authority	4,308,621	-	4,308,621
Due to Commonwealth of Puerto Rico	624,100	-	624,100
Liability payable from restricted assets —			
Due to Puerto Rico Convention Center District Authority	79,041,350	-	79,041,350
Long-term obligations due within one year:			
Accrued compensated absences	451,276	289,582	740,858
Termination benefits	612,985	-	612,985
Capital lease obligations	179,576	-	179,576
Total pension liability	5,512,452	-	5,512,452
Total other postemployment benefits liability	183,715	-	183,715
Long-term obligations due in more than one year:			
Accrued compensated absences	454,293	510,519	964,812
Termination benefits	3,314,914	-	3,314,914
Accrued legal claims	50,000	-	50,000
Capital lease obligations	141,608	-	141,608
Notes payable	-	45,240,351	45,240,351
Nonexchange financial guarantee liability	1,000,000	-	1,000,000
Total pension liability	99,845,151	-	99,845,151
Total other postemployment benefits liability	2,014,534	-	2,014,534
	213,685,320	80,793,654	294,478,974
DEFERRED INFLOWS OF RESOURCES			
Pension related	6,641,455	-	6,641,455
NET POSITION (DEFICIT)			
Net investment in capital assets	20,676,583	12,941	20,689,524
Unrestricted deficit	(79,277,112)	(62,641,782)	(141,918,894)
	$ (58,600,529)	$ (62,628,841)	$ (121,229,370)

See accompanying notes to basic financial statements.

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

STATEMENT OF ACTIVITIES
Fiscal year ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services-Other	Program Revenues: Charges for Services – Financing and Investment	Net (Expenses) Revenues and Changes in Net Position (Deficit): Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
General government	$ 53,374,029	$ 1,885,840	$ 1,109,679	$ (50,378,510)	$ -	$ (50,378,510)
Advertising and promotion	52,580,842	-	-	(52,580,842)	-	(52,580,842)
Programs and services	1,481,870	-	-	(1,481,870)	-	(1,481,870)
Public relations	2,403,896	-	-	(2,403,896)	-	(2,403,896)
Total governmental activities	109,840,637	1,885,840	1,109,679	(106,845,118)	-	(106,845,118)
BUSINESS –TYPE ACTIVITIES						
Hotel Development Corporation	3,541,366	1,305,561	1,784,181	-	(451,624)	(451,624)
Slot Machines Operations	104,496,502	162,168,990	-	-	57,672,488	57,672,488
Medical Tourism Company	957	-	821	-	(136)	(136)
Slot Machines Airport	-	-	1,590,755	-	-	-
Total business-type activities	108,038,825	163,474,551	3,375,757	-	57,220,728	57,220,728
	$ 217,879,462	$ 165,360,391	$ 4,485,436	(106,845,118)	57,220,728	(49,624,390)
GENERAL REVENUES						
Hotel room taxes				73,384,599	-	73,384,599
TRANSFERS IN (OUT)				56,081,733	(56,081,733)	-
Change in net position (deficit)				22,621,214	1,138,995	23,760,209
NET DEFICIT - Beginning of year				(81,221,743)	(63,767,836)	(144,989,579)
NET DEFICIT - End of year				$ (58,600,529)	$ (62,628,841)	$ (121,229,370)

See accompanying notes to basic financial statements.

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

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2019

	General Fund	CILE	Total Governmental Funds
ASSETS			
Cash	$ 46,501,194	$ -	$ 46,501,194
Restricted cash	72,973,659	-	72,973,659
Accounts receivable			
Hotel room taxes — net	10,093,916	-	10,093,916
Other	5,135	-	5,135
Due from other funds	25,066,063	-	25,066,063
Prepaid expenses and other assets	6,695	-	6,695
Note receivable	450,000	-	450,000
Total assets	$ 155,096,662	$ -	$ 155,096,662
LIABILITIES			
Accounts payable and accrued liabilities	$ 15,792,498	$ -	$ 15,792,498
Other liabilities	158,247	-	158,247
Due to Puerto Rico Convention Center District Authority	4,308,621	-	4,308,621
Due to Commonwealth of Puerto Rico	624,100	-	624,100
Liability payable from restricted assets —			
Due to Puerto Rico Convention Center District Authority	79,041,350	-	79,041,350
Due to other funds	20,189,159	-	20,189,159
Total liabilities	120,113,975	-	120,113,975
FUND BALANCES			
Nonspendable	306,695	-	306,695
Unassigned	34,675,992	-	34,675,992
Total fund balances	34,982,687	-	34,982,687
Total liabilities and fund balances	$ 155,096,662	$ -	$ 155,096,662

See accompanying notes to basic financial statements.

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

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION (DEFICIT)
June 30, 2019

FUND BALANCES - GOVERNMENTAL FUNDS	$	34,982,687
Amounts reported for governmental activities in the statement of net deficit are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		20,997,767
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds:		
Pension related		5,637,261
Other postemployment benefits related		183,715
Deferred inflows of resources are not reported in the funds		
Pension related		(6,641,455)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Nonexchange financial guarantee		(1,000,000)
Capital lease obligations		(321,184)
Accrued legal claims		(50,000)
Accrued compensated abscenses		(905,569)
Termination benefits		(3,927,899)
Total pension liability		(105,357,603)
Total other postemployment benefit liability		(2,198,249)
DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(58,600,529)

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Fiscal year ended June 30, 2019

	General Fund	CILE	Total Governmental Funds
REVENUES			
Hotel room tax	$ 73,384,599	$ -	$ 73,384,599
Charge for programs and services	1,885,840	-	1,885,840
Investment earnings	1,104,131	-	1,104,131
Other income	-	5,548	5,548
Total revenues	76,374,570	5,548	76,380,118
EXPENDITURES			
General government	59,999,323	9,140	60,008,463
Advertising and promotion	52,420,442	160,400	52,580,842
Programs and services	1,481,870	-	1,481,870
Public relations	2,403,896	-	2,403,896
Capital outlays	386,988	-	386,988
Total expenditures	116,692,519	169,540	116,862,059
EXCESS OF EXPENDITURES OVER REVENUES	(40,317,949)	(163,992)	(40,481,941)
OTHER FINANCING SOURCES			
Transfers in	56,081,733	-	56,081,733
NET CHANGE IN FUND BALANCES	15,763,784	(163,992)	15,599,792
FUND BALANCES — Beginning of year	19,218,903	163,992	19,382,895
FUND BALANCES — End of year	$ 34,982,687	$ -	$ 34,982,687

See accompanying notes to basic financial statements.

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

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES
June 30, 2019

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$	15,599,792
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		(487,354)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds:		
Capital lease repayments		179,576
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Termination benefits		612,985
Pension expense		7,426,514
Other postemployment benefit expense		195,270
Compensated absences		(905,569)
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$	22,621,214

See accompanying notes to basic financial statements.

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

PROPIETARY FUNDS
STATEMENT OF NET POSITION (DEFICIT)
June 30, 2019

	Hotel Development Corporation	Slot Machines Operations	Medical Tourism Company	Slot Machines Airport	Total
ASSETS					
Current assets:					
Cash	$ 8,778,804	$ -	$ 404,678	$ -	$ 9,183,482
Accounts receivable — net	89,754	4,443,835	240	-	4,533,829
Due from other fund	-	20,189,159	-	-	20,189,159
Total current assets	8,868,558	24,632,994	404,918	-	33,906,470
Non-current assets:					
Loans receivable — net	5,618,011	-	-	-	5,618,011
Real estate held for future turism development	2,600,001	-	-	-	2,600,001
Capital assets — net	-	12,941	-	-	12,941
Total noncurrent assets	8,218,012	12,941	-	-	8,230,953
	17,086,570	24,645,935	404,918	-	42,137,423
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss arising from notes refunding	1,093,453	-	-	-	1,093,453
Total assets and deferred outflows of resourses	$ 18,180,023	$ 24,645,935	$ 404,918	$ -	$ 43,230,876
LIABILITIES AND NET POSITION (DEFICIT)					
Current Liabilities:					
Unremitted distributions to:					
Commonwealth of Puerto Rico	$ -	$ 2,106,294	$ -	$ -	$ 2,106,294
University of Puerto Rico	-	5,772,308	-	-	5,772,308
Participants of Slot Machines Operations	-	14,071,339	-	-	14,071,339
Accounts payable	65,352	1,786,090	-	-	1,851,442
Interest payable	10,842,016	-	-	-	10,842,016
Accrued compensated absences	-	289,582	-	-	289,582
Due to other fund	25,065,663	-	400	-	25,066,063
Other liabilities	-	109,803	-	-	109,803
Total current liabilities	35,973,031	24,135,416	400	-	60,108,847
Non-current liabilities					
Accrued compensated absences	-	510,519	-	-	510,519
Notes payable	45,240,351	-	-	-	45,240,351
Total noncurrent liabilities	45,240,351	510,519	-	-	45,750,870
	81,213,382	24,645,935	400	-	105,859,717
NET POSITION (DEFICIT)					
Net investment in capital assets	-	12,941	-	-	12,941
Unrestricted	(63,033,359)	(12,941)	404,518	-	(62,641,782)
Total net position (deficit)	(63,033,359)	-	404,518	-	(62,628,841)
Total liabilities and net position (deficit)	$ 18,180,023	$ 24,645,935	$ 404,918	$ -	$ 43,230,876

See accompanying notes to basic financial statements.

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

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET DEFICIT
Fiscal year ended June 30, 2019

	Hotel Development Corporation	Slot Machines Operations	Medical Tourism Company	Slot Machines Airport	Total
OPERATING REVENUES					
Collection of funds from slot machines — net of $143 million distributions to participants of Slot Machines Operations	$ -	$ 162,168,990	$ -	$ -	$ 162,168,990
Investment income	1,769,440	-	-	-	1,769,440
Interest income	14,741	-	-	-	14,741
Rent	1,305,561	-	-	-	1,305,561
Total operating revenues	3,089,742	162,168,990	-	-	165,258,732
OPERATING EXPENSES					
Payroll and related-payroll benefits	-	6,912,356	-	-	6,912,356
Depreciation and amortization	-	9,377	-	-	9,377
Rent	-	5,886,395	-	-	5,886,395
Provision for losses on notes receivable	345,976	-	-	-	345,976
Other	534,967	2,983,990	957	-	3,519,914
Total operating expenses	880,943	15,792,118	957	-	16,674,018
OPERATING (LOSS) INCOME	2,208,799	146,376,872	(957)	-	148,584,714
NONOPERATING REVENUES (EXPENSES)					
Interest income	-	-	821	-	821
Interest expense	(2,660,423)	-	-	-	(2,660,423)
Gain on extinguishment of debt	-	-	-	-	-
Distributions to:					
Commonwealth of Puerto Rico	-	(22,176,096)	-	-	(22,176,096)
University of Puerto Rico	-	(66,528,288)	-	-	(66,528,288)
Total nonoperating revenues (expenses)	(2,660,423)	(88,704,384)	821	-	(91,363,986)
INCOME (LOSS) BEFORE TRANSFERS	(451,624)	57,672,488	(136)	-	57,220,728
TRANSFERS:					
Transfers in	-	-	-	1,590,755	1,590,755
Transfers out	-	(57,672,488)	-	-	(57,672,488)
Total transfers	-	(57,672,488)	-	1,590,755	(56,081,733)
CHANGE IN NET POSITION (DEFICIT)	(451,624)	-	(136)	1,590,755	1,138,995
NET POSITION (DEFICIT) — Beginning of year	(62,581,735)	-	404,654	(1,590,755)	(63,767,836)
NET POSITION (DEFICIT) — End of year	$ (63,033,359)	$ -	$ 404,518	$ -	$ (62,628,841)

See accompanying notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Fiscal year ended June 30, 2019

	Hotel Development Corporation	Slot Machines Operations	Medical Tourism Company	Slot Machines Airport	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from slot machines	$ -	$ 303,411,952	$ -	$ -	$ 303,411,952
Cash received from investments in tourism projects	1,323,100	-	-	-	1,323,100
Cash received from interest	14,741	-	-	-	14,741
Cash received from rental activities	1,277,578	-	-	-	1,277,578
Cash received from other activities	-	-	-	8,211	8,211
Cash paid for other participants of Slot Machines Operations	-	(142,478,667)	-	-	(142,478,667)
Cash paid for payroll and related benefits	-	(7,003,401)	-	-	(7,003,401)
Cash paid for other operating expenses	(443,477)	(8,005,011)	(957)	(48,683)	(8,498,128)
Net cash provided by (used in) operating activities	2,171,942	145,924,873	(957)	(40,472)	148,055,386
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Distributions to:					
Commonwealth of Puerto Rico	-	(22,276,413)	-	-	(22,276,413)
University of Puerto Rico	-	(66,829,242)	-	-	(66,829,242)
Cash received (paid) from (to) other funds	681,121	(56,807,350)	-	(967,656)	(57,093,885)
Net cash provided by (used in) noncapital financing activities	681,121	(145,913,005)	-	(967,656)	(146,199,540)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets	-	(11,868)	-	-	(11,868)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES					
Interest received	-	-	821	-	821
Net change in cash	2,853,063	-	(136)	(1,008,128)	1,844,799
CASH – beginning of year	5,925,741	-	404,814	1,008,128	7,338,683
CASH – end of year	$ 8,778,804	$ -	$ 404,678	$ -	$ 9,183,482

See accompanying notes to basic financial statements.

