



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, 2020



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, 2020

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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, 2020, 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, 2020 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.

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Emphasis of Matter

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 \$59.6 million, as of June 30, 2020. Such deficit is mainly due to the recognition of an obligation of approximately \$106.6 million related to pensions, as part of its governmental activities. The enactment of Act No. 106 of 2017, adopted a pension reform and, a "Pay-As-You-Go" (PayGo) system for the payment of pensions. Accordingly, there are no required contributions to be made to the 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 \$63.7 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.

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 3 to 16, the Schedule of Proportionate Share of Collective Total Pension Liability and Related Ratios on page 81 and the Schedule of Proportionate Share of Collective Total Postemployment Benefit Liability and Related Ratios on page 82