Continues...

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Fiscal year ended June 30, 2019

	Hotel Development Corporation	Slot Machines Operations	Medical Tourism Company	Slot Machines Airport	Total
Continued…					
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 2,208,799	$ 146,376,872	$ (957)	$ -	$ 148,584,714
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	-	9,377	-	-	9,377
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable	52,957	(889,796)	-	-	(836,839)
Increase in notes and loan receivable	(100,364)	-	-	-	(100,364)
Decrease in unremitted distributions to participants of Slot Machines Operations	-	(345,909)	-	-	(345,909)
Increase (decrease) in accounts payable and accrued expenses	10,550	774,329	-	(40,472)	744,407
Net cash provided by (used in) operating activities	$ 2,171,942	$ 145,924,873	$ (957)	$ (40,472)	$ 148,055,386
SUMMARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:					
Interest accrual on notes payable	$ 2,485,740	$ -	$ -	$ -	$ 2,485,740

See accompanying notes to basic financial statements.

1) Reporting Entity

The Puerto Rico Tourism Company (the Company) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 10 of 1970 for the purpose of developing the tourism industry in Puerto Rico. The Company is exempt from taxation in Puerto Rico in accordance with Act No. 10.

As required by Accounting Principles Generally Accepted in United States of America (U.S. GAAP), the accompanying basic financial statements present the financial position and the results of operations of the Company and its component units, and the cash flows of the proprietary funds.

The financial statements of the component units discussed below have been included in the financial reporting entity as blended component units, in accordance with U.S. GAAP because, while legally separate, they were created and can be dissolved through resolution of the Company's board of directors. The Company appoints a voting majority of the component units governing boards and it may impose its will or obtain a financial benefit or financial burden from each of the blended components units.

Component Units

As of June 30, 2019, the component units are as follows:

- *Hotel Development Corporation (HDC)* – HDC was created by Resolution No. 91-128 of the Puerto Rico Industrial Development Company, another component unit of the Commonwealth. HDC is engaged in promoting the development of the hotel and tourism industry including the construction and, when necessary, financing of tourism facilities in Puerto Rico. HDC is reported as part of the Company's proprietary funds.

  On October 19, 2016, a new limited liability company, known as CDH-ATPR, LLC was created as a component unit of the HDC. The main purpose of this new entity was to manage some major improvements that will be made to the facilities of Baños de Coamo Hotel. This construction project also involved the Puerto Rico Land Administration, the entity that was the owner of the land where the hotel is located, and the Municipality of Coamo which would be in charge of the administration of the hotel. HDC planned to invest $2 million for the construction of the Baños de Coamo Hotel. The objectives were never achieved, and no investment was performed by HDC. In addition, no accounting records were established for CDH-ATPR, LLC. As discussed in Note 19, CDH-ATPR, LLC was dissolved with an effective date of August 1, 2019.

- *Corporación Congreso Internacional de la Lengua Española – CILE Puerto Rico 2017 (CILE)* – CILE was created by Resolution No. 15-021 of the Company. It was organized in November 7, 2014 as a not-for-profit corporation under the laws of the Commonwealth. The entity was created for the sole purpose to organize, plan and coordinate the VII Congreso Internacional de la Lengua Española held during March 2016. CILE is reported as a Special Revenue Fund.

  On April 2, 2019, the board of directors of CILE, approved a resolution to cease its operations and dispose of all of its assets. The cash available, at the date of the transfer, was contributed to the Instituto de Cultura Puertorriqueña (ICP), another component unit of the Commonwealth, to cover expenses related to the representation of Puerto Rico in the 22nd Feria Internacional del Libro, held in Santo Domingo, Dominican Republic, from April 26, 2019 to May 5, 2019. The legal steps for the dissolution of CILE were performed during the fiscal year ended June 30, 2019.

- *Puerto Rico Medical Tourism Corporation (MTC)* – MTC was created by Act No. 196 of December 15, 2010. It was organized as a for-profit corporation under the laws of the Commonwealth. MTC is engaged in the development and promotion of the medical tourism in Puerto Rico. MTC is reported as part of the Company's proprietary funds.

  As discussed in Note 19, on December 30, 2020, the Legislature approved Act No. 171 of 2020, whereby the operations related to the development and promotion of the medical tourism in Puerto Rico will be transferred from the Corporation to a new entity that will be known as the Office of the Program of Medical Tourism for Puerto Rico and will be ascribed to the DDEC.

Reorganization Process of the Company

The Company is in a reorganization process pursuant to Act No. 141 of 2018. This Act requires that a process will be performed to consolidate the Company into the DDEC. A transition process has been initiated and it will require a final certification from the Secretary of the DDEC to be submitted to the Governor and the Legislature, once the transition process is completed. As of the date of these financial satetments, the process has not been completed.

2) Basis of Presentation and Summary of Significant Accounting Policies

The accounting and reporting policies of the Company conform to U.S. GAAP for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the allowance for bad debts, loan losses, tourism project losses, and useful lives of capital assets.

Financial Statements Presentation

Government-Wide Financial Statements – The statement of net position (deficit) and the statement of activities report information regarding all activities of the Company. The effect of interfund balances has been removed from the government-wide statement of net position (deficit), except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Company's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities and rental revenues.

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The statement of net position (deficit) presents the Company's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between (i) assets plus deferred outflows of resources less, (ii) liabilities plus deferred inflows of resources, is reported as net position (deficit). Net position (deficit) is reported in three categories:

- *Net investment in capital assets* – This component of net position (deficit) consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances of bonds, notes, mortgage, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position (deficit).
- *Restricted* – This component of net position (deficit) consists of restricted assets reduced by related liabilities. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position (deficit) is the net amount of (i) the assets, plus deferred outflows of resources, less (ii) liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories. Unrestricted component of net position (deficit) often is assigned in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position (deficit) often has constraints on use that are imposed by management, but such constraints may be removed of modified.

When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first and the unrestricted resources when they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include (i) interest income on loans and investments in tourism projects, and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Company that are reported in the accompanying basic financial statements have been classified into governmental and proprietary funds.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

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The Company reports fund balance amounts that are considered nonspendable, such as fund balances associated with prepaid amounts and the long-term portion of a note receivable. Other fund balances have been reported as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent, as described below:

- *Nonspendable* – Represents resources that cannot be spent readily with cash or are legally or contractually required not to be spent. For the Company, the amount presented herein is composed of prepaid amounts and the long-term portion of a note receivable.

- *Restricted* – Represents resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by the Commonwealth, creditors, or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

- Committed – Represents resources used for specific purposes, imposed by formal action of the Company's highest level of decision-making authority (the Board of Directors), and can only be charged by a similar action, no later than the end of a fiscal year, and the formal action is the Board of Director's resolution specifying the purposes for which amounts can be used.

- *Assigned* – Represents resources intended to be used by the Company for specific purposes, but do not meet the criteria to be classified as restricted or committed. It generally includes executive orders approved by the Company's Executive Director.

- *Unassigned* – Represents the residual classification for the Company's general fund and includes all spendable amounts not contained in the other classifications.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Fund Financial Statements – The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay the liabilities of the current period. For this purpose, the Company considers revenues to be available if they are collected within 90 days of the end of the fiscal year.

Principal revenue sources considered susceptible to accrual include hotel room taxes and Commonwealth appropriations, if any. Other revenues are considered to be measurable and available only when cash is received by the Company.

Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The General Fund is the general operating fund of the Company and is used to account for all financial resources, except those required to be accounted for in another fund. The Company's special revenue fund was CILE. CILE was used to account for general government financial resources that are restricted by law or contractual agreement for specific purposes other than debt service or major capital projects. CILE was dissolved during the year ended June 30, 2019.

In situations where expenditures are made for a purpose for which amounts are available in multiple fund balance classifications, the Company uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Company generally spends committed resources first, followed by assigned resources, and then unassigned resources.

The Company is not required to present a budgetary comparison schedule (or statement) for the General Fund since the General Fund does not have a legally adopted budget.

Proprietary Fund Financial Statements – The basic financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements previously described. The proprietary funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing the services that correspond to the proprietary fund's principal ongoing operations. Operating revenues are generated from slot machine operations, lending, investing, and other related activities. Operating expenses include slot machine operating activities, expenses related to tourism projects related expenses, provisions for loan losses and doubtful accounts receivable, and all general and administrative expenses, among others. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following business-type activities of the Company are reported as major proprietary funds:

- *Hotel Development Corporation (HDC) Fund* – HDC is a blended component unit engaged to promote the development of the hotel and tourism industry, including the construction of tourism properties, in Puerto Rico.
- *Slot Machines Operations (SMO) Fund* – The slot machines operations fund accounts for the activities related to the collection of funds from slot machines located in Puerto Rico and for its final distribution to recipients established by legislation.

  As discussed in Note 19, on July 29, 2019, the Governor of the Commonwealth of Puerto Rico signed into law Act No. 81 of 2019 that creates the Games Commission of the Government of Puerto Rico. This Act transfers the slot machine operations from the Company to the Games Commission. The transfer was made effective as of July 1, 2020.
- *Medical Tourism Company (MTC) Fund* – MTC is a blended component unit created to incentivize and promote the development of medical tourism enacted by Act No. 196 of the Commonwealth.
- *Slot Machines Airport Fund* – This operation was created on an amendment to Act No. 221 of 1948, Game of Chance Act (Act No. 48 of 2013). This operation has the purpose of empowering the Company to authorize the operation of slot machines in rooms located at the airports and ports of Puerto Rico. During the year ended June 30, 2019, this fund was eliminated. As discussed in Note 8, on November 22, 2017, Resolution 18-005 was approved to terminate this fund.

Summary of significant accounting policies

Hotel Room Taxes

Hotel room tax receivable and revenues are recorded when the underlying exchange transaction occurs. Hotel room taxes represent amounts collected by the hotels and due to the Company on hotel room occupancy. Such receivables are recorded net of an estimate for uncollectible amounts. The Company performs fiscal audits over the room tax reported by the hotels, motels, "paradores" and recreation facilities operated by the Commonwealth, except for those operated by the Puerto Rico National Parks Company. Overages or deficiencies resulting from these audits are adjusted to current revenue in the period the fiscal audits are performed. Hotel room tax receivable and revenues are recorded when the underlying exchange transaction occurs.

Slot Machine Operations

Slot machine revenue is reported on the accrual basis. The Company pays a percentage of the win of participating slot machines to casino concessionaries and governmental entities ("slot machine operator participants"), pursuant to Act No. 24-1997. Revenue recognized and reported by the Company is generally defined as the win from gaming activities (the wins difference between gaming wins and losses, not the total amount wagered) less the distributions to slot machine operator participants. Refer to Note 9 for additional detail of slot machine operator participants and its percentage of distributions.

Loans Receivable and Allowance for Losses on Loans Receivable

Loans receivable are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. Loans receivable 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. Interest accrual ceases when collectability is uncertain, generally once a loan receivable is 180 days past due. Once a loan receivable is placed in nonaccrual status, all accrued but uncollected interest is reversed against current interest income. Interest income on nonaccrual loans receivable is thereafter recognized as income only to the extent actually collected. Nonaccrual loans receivable are returned to an accrual status when management has adequate evidence to believe that the loans receivable will be performing as contracted.

The allowance for losses on loans receivable is established through provisions recorded as an operating expense. This allowance is based on the evaluation of the risk characteristics of the loan receivable or loans receivable portfolio, including such factors as the nature of the individual credit outstanding, past loss experience, known and inherent risks in the portfolios, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding notes receivable portfolio and the related allowance may change in the near future.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan receivable to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans receivable are accounted for predominantly in the same manner as nonaccrual loans receivable.

Loans receivable considered to be impaired are generally reduced to the present value of expected future cash flows, discounted at the note's effective interest rate or, at the note's observable market price or the fair value of the collateral if the loan receivable is collateral dependent, by establishing a valuation allowance.

Investment in Tourism Projects

Investments in tourism projects represent redeemable preferred interests in companies and partnerships engaged in the development of hotels and tourism-related facilities in Puerto Rico. These investments are initially reported at cost and subsequently measured in accordance with the corresponding stockholders' or partnership agreement.

Investments in tourism projects are periodically evaluated for impairment. Management periodically evaluates the financial position and the results of operations of investees, and other industry and economic factors to determine if there are indicators that other-than-temporary impairment in the value of the investment has occurred. Other-than-temporary impairment charges are recorded as part of the investment earnings (losses). During the year ended June 30, 2019, there were no other-than-temporary impairment losses.

Real Estate Held for Future Tourism Development

Real estate held for future Tourism Development is carried at the lower of fair value or cost, which is based upon an appraisal, minus estimated costs to sell. Subsequent declines in the fair value of real estate held for future tourism development are charged to expenditure/expense.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund statement of net position (deficit). Capital assets are defined by the Company as assets with a cost of $500 or more at the date of acquisition and an expected useful life of three or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are expensed.

Capital asset additions are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds financial statements.

Capital assets are depreciated using the straight-line method over the assets' estimated useful lives. Land and works of art are not depreciated. Estimated useful lives are as follows:

Description	Years
Building	50 years
Building improvements	50 years
Leasehold improvements	Lesser of 50 years or lease term
Furniture and equipment	3-7 years
Vehicles	Lesser of 5 years or lease term

At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation is removed from books and the resulting gain or loss, if any, is credited or charged to operations.

Capital assets subject to amortization are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with the GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The amount of the impairment of these assets is determined by comparing the carrying value with the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. Management understands that there are no instances of impairment of capital assets during the year ended June 30, 2019.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position (deficit) reports a separate section for deferred outflows of resources. This separate financial statements element, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. On the business-type activities of the government-wide financial statements and proprietary funds' statement of net position (deficit), the Company has three items that qualify for reporting in this category: (i) the deferred amount on refunding debt, (ii) certain pension related items, and (iii) other postemployment benefits related items. Losses resulting from current or advance refunding of debt, are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense. Of the pension related items, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement will be recognized as a reduction of the net pension liability after the next measurement date. Of the other postemployment benefits related items only other postemployment benefits payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the total Other Postemployment Benefit (OPEB) liability after the next measurement date.

In addition to liabilities, the statement of net position (deficit) reports a separate section for deferred inflows of resources. This separate financial statements element, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. On the business-type activities of the government-wide financial statements and proprietary funds' statement of net position (deficit), the Company has one item that qualifies for reporting in this category consisting of certain pension related items. The pension related items include changes in proportional share of contributions, differences between expected and actual experience, and changes in actuarial assumptions; these items are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period.

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Interfund Activities

The Company has the following types of interfund transactions:

- *Loans* – Represents amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by nonspendable fund balance, which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

- *Services provided and used* – Represents sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net position.

- *Reimbursements* – Represents repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

- *Transfers* – Represents flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

Long-Term Debt

The liabilities reported in the government-wide financial statements include, long-term notes and obligations for voluntary terminations benefits. Notes premiums and discounts are deferred and amortized over the life of the debt under a method that approximates the effective interest method. Notes payable are reported net of the applicable premium or discount. Bond issuance costs, other than prepaid insurance, are reported as expenses.

In the governmental funds financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, as well as any related premium is reported as another financing source while discounts on debt issuances are reported as another financing use. Issuance costs are recorded as expenditures when paid in the governmental funds.

Refundings

Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time previously issued debt (advance refunding). In the government-wide and proprietary fund financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported on the statement of net position as deferred outflow of resources.

Compensated Absences

Based on Act No. 26 of 2017, employees are granted vacation for the accumulation of 1.25 days per month (15 days annually) of vacation time. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and an accumulated maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed (60 days).

Termination Benefits

The Company accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Accounting for Pension Costs

The Company accounts for pension costs under the provisions of GASB Statement 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.*

Under the guidance of GASB Statement No. 73, the Commonwealth and its component units (including the Company) are considered to be one employer and are classified for financial reporting purpose as a single-employer defined benefit plan. GASB Statement No. 71 requires that a government recognize a deferred outflow of resources for its pension contributions (or pension benefit payments effective July 1, 2017) made subsequent to the measurement date.

Refer to Note 13 for the allocation methodology used by the Company to report its allocated share of the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS) total pension liability and the related pension accounts.

Accounting for Postemployment Benefit Costs Other than Pensions

Effective July 1, 2017, the Company adopted the guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Qualified retired employees of the Company participate in the Other Post-employment Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employee's Retirement System (the OPEB Plan). The OPEB Plan is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan. The OPEB Plan is administered on a pay-as-you-go basis. Therefore, in accordance with GASB Statement No. 75, the Company reports its proportionate share of OPEB liability and the related OPEB amounts.

Risk Management

The Company is responsible for assuring that the Company's property is properly insured. Annually, the Company evaluates the information regarding all property owned and the respective replacement values, and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2019 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Future Adoption of Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective as of June 30, 2019:

- GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement 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, 2020.

- 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, 2019.

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- 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.

- 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.

  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 new effective dates for the applicable statements to the Company were included in each statement included above.

  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 GASB Statement No. 53, as amended.

- Providing an exception to the lease modifications guidance in GASB Statement No. 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 IBOR's 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 new effective dates for the applicable statements to the Company were included in each statement included above.

- 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 reporting periods beginning after June 15, 2022.

- 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 than 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 performs 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 on the Company's basic financial statements.

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3) Uncertainties

Governmental activities

The accompaying statement of net position (deficit) presents a net deficit of approximately $58.6 million. This situation occurs mainly due to the recognition of the long-term obligations related to pensions. With the enactment of Act No. 106 of 2017 pension system were modified to a PayGo mechanism. Accordingly, the Company's contributions to the Plan are no longer required. The financial statements do not include any adjustment that may result from this uncertainty.

Business-type activities - Hotel Development Corporation

The accompanying statement of net position (deficit) presents a net deficit of approximately $63 million. This situation occurs mainly because for several years HDC has not been able to recover the investments made in tourism projects and has recognized permanent impairment losses in the fair value of these investments. In addition, HDC has not been able to collect most of its notes and loans receivable that were granted in connection with the development of certain tourism projects.

At this time, no decision has been made related to HDC. Although there is an uncertainty over HDC, it still collecting enough cash to cover for operating expenses, but not enough to cover for prior year operational and investment loses. Once the path related to the consolidation of the Company into the DDEC is completed the future of HDC will have to be revaluated The financial statements do not include any adjustment that may result from this uncertainty.

The notes payable due to PFC, a component unit of the GDB, which in tum is a component unit of the Commonwealth, in the accompanying statement of net position are completely dependent from appropriations of the Commonwealth. It was expected that the deficit of the Corporation would decrease as the Commonwealth appropriations amortized the principal balance of the notes. During the year ended June 30, 2016, HDC did not receive the Commonwealth's appropriations to pay the principal and interest due on the Note; as a result, HDC was unable to pay in full the required debt payment service, and is not expected to make any additional debt service payments unless approved by the Oversight Board on the Commonwealth. The Commonwealth is in the midst of a profound fiscal crisis and is in the process of restructuring its liabilities under Title III of the Puerto Rico oversight, Management, and Economic Stability Act (PROMESA). As of June 30, 2019, the principal balance and the related accrued interest amounted to $45,240,351 and $10,842,016, respectively. These balances will remain unpaid and in default until the Commonwealth's appropriations (which are now subject to a budget certified by the Oversight Board) resume. There is no guarantee any such appropriations will resume.

4) Cash, Deposits and Restricted Cash

Cash and Deposits

Custodial credit risk is the risk that in the event of a financial institution’s failure, the Company’s deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

As of June 30, 2019, the Company's cash in commercial banks, excluding cash on hand of $8,942, consist of the following:

Financial Institution	Carrying Amount	Depository Bank Balance
Commercial banks	$ 128,649,394	$ 131,568,579

Restricted Cash

As of June 30, 2019, restricted cash amounted to approximately $72.9 million. This amount is retained from room tax distributions for the payment of the debt service of the Puerto Rico Convention Center District Authority and as described in Note 16 it is subject to litigation in the Commonwealth's Title III Case.

5) Claim Receivable from Public Entity Trust

On November 29, 2018, the GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).

In accordance with Act No. 109 of August 24, 2017, (the GDB Restructuring Act)—the legislation enacted to facilitate the Qualifying Modification—the balance of liabilities owed between the Commonwealth and its agencies, instrumentalities and affiliates, including the Company (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at the GDB in a Non-Municipal Government Entity's name against the outstanding balance of any of such Non-Municipal Government Entity owed to GDB or of any bond or note Non-Municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Company, received their pro rata share of interest in a newly formed trust created by the GDB Restructuring Act, the Public Entity Trust (the PET). The interests a Non-Municipal Government Entity received against the PET was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the Qualifying Modification transaction and pursuant to the terms of the GDB Restructuring Act, the Company's deposits at GDB were fully extinguished and the Company obtained its pro rata share of interests in the PET (which included a total PET Claim of approximately $35.5 million).

The assets of the PET (the PET Assets) consist of, among the other items, an unsecured claim of $578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' Recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. The Official Committee of Unsecured Creditors appointed in the Commonwealth Tittle III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. In addition, all or some of the PET Claim includes loans only payable from Commonwealth appropriations. Under the proposed Seventh Amended Plan, the Commonwealth's appropriation obligations (including with respect to such appropriations loans held by the PET) are classified in Class 63 (CW Appropriation Claims) and the Seventh Amended Plan proposes to provide no distribution on account of such claims.

The Seventh Amended Plan is subject to future amendments and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan.

As a result, an allowance for doubtful accounts for the total amount of the claim receivable from PET was recorded in the Company's basic financial statements as follows:

	Pro rata share of interest in the PET		
Description	Receivable Balance	Allowance	Book Balance
Cash	$ 6,224,493	$ (6,224,493)	$ -
Investments	26,702,761	(26,702,761)	-
Time deposits	2,518,525	(2,518,525)	-
	$ 35,445,779	$ (35,445,779)	$ -

6) Notes and Loans Receivable

Governmental activities' note receivable consist of a promissory note, which resulted from the sale on February 15, 2012 of a property known as Punta Lima in the original amount of $1.5 million, due in ten annual equal installments accruing interest at 6.25%, and maturing as follows:

Year Ending June 30:	Principal	Interest	Total
2020	$ 150,000	$ 28,125	$ 178,125
2021	150,000	18,750	168,750
2022	150,000	9,375	159,375
	$ 450,000	$ 56,250	$ 506,250

Business-type loans receivable as of June 30, 2019, are as follows:

Description	Amount
Unsecured noninterest-bearing loan, due from Rio Mar-G.P.L.P. collectable from available distributions, if any, from the partners of Rio Mar Associates' S.E., at rate denominated as 50% of Rio Mar Associates' preferred return, as defined, not to exceed $319,000 annually.	$ 3,092,482
Non-revolving credit facility of $6 million due from Juaza, Inc. Interest is collectible monthly on the last day of each month at an interest rate of 250 basis points over prime rate. The credit facility was due on June 30, 2010, and is collateralized by a parcel of land located in Luquillo, Puerto Rico owned by Juaza, Inc., the Trust of Public Land, all personal property of Juaza, Inc., and the personal guarantee of Juaza, Inc.'s stockholders.	10,315,663

Continues . . .

Description	Amount
Continued . . .	
Interim non-revolving loan of $7.5 million to cover certain predevelopment expenses in connection with the construction of a hotel composed of 299 guest rooms and related parking facilities and amenities on a portion of a parcel of land known as Parcel H-2 at the Coco Beach Resort in Rio Grande, Puerto Rico, which hotel is expected to be denominated the JW Marriot and Stellairs Casino at Coco Beach at a fixed annual interest rate of 8%. Interest shall be payable quarterly in arrears on the first day of January, April, July and October of each year. Unpaid interest shall be calculated on a quarterly compounded basis.	8,989,879
Non-revolving loan of $500,000 due from WC Owner, LLC at a fixed rate of 8% per annum compounded on an annual basis payable in arrears on the first day of January, April, July, and October of each year during the term hereto and on the due date. This loan is due on December 31, 2016.	480,865
Non-revolving credit facility of $5 million due from Ashford 1369 Hospitality, LLC to fund the acquisition, reconstruction renovation, and refurbishing of a preexisting hotel. The noncurrent-subordinated loan's interest rate on the unpaid principal amount will be 90-days LIBOR rate plus 6% maturing eighteen (18) months after the date of the closing. The credit facility may be converted to a permanent loan that will mature five (5) years after its closing. As discussed in Note 19, Ashford 1369 Hospitality, LLC offered to HDC an early pay-off offer, which was accepted and subsequently collected in August 2019.	5,544,538
Non-revolving credit facility of $4 million due from Verde, LLC to cover certain costs and expenses related to the construction and development of ESJ Verde Hotel convertible to a term loan. The subordinated loan's interest rate on the unpaid principal amount will be 90 days LIBOR rate plus 6% per annum that shall be payable in monthly installments until maturity date. The loan is due on July 31, 2019.	4,805,144
Other	243,550
	33,472,121
Less: Allowance for losses on loans receivable	(27,854,110)
Total Business-type loan receivables, net	$ 5,618,011

As of June 30, 2019, nonperforming loans amounted to approximately $27.8 million. Interest income that would have been recorded during the fiscal year ended June 30, 2019, if these loans had performed in accordance with their original terms would have been approximately $831,000.

In 2009, HDC sold the surface rights on certain properties for $9.7 million. HDC provided 100% seller financing through the issuance of two mortgage notes, which bore no interest. These notes were subordinated to a construction loan in the amount of $165 million with the Puerto Rico Tourism Development Fund (TDF), a component unit of the GDB, and to an additional $25 million development loan (the Loans). During 2014, TDF and the HDC entered into a series of transactions with a third-party developer (the Developer) that resulted in the settlement, discharge, and release of the Loans pursuant to a settlement agreement dated March 10, 2014 (the Settlement Agreement) in exchange for the completion of the construction of the Condado Vanderbilt Hotel and the Vanderbilt Hotel Towers (the Vanderbilt Hotels). On March 10, 2014, HDC issued an administrative order authorizing the imposition of a temporary 2% charge on the guest stays at the Vanderbilt Hotels as a sole source of repayment of the outstanding $9.7 million surface rights debt. During the fiscal year ended June 30, 2019, HDC received approximately $702,000 from Vanderbilt Hotels.

These transactions were accounted for under the cost recovery method. Therefore, no profit is recognized until cash payments by the buyer, including principal and interest on debt due to the seller and on existing debt assumed by the buyer, exceed the seller's cost of the property sold. The receivable less profits not recognized, if any, does not exceed what the depreciated property value would have been if the property had not been sold.

On December 30, 2015, HDC provided a subordinated credit facility to Ashford 1369 Hospitality, LLC for $5,000,000 to fund the acquisition, reconstruction, renovation, and refurbishing of a preexisting hotel. The subordinated loan's interest rate on the unpaid principal amount will be 90-day LIBOR plus 6% maturing eighteen (18) months after closing, paid in monthly installments, with a balloon payment on maturity date. As of June 30, 2019, HDC recognized approximately $477,000 of interest from this subordinated credit facility. This line of credit may be converted to a permanent loan that will mature five years after its closing.

On December 23, 2016, HDC entered into an agreement with Verde, LLC, in which El Verde requested HDC a non-revolving credit facility in a principal amount not to exceed $4,000,000 to cover certain costs and expenses related to the construction and development of the ESJ Verde Hotel. The subordinated loan's interest rate on the unpaid principal amount will be 90-days LIBOR rate plus 6% per annum that shall be payable in monthly installments until maturity date. The loan is due on July 31, 2019. During the year ended June 30, 2018, it was determined, that this note is impaired since it is probable that HDC will not be able to collect all amounts in accordance with the contractual terms of the loan agreement.

The summary of the activity in the allowance for loan losses for the fiscal year ended June 30, 2019, is as follows:

Description	Amount
Balance – beginning of year	$ 27,023,167
Plus: Provision for loan losses	830,943
Balance – end of year	$ 27,854,110

7) Investment in Tourism Projects

As of June 30, 2019, investment in tourism projects consist of the following:

Tourism Projects	Carrying Amount
DBR Dorado Owner LLC (DBR)	$ 15,000,000
Vieques Hotel Partners (VHP)	8,336,859
Bahía Beach CH Development, LLC ("St. Regist Hotel at Bahía Beach Resort and Golf Club" or "Bahía Beach")	13,856,667
CCHPR Holding, LLC ("Sheraton Puerto Rico Convention Center Headquarters Hotel" or "CCHPR")	18,101,417
Old San Juan Associates L.P., S.E. ("Old San Juan")	253,574
WC Manager LLC (WC)	1,015,861
Flagship Resorts Properties, S.E.("Flagship")	4,155,483
Resort at Cayo Largo, LLC	15,000,000
	75,719,861
Less: Allowance for losses on investment in tourism projects	(75,719,861)
	$ -

DBR Dorado Owner, LLC

In July 2009, HDC entered into a loan agreement with DBR Dorado Owner, LLC (DBR) for a non-revolving term loan with a principal amount not to exceed $7.5 million. The loan was used to cover certain predevelopment costs related to Phase I of the Luxury Hotel Project. The loan bore interest at 8% per annum and had a maturity date of July 29, 2010. In conjunction with the closing of the note purchase and credit agreement on July 14, 2010, the outstanding balance on the loan of $7.5 million was converted into a Class A preferred equity investment in DBR and HDC contributed an additional $7.5 million for a total preferred equity investment in DBR of $15 million.

HDC's participation in the allocation of net profits will be based on the contractually determined current and accumulated return of investment, provided that no losses will be allocated to HDC. As a Class A preferred investor, HDC will be entitled based on its outstanding net invested capital from time to time payable in cash, except as indicated:

- From July 1, 2013 to June 30, 2014, 9% per annum
- From July 1, 2014 to June 30, 2015, 10% per annum
- From July 1, 2015 to June 30, 2017, 11% per annum
- From July 1, 2016 to June 30, 2018, 13% per annum
- From July 1, 2018 to June 30, 2020, 15% per annum
- From July 1, 2020 until the Class A redemption date, 18% per annum

Dorado Member LLC, as managing member, shall decide when to redeem HDC as the Class A member provided, however, that on the 10th anniversary of the closing date, if the Class A member has not been paid, (i) the Class A member shall receive all distributions of available cash flows as a priority before any other distribution is made until such member has been paid in full and (ii) DBR shall not pay any fees under the development management agreement, the asset management agreement, or under any other service agreement with affiliates of DBR and/or of the parent related to the luxury hotel until the Class A member is paid in full.

At any time after the 10th anniversary of the closing date, the Class A member shall have the right to demand payment in full of the Class A redemption price (the Put Option), which it shall do by giving notice to DBR of the date when such Put Option must be satisfied by DBR, which shall be no sooner than 30 days after the effective date of the notice. This investment has no carrying value since it was considered other-than-temporarily impaired.

On November 12, 2014, the Corporation and DBR Hotel Owner LLC, which manages Ritz Carlton Reserve Hotel (DBR) entered into an agreement in which, commencing February 1, 2015, DBR agrees to pay a fee equal to one percent (1%) of the room occupancy rate paid by overnight guests. DBR shall pay the fee until the amount reaches $7,500,000. During the year ended June 30, 2019, the Corporation received approximately $262,000 from DBR.

Vieques Hotel Partners

On June 3, 2011, HDC entered in an agreement with Vieques Hotel Partners to make capital contributions of $8.5 million to cover the W Retreat & Spa (the W) projected capital needs. This investment served to stabilize the W's operations as the plan was developed and implemented. HDC will be entitled to an investment fee equal to 1% of the approved investment limit, equivalent to $85,000.

HDC shall submit to the managing partner at least 10 days prior to each calendar year quarter a statement on the term under which its costs of funds will be calculated during such calendar year quarter. However, HDC's investment policy states that the investment must have an annual return equivalent to the following at the prime rate or whichever is higher: from the closing date to June 2, 2015, 4%; from June 3, 2015 to June 2, 2016, 5%; from June 3, 2016 to June 2, 2017, 6%; from June 3, 2017 to June 2, 2018, 7%; from June 3, 2018 to June 2, 2019, 8%; and from June 3, 2019 to June 2, 2020, 9% and from June 2020 and thereafter, 10% until full redemption of capital contributed.

Unpaid minimum return will be added to HDC's net invested capital and the HDC minimum return shall continue to be compounded annually under this new basis. The managing partner shall decide when to redeem HDC at the redemption price, provided however, that on the 10th anniversary of the effective date, HDC has not been paid the redemption price, the partnership shall distribute all available cash flow to HDC and shall not pay any fees under the deed related to the hotel with an affiliate of the partnership, until HDC has been paid the HDC redemption price in full. No losses will be allocated to HDC. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

Bahía Beach

Bahía Beach is a Puerto Rico limited liability company that develops, owns, and operates the St. Regis Hotel at Bahía Beach Resort & Golf Club in the Municipality of Rio Grande, Puerto Rico. On June 6, 2008, HDC approved an investment of $12 million, not to exceed 10% of the total project cost. The agreement with Bahía Beach establishes that HDC is a Class A preferred investor and as such will have no obligation to make any other capital contribution other than its initial capital contribution. HDC shall not have any obligation to provide any guarantee, undertaking, or credit enhancement with respect to any project debt. HDC's participation in the allocation of net profits or losses will be in proportion to the relative amount allocable to each investor, except that all losses incurred prior to opening date will be allocated only to the developer investor and not HDC. The investment yield shall equal 5% during the construction phase and shall increase to 9.5% during the operational phase. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

CCHPR Holding LLC

The investment consists of a 41% limited liability partnership interest in a Puerto Rico limited liability company, known as CCHPR, which was engaged in the construction of the Sheraton Puerto Rico Convention Center Hotel. On July 12, 2006, pursuant to the agreement between CCHPR and HDC, HDC paid an initial capital contribution of $14.5 million to acquire all outstanding Class A preferred shares. CCHPR Hospitality LLC agreed to pay HDC a one-time fee equal to 1% of the capital contributed, payable on the Class A redemption date, and an annual fee equal to 0.36% of net investment capital outstanding commencing a year after closing date until the Class A redemption date. These fees are accumulated and payable upon full redemption of the capital contributed by HDC.

HDC participation in the allocation of net profits or losses will be in proportion to the relative amount allocable to each investor, except for allocation of losses prior to the opening date of the hotel. In the event that allocation of losses causes HDC to have an adjusted capital account deficit, then the amount of such loss shall be allocated instead to another member. As a Class A, preferred investor, the return on HDC's investment is as follows: 5% annually from August 28, 2006 to August 27, 2009; 10% annually from August 28, 2009 to August 27, 2010; 11% annually from August 28, 2010 to August 27, 2011; 12% annually from August 28, 2011 to August 27, 2012; 13% annually from August 28, 2012 to August 27, 2013; and 14% annually from August 28, 2013 to Class A redemption date on which such preferred interest is redeemed in full. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

Old San Juan Associates L.P., S.E.

The investment consists of a 28.47% limited partnership interest. Pursuant to the partnership agreement between Old San Juan Associates L.P., S.E. and HDC, HDC made an initial capital contribution of $3.3 million to the partnership. The partnership agreement established that if at any time additional funds, in excess of the amounts invested, are required by Old San Juan to pay for shortfalls, the general partner may request additional contributions in an amount sufficient to cover such shortfalls. HDC participates in the allocation of the net profit and net losses in proportion to the relative amounts allocable to each investor in the investment account. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

San Juan Water Club

On September 18, 2009, HDC entered into a limited liability company agreement for the project known as San Juan Water Club. HDC is the Class A preferred interest owner and WC is the Class B interest owner. HDC made a capital contribution for its Class A preferred interest of $1 million and WC made a capital contribution for its Class B interest of $1.2 million. Any one of the members may determine in its sole discretion from time to time whether the Agreement needs capital over and above the original capital contributed and to be contributed.

Except to the extent of distributions made pursuant to the Agreement, no member shall be entitled to the withdrawal or return of its capital contributions, nor may any member withdraw from this agreement or otherwise have any right to demand or receive the return of its capital contribution. HDC will be entitled to an investment fee equal to 1% of its initial capital contribution, which fee shall be payable on the closing date from amounts received from WC owner. Subject to the terms of any project debt, the manager shall cause WC to make cash distributions of operational cash flow to the member quarterly following the closing date (except during 2009 when one distribution would be made at the end of the year and 2010 when they would be made twice a year).

The return of HDC as Class A preferred interest owner is equal to a non-compounding cumulative return, computed based on its outstanding net invested capital from time to time, subject to the date on which the contribution is disbursed pursuant to the funding commitment, in accordance with the following schedule, payable in cash within 15 days after the end of each quarter, except as indicated:

- From the closing date to June 30, 2011, 10% per annum
- From July 1, 2011 to June 30, 2012, 11% per annum
- From July 1, 2012 to June 30, 2015, 12% per annum (payment of 3% of the 12% may be deferred until the Class A redemption date)
- From July 1, 2013 to June 30, 2015, 13% per annum (payment of 4% of the 13% may be deferred until the Class A redemption date)
- From July 1, 2014 until the Class A redemption date, 13% per annum (payment of 4% of the 13% may be deferred until the Class A redemption date)
- No losses should be allocated to HDC.

This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

Flagship

During the year ended June 30, 2004, HDC invested $2.2 million in Flagship in exchange for a partnership interest in the Holiday Inn Project, also known as the Carib Inn Hotel. HDC's investment included the proceeds from the sale of investment tax credits amounting to $666,000. This investment consists of a preferred partnership interest that does not provide a participating interest in the partnership as a general partner, and therefore, HDC does not participate in the earnings or losses of the partnership.

Flagship may redeem HDC's investment on or before the sixth anniversary of the investment date at a redemption price equal to the product of the initial capital contribution multiplied by the rate applicable to the year when the redemption occurs as stated in the partnership agreement, plus accrued unpaid interest. Accrued interest is paid at an interest rate determined yearly ranging from 6% to the highest of 19% or 2% over prime rate. If HDC's partnership interest is not redeemed upon the expiration of the sixth anniversary of the investment date, the redemption price shall be due and payable to HDC immediately in full.

During September 2009, HDC approved an extension to the preferred partner redemption return date from September 30, 2009 to July 31, 2011. On September 8, 2010, deed number four was signed, Deed of First Amendment to Amended and Restated Deed of Special Partnership Agreement. This amendment also approves a reduction in the interest rate applicable to the year when the preferred partner redemptions occur. Accrued interest is paid at an interest rate determined yearly ranging from 6% to the highest of 15% until the fifth anniversary, and 8% during the year after the sixth anniversary of the closing date or any anniversary thereafter, or 2% over prime rate.

On December 20, 2011, HDC approved an additional investment of $1 million in Flagship's preferred partnership interest. The investment served the following purposes: (a) complete the refurbishing and rehabilitation of the hotel; (b) retire certain operating debts of vendors and suppliers that have accumulated over the last year; and (c) for any other uses acceptable to HDC. The preferred partnership interest shall be redeemed at the earlier of (1) July 31, 2014 or (2) immediately after Scotiabank de Puerto Rico and Puerto Rico Tourism Development Fund authorize the partnership to make distributions of cash flow or net proceeds.

Notwithstanding the foregoing, at a minimum, the partnership must pay to HDC, on a monthly basis, an amount equivalent to HDC's cost of funds, with 100% of the amounts received by HDC as a return on the investment. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

Resort at Cayo Largo, LLC

On December 21, 2016, HDC, entered in to a limited liability company agreement for the development and construction of Resort Cayo Largo, LLC (Cayo Largo). HDC made a cash distribution of approximately $15 million in exchange for its admission to Cayo Largo's as Class D Member.

As established in the agreement, HDC shall be entitled to the following fees:

- An investment fee equal to one percent (1%) of the cash contribution made by HDC. The investment fee of $150,000 was deducted from the cash distribution made by HDC during the fiscal year ended June 30, 2018
- An annual service fee equal to one half of one percent (.50%) of HDC's net invested capital, which fee shall be due and payable in arrears on each anniversary of the agreement date
- An amount equal to one percent (1%) of the amount paid by guests as their room occupancy rate (excluding other fees and taxes) for stays in a guest room at Resort Cayo Largo, LLC

During the year ended June 30, 2018, it was determined that this investment is impaired, since management has not been able to evaluate the financial position and results of operations of the investee.

The ultimate construction of new tourism projects represents to HDC additional revenue sources from the room tax assessed on the new hotel rooms. Additionally, on those new tourism projects having casino operations, HDC also has the ability to generate additional revenues from its slot machine operation.

The investment in tourism projects generated room tax and slot machine related revenues during the year ended June 30, 2019, is as follows:

Tourism Project	Room Tax	Slot Machines	Total
DBR Dorado Owner LLC (DBR)	$ 2,492,186	$ -	$ 2,492,186
Bahia Beach CH Development, LLC (St. Regis Hotel at Bahía Beach Resort and Golf Club or Bahia Beach)	954,502	-	954,502
Condado Palm Investors, LLC (Condado Palm)	830,177	-	830,177
CCHPR Holding, LLC (CCHPR)	2,938,929	2,859,261	5,798,190
Old San Juan Associates LP, SE (Old San Juan	1,208,584	3,006,543	4,215,127
WC Manager LLC (WC)	381,610	-	381,610
Flagship Resorts Properties, SE (Flagship)	348,153	-	348,153
District Hotel Company, LLC (DHC)	667,886	-	667,886
	$ 9,822,027	$ 5,865,804	$ 15,687,831

8) Interfund Balances and Transfers

The Company has the practice of pooling its cash for all governmental funds and the slot machines enterprise fund. The resulting cash balance is presented as part of the general fund. The summary of interfund balances as of June 30, 2019, between governmental funds and proprietary funds is as follows:

Interfund receivable	Interfund payable	Purpose	Amount
Propietary fund – Slot Machines Operations	Governmental fund – General fund	Balance in cash pool	$ 20,189,159
Governmental fund – General fund	Propietary fund – HDC	Balance in cash pool	$ 25,065,663
Governmental fund – General fund	Propietary fund –– MTC	Balance in cash pool	$ 400

Termination of Operations of the Slot Machines of the Airport Fund

On May 15, 2019, the Board of Directors of the Company approved to write-off the debt due by Slot Machines Airport Fund amounting to $1,590,755 to the General Fund of the Company. On November 22, 2017, Resolution No. 18-005 was approved to terminate the operations of the Slot Machines Airport Fund. The decision was taken since the fund is not self-sustaining.

9) Distributions from Slot Machines Operations

Pursuant to Act No. 24 approved on June 26, 1997, the percentage of distributions of slot machine operations for fiscal years commencing after 2001 is computed as follows**:**

Description	Casino Concessionaries	Governmental Entities
Base Income	34%	66%
Excess over base income	60%	40%

The governmental entities' participation in the operating income is as follows:

Description	Percentage
Commonwealth	15.15%
University of Puerto Rico	45.45%
General fund	39.40%

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10) Capital Assets

Capital assets activity for the year ended June 30, 2019, is as follows:

Description	Beginning Balance	Additions/ Reclassifications	Reductions/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets – not being depreciated:				
Land	$ 3,035,000	$ -	$ -	$ 3,035,000
Works of art	2,018,320	-	-	2,018,320
Total capital assets – not being depreciated	5,053,320	-	-	5,053,320
Capital assets – being depreciated:				
Infrastructure	19,528,062	-	-	19,528,062
Buildings and improvements	9,737,814	-	-	9,737,814
Leasehold improvements	658,621	-	-	658,621
Furniture and equipment	4,017,454	370,287	(24,241)	4,363,500
Vehicles	230,207	16,700	(21,914)	224,993
Total capital assets – being depreciated	34,172,158	386,987	(46,155)	34,512,990
Less accumulated depreciation:				
Infrastructure	(5,203,526)	(193,895)	-	(5,397,421)
Buildings and improvements	(8,428,381)	(343,275)	-	(8,771,656)
Leasehold improvements	(565,426)	(45,169)	-	(610,595)
Furniture and equipment	(3,332,388)	(279,447)	22,771	(3,589,064)
Vehicles	(210,636)	(11,085)	21,914	(199,807)
Total accumulated depreciation	(17,740,357)	(872,871)	44,685	(18,568,543)
Total capital assets – being depreciated, net	16,431,801	(485,884)	(1,470)	15,944,447
Governmental activities capital – assets, net	$ 21,485,121	$ (485,884)	$ (1,470)	$ 20,997,767

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Business Type Activities:

Description	Beginning Balance	Additions/ Reclassifications	Reductions/ Reclassifications	Ending Balance
Furniture and equipment being depreciated	$ 1,014,153	$ 11,868	$ (131,903)	$ 894,118
Less accumulated depreciation and amortization	(1,003,703)	(9,377)	131,903	(881,177)
Total Business-type activities capital – assets, net	$ 10,450	$ 2,491	$ -	$ 12,941

During the year ended June 30, 2019, current depreciation expense was charged to functions of the Company, as follows:

Description	Amount
Governmental activities	
General government	$ 872,871

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11) Long-Term Obligations

A summary of long-term obligations for the year ended June 30, 2019, is as follows:

Description	Beginning Balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Accrued compensated absences	$ 1,266,511	$ 65,733	$ (426,675)	$ 905,569	$ 451,276
Termination benefits	4,540,882	-	(612,983)	3,927,899	612,985
Obligations under capital leases	500,761	-	(179,577)	321,184	179,576
Legal claims	50,000	-	-	50,000	-
Nonexchange financial guarantee liability	1,000,000	-	-	1,000,000	-
Total pension liability	128,409,110	-	(23,051,507)	105,357,603	5,512,452
Total other postemployment benefits liability	2,392,386	-	(194,137)	2,198,249	183,715
Total – Governmental Activities	$ 138,159,650	$ 65,733	$ (24,464,879)	$ 113,760,504	$ 6,940,004
Business-type activities:					
Accrued compensated absences	$ 891,124	$ 37,222	$ (128,245)	$ 800,101	$ 289,582
Long-term notes payable	44,483,807	-	-	44,483,807	-
Add premiums on notes refunding	698,629	57,915	-	756,544	-
Total – Business-type Activities	$ 46,073,560	$ 95,137	$ (128,245)	$ 46,040,452	$ 289,582

Governmental Activities:

On March 8, 2016, the Company entered into a capital lease agreement for the use of thirty-eight (38) photo copy machines for approximately $983,000 payable in equal installments of approximately $15,000 through May 31, 2021.

As of June 30, 2019, the minimum future leases payments due under the capital lease agreements, are as follows:

Year Ending June 30,	Amount
2020	$ 179,576
2021	141,609
	$ 321,185

For information on early retirement programs and legal claims refer to Notes 12 and 17, respectively.

Business Type Activities:

Notes payable (the Notes) due by HDC were originally composed of two loans granted by GDB, but pursuant to Act No. 164 of December 17, 2001 (Act No. 164), PFC acquired and restructured the Notes through the issuance of its Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements where PFC pledged the Notes, along with other notes under Act No. 164, to certain trustees, and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay the notes) for the benefit of the bondholders.

In June 2004, PFC refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164. HDC recognized a mirror effect of this refunding by PFC in its own Notes in proportion to the portion of the HDC's Notes included in the PFC refunding. The aggregate debt service requirements of the refunding and unrefunded notes will be funded with annual appropriations from the Commonwealth.

During the fiscal year ended June 30, 2012, PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds and refunded a portion of certain of its Commonwealth appropriation bonds issued in 2004 under Act No. 164. HDC recognized a mirror effect of this current refunding by PFC in its own notes payable in proportion to the portion of the HDC's Notes included in the PFC debt refunding. As a result of the PFC debt refunding, HDC recognized a deferred loss on defeasance, bond issuance costs, and a premium on the Notes of approximately $1.9 million, $453,000, and $911,000, respectively. The aggregate debt service requirements of the refunded notes in excess of the advances already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

In December 2011, the Puerto Rico Sales Tax Financing Corporation (known as "COFINA" by its Spanish acronym), issued bonds and a portion of the proceeds from this bond issuance were used to cancel certain appropriation bonds of the Commonwealth and its agencies, departments, and certain component units, including approximately $21.7 million of the Notes.

The Notes' outstanding balance as of June 30, 2019 was $45.2 million and matures throughout August 1, 2031. Interest on the unpaid principal amount of the Notes is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164.

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The annual debt service requirements to maturity, including principal and interest, for notes payable as of June 30, 2019, are as follows:

Description	Principal	Interest	Total
Year ending June 30, 2020 and in arrears	$ 5,796,274	$ 11,850,662	$ 17,646,937
2021	1,234,751	2,227,727	3,462,478
2022	1,288,522	2,169,918	3,458,440
2023	1,347,165	2,106,822	3,453,987
2024	400,793	2,079,123	2,479,916
2025-2029	26,127,121	8,047,462	34,174,583
2030-2031	8,289,182	462,180	8,751,361
	44,483,808	$ 28,943,894	$ 73,427,702
Plus premium on notes refunding	756,543		
	$ 45,240,351		

The aggregate debt service requirements of the refunding notes and the excess of advances already made to the bond trustee were required to be funded with annual appropriations from the Commonwealth. As explained in Note 3, the Legislature did not appropriate the necessary funds for the payment of the notes payable that were due on August 1, 2015 to Puerto Rico Public Finance Corporation (the PFC Bonds) that are reflected as part of the Company's business-type activities related to HDC. Such appropriations are the sole source of payment of principal and interest on the PFC Bonds by the HDC. Further, on June 30, 2016, the Governor signed Executive Order EO 2016-30 that suspends any obligations of the Legislature to appropriate funds for the payment of PFC Bonds. As such, PFC was also unable to pay in full a debt service payment due on July 1, 2016. For fiscal years 2017, 2018, and 2019, no amounts were included in the Commonwealth General Fund budget for the payment of any debt, including PFC Bonds.

12) Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirements or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Company. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 19 years of credited service in the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) and will consist of bi-weekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Prior to July 1, 2017, the Company made employer contributions to ERS and paid the corresponding pension until the employee complied with the requirements of age and 30 years of credited service in the retirement system.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the retirement system or who have at least 30 years of credited service in the retirement system and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from a one-month to six-month salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the retirement system and the age for retirement or have the age for retirement, the Company made employee and the employer contributions to the retirement system for a five-year period until July 1, 2017, since were eliminated with Act No. 106-2017. Additionally, eligible employees that choose to participate in the early retirement benefit program or choose the economic incentive and have less than 15 years of credited service in the retirement system are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Company.

As of June 30, 2019, unpaid benefits on this program were discounted at the corresponding rate between 2% and 2.50%. The present value of future incentive payments reported as a liability amounted to approximately $2.2 million.

From the total aggregate liability of the program as of June 30, 2019, the amount of approximately $330,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $1.9 million. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position (deficit).

On December 8, 2015, Act No. 211-2015 was approved to create a voluntary retirement program. The Act establishes that employees who have been working for the Commonwealth of Puerto Rico and enrolled in the Retirement System before April 1, 1990 with at least 20 years of service may be eligible to participate in the program. Those who participate in the program would receive a compensation equal to sixty percent (60%) of employee's average compensation as of December 31, 2015; the payment of unused vacation and sick leave; the payment of employer contributions on account of Social Security and Medicare; and the payment of participant's healthcare plan during the first two years of the program. This program also provided for the employer to continue making both individual and employee contributions to ERS until July 1, 2017. These contributions were eliminated as established by Act No. 106-2017.

As of June 30, 2019, unpaid benefits on this program were discounted for employees at the corresponding rate between 2% and 2.50%. The Act No. 2011-2015 stipulate that the review and approval of Puerto Rico Office Management and Budget (PROMB) is required before implementation. On August 1, 2017, PROMB approved the program for the Company.

As of June 30, 2019, the present value of future incentive payments reported as a liability amounted to approximately $1.7 million. From the total aggregate liability of the program as of June 30, 2019, the amount of approximately $283,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $1.4 million. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

13) Pension and Plan Description

ERS is a trust created by the Legislature under Act No. 447 of May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Authority) and municipalities. Effective July 1, 2017, Act No. 106 of August 23, 2017 (Act No. 106-2017) implemented a substantial pension reform for all of the Commonwealth's retirement systems, including ERS. This reform modified most of ERS's activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers. Total employee contributions for the PayGo system during the year ended June 30, 2019 were approximately $5.5 million.

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by ERS, including the Authority. Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers (including the Authority). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including the Authority) are required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS's prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017.

The benefits provided to members of ERS are established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017.

Certain benefit provisions are different for the three groups of members who entered ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (the System 2000 Program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Before July 1, 2017, the assets of the Defined benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by private third party.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. All eligibility requirements and benefit amounts were determined in strict accordance with the plan document itself.

Service Retirement Eligibility Requirements

(1) *Eligibility for Act No. 447 Members* – Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 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 with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

(2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, or (2) attainment of age 65 with 10 years of credited service.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service.

(3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

Retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by the Plan. The annuity, for which a plan member was eligible, was limited to a minimum of $500 per month and a maximum of 75% of the average compensation.

Refer to the standalone financial statements of the Plan for further information on additional benefits.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2019, the Company reported a liability of approximately $105 million for its proportionate share of the total pension liability.

The June 30, 2019, total pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date of June 30, 2018. The Company's proportion of the total pension liability was based on the ratio of the Company's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. As of June 30, 2018, the Company's proportionate share was 0.43022%.

Actuarial Assumptions and Methods

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2018 actuarial valuation were as follows:

a) *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-2018 from the 2006 base year and projected forward using MP-2018 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 adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a 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 127.

b) *Post-retirement Healthy Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the 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-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

c) *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the 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-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2018

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% 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.

Sensitivity of the Company's proportionate share of net pension liability to change in the discount rate.

The following table presents the Company's proportionate share of the total pension liability for the Plan calculated using the discount rate of 3.87% as well what the Company's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Description	At 1% decrease (2.87%)	At current discount rate (3.87%)	At 1% increase (4.87%)
Total pension liability	$ 119,890,170	$ 105,357,603	$ 93,566,523

For the year ended June 30, 2019, the Company recognized a recovery on pension expense of $7,426,513, due to the GASB Statement No. 73 implementation and other actuarial changes. As of June 30, 2018, the reported deferred outflows of resources and deferred inflows of resources related to pensions are related to the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,186,557
Changes of assumptions	-	3,454,898
Changes in proportion	124,809	-
Benefits paid subsequent to measurement date	5,512,452	-
	$ 5,637,261	$ 6,641,455

Deferred outflows of resources related to pension benefit payments made by the Company subsequent to the measurement date that amounted to approximately $5.5 million, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2019.

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2018 will be recognized in the pension expense (benefit) as follows:

Year ending June 30,	Amount
2019	$ (1,328,306)
2020	(1,328,306)
2021	(1,328,306)
2022	(1,328,306)
2023	(1,328,306)
	$ (6,641,530)

The previous amounts do not include Company's specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) over the average of the expected remaining service lives of all plan members, which is 6 years for 2018.

Additional information on the Plan is provided on its standalone financial statements for the year ended June 30, 2018, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

14) Other Postemployment Benefit Plan (OPEB Plan)

In addition to the pension benefits described in Note 13, the Company participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the OPEB Plan), through the ERS MIPC, in accordance with local law. The OPEB Plan is an unfunded defined benefit other postemployment healthcare benefit plan administered on a pay-as-you-go basis. 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 Postemployment Benefits Other Than Pensions (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB Plan.

The OPEB Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Opeb Plan members that retired after June 30, 2013.

Total OPEB Liability and Actuarial Assumptions and Methods:

The total OPEB liability was $2,198,249 as of June 30, 2018. The total OPEB liability as of June 30, 2018 was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018 (measurement date as of June 30, 2018). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period. As of June 30, 2019, the Company's proportionate share was 0.26103%, which resulted in an increase of 0.00113% from its proportionate as of June 30, 2018 (using the measurement date as of June 30, 2017). The Company recognized a recovery on OPEB expense for $195,270 during the year ended June 30, 2019.

Discount Rate

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

a) *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-2018 from the 2006 base year and projected forward using MP-2018 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 adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a 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 127.

b) *Post-retirement Healthy Mortality* — Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the 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-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

c) *Post-retirement Disabled Mortality* —Rates which vary by gender are assumed for disabled retirees based on a study of the 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-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of the Company's Proportionate Share of Total OPEB Liability to Change in the Discount Rate

The following table presents the Company's proportionate share of the total OPEB liability for ERS MIPC at June 30, 2018 calculated using the current discount rate of 3.87% as well what the Company's proportionate share of the Plan's total OPEB liability if it were calculated using a discount rate of one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

Description	At 1% decrease (2.87%)	At current discount rate (3.87%)	At 1% Increase (4.87%)
OPEB liability	$ 2,411,049	$ 2,198,249	$ 2,017,601

Deferred Outflows of Resources

The deferred outflows of resources related to OPEB Plan resulting from the Company's contributions subsequent to measurement date amounting to $183,715 at June 30, 2019 will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2018. 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 year.

As of June 30, 2018, the Office reported deferred outflows of resources and deferred inflows of resources from the following sources related to OPEB Plan:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Changes in proportion	-	-
Benefits paid subsequent to measurement date	183,715	-
	$ 183,715	$ -

Additional information on OPEB Plan is provided in Commonwealth's basic financial statements for the year ended June 30, 2018, a copy of which can be obtained from the Department of Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902.

Other Postemployment Benefits

The Company provides to certain employees covered under a collective bargaining agreement, a postemployment benefit that includes six months of medical insurance after voluntary termination under an early retirement termination plan. Information and related accruals required under GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, has not been included in the accompanying financial statements since the required information is not readily available. Management asserts that additional disclosures and the effect on the financial statements are not considered significant, considering the limited number of employees that are covered under this collective bargaining agreement.

15) Related-Party Transactions

Governmental Activities

Puerto Rico Convention Center District Authority

As of June 30, 2019, the amounts due to the Puerto Rico Convention Center District Authority (PRCCDA) were approximately $4.3 million of distributions of room tax to cover operating costs and deficits of the PRCCDA. In addition, a total of approximately $79 million is due to PRCCDA from distributions of room tax to cover the PRCCDA's debt service repayment. For additional information refer to Note 16.

Corporación para la Promoción de Puerto Rico como Destino, Inc.

On February 28, 2018, the Corporación para la Promoción de Puerto Rico como Destino, Inc. (the Organization), which is a Destination Marketing Organization (DMO), and a component unit of the Commonwealth, and the Company entered into an Agreement for Destination Marketing Services Agreement (the DMS Agreement), whereby the Organization assumed the Company's current function of marketing the island to non-residents as a visitor destination. It establishes the obligations of the Organization and the Company in accordance with the requirements imposed by Act No. 17 of 2017. Among the provisions covered by the DMS Agreement are the following: (i) mutual obligations, (ii) annual business and marketing plan, (iii) reporting and accounting, (iv) funding, and (v) key performance indicators. It ha an initial term of ten (10) years.

During the year ended June 30, 2018, the Company contributed $25 million in accordance with the provisions of Act No. 17 of 2017.

Commonwealth of Puerto Rico

As of June 30, 2019, the amount due to Commonwealth for approximately $624,000 are related to distributions as per Act No. 66 - 2014 (also known as Fiscal Operation and Sustainability Act).

Business-Type Activities

As of June 30, 2019, no advances were made to the bond trustee from the proceeds of the notes refunded to cover future debt service requirements of the refunded notes (see Note 11). In addition, as of June 30, 2019, there are unremitted distributions of slot machines operations to the Commonwealth of Puerto Rico and the University of Puerto Rico for approximately $2.1 million and $5.8 million, respectively. No amounts were due to the Commonwealth related to distributions as per Act No. 66 (also known as Fiscal Operation and Sustainability Act).

During the year ended June 30, 2019, the Company contributed approximately $22.1 million and $66.5 million to the Commonwealth and the University of Puerto Rico, respectively, related to slot machine distributions.

16) Hotel Room Tax

Act No. 272 of September 9, 2003, approved the transfer of the imposition and collection of hotel room taxes pursuant to Sections 2051 and 2084 of the 1994 Puerto Rico Internal Revenue Code, and the related responsibilities of administering, supervising, and regulating such tax imposition and collection from the Puerto Rico Treasury Department to the Company. Act No. 272, as amended by Act No. 23 of March 12, 2008, imposes a general tax of 9% based on the proceeds received from room charges on hostelries and an 11% tax for those operating casinos. However, special treatment is given to hostelries falling into the following categories:

- Motels (tax of 9% if the daily rate exceeds $5)
- "Paradores," all-inclusive and short-term rentals (tax of 7%)
- Recreation facilities operated by the Commonwealth, except for those operated by Puerto Rico National Parks Company (tax of 5%)

Act No. 272 also redefined the formula for the distribution of hotel room tax in the following manner beginning in fiscal year 2004: The necessary amounts determined and certified by GDB before the beginning of each fiscal year to the Company and PRCCDA to cover the principal and interest payment of PRCCDA's debt with GDB or any other related debt applicable to the development and construction of the Puerto Rico Convention Center, would be deposited in a special account to be held by GDB in the name of PRCCDA.

On March 23, 2006, PRCCDA refinanced its then existing debt with GDB for the development and construction of the Puerto Rico Convention Center and surrounding district through a $482.6 million bond issuance.

The excess over the necessary amounts determined to cover the debt service referred to above shall be distributed in the following priority orders:

- Two percent of the total proceeds will be assigned to the general fund of the Company to cover the operating and distribution costs of implementing the new law, or for any other use established by the Company.

- Beginning in fiscal year ended June 30, 2016, a five percent of the proceeds will be assigned to the general fund of the Company. In addition, a five percent of the proceeds will be transferred to the PRCCDA to cover costs associated exclusively with the operation of the Convention Center of Puerto Rico. If in any given year the audited financial statements of the Convention Center of Puerto Rico reflects a net income, a reimbursement should be made to the Company for the excess of net income over the amount transferred. This disposition is effective up to fiscal year ending June 30, 2021.

- Beginning in fiscal year ended June 30, 2016, the amount of $2.5 million will be transferred to the PRCCDA to cover for its operating costs. This disposition is effective up to fiscal year ending June 30, 2021.

- Up to $4 million of the proceeds will be maintained by the Company in a special reserve account to cover operating expenses associated with the DMS Agreement maintained with the DMO.

- Up to $25 million will be transferred to the Corporación para la Promoción de Puerto Rico como Destino, Inc. (the "DMO") for the promotion and marketing of the island to non-residents as a visitor destination in accordance with the DMS Agreement.

During the year ended June 30, 2019, hotel room taxes collected amounted to approximately $73.4 million.

Distributions for the year ended June 30, 2019, were as follows:

Description	Amount
Entity/Fund:	
PRCCDA – distribution to cover deficit	$ 2,127,772
PRCCDA – distribution to cover operating costs	2,500,000
Corporación para la Promoción de Puerto Rico como Destino, Inc. – distribution to cover start-up costs	25,000,000
General Fund of the Company	35,184,921
	$ 64,812,693

Hotel room taxes distributed to PRCCDA for approximately $4.6 million has been recorded as part of the general government expense/ expenditure function and distributions to the DMO for $25 million has been recorded as advertising and promotion expense/expenditure in the accompanying statement of activities and statement of changes in revenues, expenditures, and changes in fund balances – governmental funds.
On November 30, 2015, the Governor signed Executive Order No. 46 which ordered the Secretary of Treasury to retain certain available resources of the Commonwealth in light of revised revenue estimate's for fiscal year 2016 and the Commonwealth's deteriorating liquidity situation. In particular, Executive Order No. 46 directed the Company to transfer certain room tax revenues to the Commonwealth that were conditionally allocated to PRCCDA to pay debt service.

On April 6, 2016, the Commonwealth Enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including PRCCDA.

On January 29, 2017, the Commonwealth Enacted Act No. 5 known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (the Fiscal Responsibility Act). The Fiscal Responsibility Act authorized the Commonwealth to segregate funds that would eventually be used to fund the payment of public debt. The Fiscal Responsibility Act states that the Governor may pay debt service as long as the Commonwealth is able to continue to fund essential services, such as the health, safety, and well-being of the people of Puerto Rico, including providing for their education and assistance to residents. The law also declares the Commonwealth to be in a state of emergency and increased the Governor's powers to manage the Commonwealth's finances. The emergency period under the Fiscal Responsibility Act was initially set to expire on May 1, 2017 to coincide with the expiration of the Title IV stay under PROMESA, unless extended by an additional three months by executive order. On April 30, 2017, the Governor issued executive order OE-2017-031, which extended the Act No. 5-2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46-2017, which further extended the Act No. 5-2017 emergency period through December 31, 2017. Act No. 46-2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long as the Oversight Board remains established for Puerto Rico under PROMESA. As of the date of these basic financial statements, the emergency period has been extended until December 31, 2021 pursuant to the Governor's executive order EO-2021-052 issued on June 30, 2021.

On June 30, 2016, President Barack Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (codified under 48 U.S.C. §§ 2101-2241) (PROMESA). In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.). On May 3, 2017 the Commonwealth initiated a debt adjustment case pursuant to Title III of PROMESA (each term as defined herein). The Company refers the reader to the publicly available docket in the Commonwealth's Title III case for further details: https://cases.primeclerk.com/puertorico/Home-DocketInfo.

The Commonwealth has not included appropriations for the payment of debt service in its general fund budget since fiscal year 2017. As of June 30, 2019 the Company has retained approximately $79 million of room tax revenues.

The Company's retention of hotel tax revenues has been subject to litigation in the Commonwealth's Title III case. The Oversight Board, as representative of the Commonwealth as Title III debtor, has asserted a variety of legal basis in support of the Commonwealth's retention of these funds.

The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al., Adv. Pro. No. 20-00004-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the Oversight Board, as representative of the Commonwealth under Title III of PROMESA, filed an adversary complaint challenging the proofs of claim and liens asserted against the Commonwealth by holders of bonds issued by the Puerto Rico Convention Center District Authority (PRCCDA). The Oversight Board asserts that the defendants' proofs of claim "must be disallowed in their entirety" because "the Commonwealth is not a party to any agreement related to the Hotel Occupancy Tax Revenue, Defendants do not have any right to payment from the Commonwealth in connection with the PRCCDA bonds, and do not possess an allowable claim against the Commonwealth."

On April 28, 2020, the Oversight Board filed a motion for summary judgment, contending movants lack security interests and that any contrary statute is preempted by PROMESA. On July 16, 2020, the monoline insurers filed an opposition to the Oversight Board's summary judgment motion. Replies were filed August 31, 2020 and a hearing on the motion was held on September 23, 2020.

On January 20, 2021, the Title III Court ordered additional discovery. On July 27, 2021, the parties entered into a plan support agreement (the PSA) in which they agreed to file a joint motion to stay this adversary proceeding pending confirmation of the Commonwealth's plan of adjustment. The motion to stay was filed on August 2, 2021 and granted on August 3, 2021.

The Company is not a party to the adversary proceeding, but has been served with discovery requests.

Bondholder Lift Stay Motion, Case No. 17-3283-LTS (D.P.R. Jan. 16, 2020)

On January 16, 2020, the monoline insurers, for bonds issued by PRCCDA and other instrumentalities of the Commonwealth, filed three separate motions seeking to terminate or modify the automatic stay, or in the alternative, for adequate protection of their alleged security interests in applicable pledged revenue. In the PRCCDA motion (filed in the Commonwealth's Title III case), the monoline insurers argued that the PRCCDA bondholders have a lien against certain Hotel Occupancy Taxes collected by the Company and seek a termination or modification of the automatic stay to bring an action to enforce their alleged liens. On February 4, 2020, the Oversight Board, as joined by the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) objected to each of the stay motions. The monoline insurers' filed their replies on April 30, 2020. On September 9, 2020, the Title III Court denied all stay relief sought in the motions.

On July 2, 2020, with respect to PRCCDA, Judge Swain confirmed that collection on PRCCDA debt is also subject to the automatic stay, though there will be further litigation on whether the bank account into which certain PRCCDA revenue is deposited is subject to bondholders' liens.

On July 10, 2020, the Title III Court ordered further briefing to address (i) whether "cause" exists under Bankruptcy Code section 362(d)(1) (as incorporated under PROMESA) to lift the automatic stay; and (ii) in the case of the PRCCDA lift stay motion only, whether stay relief is warranted under Bankruptcy Code section 362(d)(2) (also as incorporated under PROMESA).

On September 9, 2020, the Title III Court stayed the monoline insurers' PRCCDA motion pending a final ruling in the PRCCDA adversary proceeding (Adv. Pro. No. 20-00004), which was similarly stayed on August 3, 2021 pending the Title III Court's consideration of the Commonwealth's plan of adjustment.

17) Commitments and Contingencies

Commitments

On August 8, 2007, HDC entered into a Second Amendment to La Concha Hotel Lease and Correction to First Amendment to La Concha Hotel Lease with International Hospitality Associates S. en C. Por A. (S.E.) and the Puerto Rico Tourism Development Fund (TDF), a component unit of GDB. Major amendment includes a basic annual rental of $330,000 and a percentage rent in the amount by which 3.5% of gross hotel room sales for any rental year exceeds the basic rental and the parking parcel lease amount.

In addition, on August 8, 2007, HDC also entered into a deed of La Concha Hotel and Condado Vanderbilt Parking Parcel Lease with the Partnership with a basic annual rental of $170,000 that shall be paid by the Partnership in equal monthly installments, the first of such installments being due on the rental commencement date and subsequent installments being due on the same date of each subsequent month thereafter throughout the lease term.

Nonexchange Financial Guarantee Liability

The Company is a guarantor of loans granted by the Economic Development Bank for Puerto Rico (another component unit of the Commonwealth), under an intergovernmental agreement, whereby a guarantee fund for tourism projects' loans was created. The main purpose of these loans is to provide a financing tool for individuals and entities dedicated to promote and develop the tourism industry in Puerto Rico.
Under this agreement, the guarantees granted by the Company are as follows:

- 85% on tourism loans whose principal amount does not exceed $175,000
- 75% on tourism loans whose principal amount is in excess of $175,000 up to a maximum of $1 million
- 100% on tourism loans granted to individuals or private entities of special communities up to a maximum of $1 million

Total principal loans granted under this guarantee fund should not exceed the amount of $9 million. As of June 30, 2019, the outstanding principal of those loans and its corresponding guarantee obligations amounted to $1,000,000.

As of June 30, 2019, the Company's management determined that it is more likely than not that the Company would be required to pay the guaranteed portion of one of the loans under the agreement with the Economic Bank for Puerto Rico. The amount of the liability is the estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee.

Other Rental Commitments

The Company is also committed to several non-cancellable operating leases for various facilities that expire in various years through 2021. Some of the lease contracts contain renewal options. During the year ended June 30, 2019, rent expense of these operating leases amounted to approximately $696,000.

Year ending June 30,	Amount
2020	$ 146,939
2021	42,000
	$ 188,939

HDC has entered into various lease agreements for certain property for terms of five (5) to fifty (50) years. Future annual minimum rental income commitments are as follows:

Year ending June 30,	Amount
2020	$ 148,666
2021	124,864
2022	101,062
2023	81,460
2024	54,455
Thereafter	2,244,665
	$ 2,755,172

Contingencies/Litigation

As of June 30, 2019, the Company is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Company's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to approximately $50,000 has been reflected in the accompanying statement of net position (deficit).

18) Fund Balance of the General Fund

As of June 30, 2019, fund balance of the general fund is composed of the following:

Description	Amount
Nonspendable:	
Prepaid expenses and other assets	$ 6,695
Long-term portion of note receivable	300,000
Unassigned	34,675,992
	$ 34,982,687

19) Subsequent Events

Early Pay-off from Ashford 1369, LLC

On February 21, 2019, Management accepted an early pay-off offer from Ashford 1369, LLC for the amount of $5,527,700, related to its non-revolving credit facility. On August 29, 2019, amount was subsequently collected.

Future Transfer of Slot Machine Operations

On July 29, 2019, the Governor of the Commonwealth of Puerto Rico signed into law Act No. 81 of 2019, known as "Ley de la Comisión de Juegos del Gobierno de Puerto Rico", among other things it creates the Games Commission of the Government of Puerto Rico, another agency of the Commonwealth of Puerto Rico. This Act transfers the slots machine operations from the Company to the Games Commission. In addition, the process of distribution of the net proceeds will be managed by the Puerto Rico Treasury Department. The transfer was made effective July 1, 2020.

Dissolution of CDH-ATPR, LLC

On August 2, 2019, Management presented a certificate of dissolution to the Puerto Rico State Department for CDH-ATPR, LLC with an effective date of August 1, 2019.

Credit Agreement with IV Hospitality, LLC

On November 7, 2019, HDC entered into a Credit Agreement with IV Hospitality, LLC for the principal amount of $4 million at 8.25% due on December 1, 2021. On August 6, 2020, a request for amendment to applicable interest rate and maturity date was submitted by IV Hospitality, LLC, as a result of the crisis caused by the COVID-19 pandemic. On December 14, 2020. HDC agreed to extend the maturity date until June 1, 2022.
Natural Disasters

Puerto Rico Medical Tourism Corporation

On December 30, 2020, the Legislature approved Act No. 171 of 2020, whereby the operations related to the development and promotion of the medical tourism in Puerto Rico will be transferred from the Corporation to a new entity that will be known as the Office of the Program of Medical Tourism for Puerto Rico and will be ascribed to the DDEC.

Earthquakes – On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to 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.

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

President Trump also approved an emergency declaration allowing direct federal assistance for emergency measures to protect lives, property and public health after the series of earthquakes. On January 11, 2020, the Governor issued executive order EO 2020-07 authorizing the appropriation of $12 million from the Emergency Fund to be distributed equally between the municipalities of Guanica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco to be used exclusively for damages and mitigation related to the emergency.

A preliminary assessment of the damages caused by the earthquake and subsequent aftershocks (excluding the May 2, 2020 earthquake discussed below), calculated by the United States Geological Survey, estimated total economic damages at approximately $836 million.

Puerto Rico continues to experience aftershocks that are not expected to stop any time soon. According to a January 29, 2020 report published by the United States Geological Survey, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. In fact, on May 2, 2020, an earthquake with a 5.4 magnitude struck Puerto Rico's southern coast. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier in 2020. These continued earthquakes are a powerful reminder that although the global COVID-19 pandemic is currently controlling the public spotlight, the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

On January 8, 2021, Governor Pierluisi signed executive order E0-2021-011, which declared that any reconstruction project that is necessary due to damages from Hurricanes Irma and Maria or earthquakes will be considered a critical project that should be treated with agility and urgency. To that end, E0-2021-011 created a Council for Reconstruction (the Council) that will identify and recommend critical reconstruction projects, and determine their respective priority. The Council will be required to prioritize projects to rebuild houses damages by the hurricanes and earthquakes, projects to rebuild and modernize the electric and sewer system and projects to rebuild public schools.

COVID-19 Pandemic — On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the health threat and to contain the virus's 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, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico 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 the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

Management has not yet identified the full extent of the impact, if any, that the Coronavirus pandemic may have had (or will have in the future) on the Company's operations and to what extent revenue sources have been adversely depleted.

In April 2020, due to local and international restrictions, the hotel occupancy rate was reported as low as 5%. Casinos were closed until the end of June 2020. Commercial flights were reduced, cruise ships returned to their home base and outdoor activities and gatherings were prohibited.

For the year ended June 30, 2020, the operating revenues of slot machines were projected for $59.6 million and only a total of $39.2 million were collected. The projection for room tax collections were estimated for $73.4 million and collection received were $55.5 million.

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Other Laws Impacting the Company

(i) *Commonwealth Fiscal Plan*

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions.

On April 23, 2021, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which included 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 Chief Financial Officer (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*

In September 2021, the Oversight Board requested the Governor submit a new Commonwealth fiscal plan for Fiscal Year 2022, but later revoked the request until after the confirmation hearing on the Seventh Amended Plan (as discussed below). 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.

In addition, the Oversight Board must certify an annual budget for the Commonwealth prior to the beginning of each fiscal year based upon the Oversight Board Fiscal Plan (either as currently certified or as subsequently amended and recertified). Accordingly, any appropriations to the Authority in the Commonwealth's annual budget are ultimately subject to Oversight Board approval.

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(ii) *Oversight Board Files Joint Plan of Adjustment for the Commonwealth, ERS, and PBA*

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, ERS and the Public Buildings Authority (PBA) in their respective Title III cases—filed its initial joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] (the Initial Plan) along with a disclosure statement related thereto [ECF No. 8765] (the Initial Disclosure Statement), which was founded upon the pre-COVID-19 economic assumptions contained in the Commonwealth fiscal plan as certified by the Oversight Board on May 9, 2019. The Initial Plan incorporated the terms of a restructuring support agreement with the Retiree Committee (the Retiree Committee RSA), in which the Retiree Committee agreed to a maximum 8.5% pension cut that would only be applicable to retirees with monthly retirement benefits of more than $1,200, as well as freezes in pension benefits for teachers and judges.

On February 9, 2020, the Oversight Board announced that it entered into a Plan Support Agreement (the 2020 PSA) with certain Commonwealth general obligation bondholders and PBA bondholders (collectively, the PSA Creditors), which would require revisions to the Initial Plan. On February 28, 2020, the Oversight Board filed its Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 11946] and an amended disclosure statement related thereto [ECF No. 11947], which revised the Initial Plan to conform to the 2020 PSA while retaining the terms of the Retiree Committee RSA. However, due to the national economic shut down caused by the global spread of COVID-19 that has had substantial negative effects on the people and businesses in Puerto Rico, the Oversight Board decided to pause discussion and prosecution of the plan, including re-evaluation of the 2020 PSA.

Throughout 2021, the Oversight Board resumed plan discussions and has since filed several amended plans to incorporate additional settlements with creditors, including the most recently filed Seventh Amended Plan filed on July 30, 2021. The Court is currently scheduled to consider confirmation of the Seventh Amended Plan on November 8, 2021.

The Government has not yet determined whether it will support the Seventh Amended Plan given its view that Government pensioners must be protected and must not receive additional cuts to their pension benefits. The Seventh Amended Plan remains subject to future amendments and it is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan or any further amended plan.

For additional information, refer to the publicly available Seventh Amended Plan and Seventh Amended Disclosure Statement, which are available at https://cases.primeclerk.com/puertorico/ Home-DocketInfo.

Other Laws Impacting the Tourism Industry:

(i) *Act No. 60 of 2019*

Incentive Code. All the Economic Incentives initiatives including the incentive to Cruise Ships under the custody of the Company are transferred to the Incentives Office of the Economic Development Department. It appears in the next section of the new code Section 2110.03. - Incentive for the Cruise Ship Industry of Puerto Rico.

(ii) *Act No. 81 of 2019*

On July 29, 2019, the Governor of the Commonwealth of Puerto Rico signed into law Act No. 81, whereby it authorizes the creation of the Games Commission of the Government of Puerto Rico. This Act transfers the “Juegos de Azar” division of the Company to this new entity and the process of distribution of the net proceeds will be managed by the Puerto Rico Treasury Department.

(iii) Act No. 111 of 2019

Law to name the Gastronomic Route “Sabor del Campo”. The Company is ordered to include the route in the promotion and marketing plans, bring guidance to the area on the route and temper publications to recognize the route.

(iv) Act No. 123 of 2019

Law to establish the area of the Luquillo Kiosks as a Special Gastronomic Center of the Eastern Region. The Tourism Company is instructed to make promotional collaborative agreements with the DMO, the Association of Owners of the Luquillo Kiosks and the Municipality of Luquillo. The Company is also instructed to create a formal committee for the development of the route and the creation of regulations and plans for its development.

Management has evaluated subsequent events through November 2, 2021, the date on which financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

Fiscal Years ended June 30 2019 and 2018

Description	**2019***	**2018***
Proportion of Total Pension Liability	0.43022%	0.42968%
Proportionate Share of Total Pension Liability	$ 105,357,603	$ 121,190,676
Covered - Employee Payroll	-	-
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A

*The amounts presented have a measurement date of the previous fiscal year end.
*Covered payroll is no longer applicable since Act 106-2017 eliminated the contributions which are no longer based on payroll.

Fiscal year 2019 was the first year that the Company transitioned from GASB Statement No. 68 to GASB Statement No. GASB 73, as resulted of the enactment of Act 106-2017 (PayGo implementation). This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying notes to required supplemetary information and Independent Auditors' Report.

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

SCHEDULE OF PROPORTIONATE SHARE OF TOTAL POSTMEMPLOYMENT BENEFIT LIABILITY AND RELATED RATIOS (UNAUDITED)
Fiscal Years ended June 30 2019 and 2018 and 2017

Description	2019*	2018*	2017*
Proportion of Total Other Post Employment Benefit Liability	0.26103%	0.25990%	0.24981%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 2,198,249	$ 2,392,383	$ 2,960,558
Covered - Employee Payroll	-	-	-
Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A

*The amounts presented have a measurement date of the previous fiscal year end.
*Covered payroll is not applicable since there are no contributions based on payroll.

Fiscal year 2017 was the first year that the new requirements of GASB 75 were implemented at the Company. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying notes to required supplemetary information and Independent Auditors' Report.

1) Total Pension Liability

Criteria in paragraph 4 of GASB Statement No. 68

Act No. 106-2017 provided that the Plan would be funded on a PayGo basis and no assets would be accumulated in a pension trust the discount rate does not reflect any expected return on plan assets, and is based solely on the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate of 3.87% as of June 30, 2018.

As a result of the enactment of Act No. 106-2017, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*.

Factors that significantly affect trends in the amounts reported

Factors that significantly affect trends in the amounts reported were identified as follows:

Determination of proportionate share

Under GASB Statement No. 73 the collective pension liability, pension expense and deferred outflows and inflows should be determined for the plan as a whole. According to GASB Statement No. 73 “the basis for the government’s proportion should be consistent with the manner in which the amounts that are paid as benefits come due are determined”. Actuarial’ s approach to determine the proportionate share as the ratio of each entity’s benefit payments to the total benefit payments during the year ending on the measurement date complies with GASB Statement No. 73. Previously under GASB Statement No. 68 each employer’s proportionate share of the collective amounts was consistent with the manner in which contributions were determined and reflected that employer’s projected long-term contribution effort relative to that of all employers in the plan. The change in the determination of the proportionate share is the principal difference in the calculation and allocation of pension costs in the application of GASB Statement No. 73.

Actuarial assumptions

There was a change in the actuarial assumptions or inputs in the determination of the total pension liability as a result of the increase in the discount rate from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

2) Total Postemployment Benefit Liability

Total OPEB Liability

The total OPEB liability amount presented for each fiscal year was determined as of the fiscal year-end. No assets have been accumulated in a trust that meets the criteria in GASBS No. 75, paragraph 4, to pay related benefits. The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018 rolled forward to June 30, 2019, the measurement date. Refer to Note 14 for the actuarial assumptions applied to all periods in the measurement. There was a change in the actuarial assumptions or inputs in the determination of the total OPEB liability as a result of the increase in the discount rate from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.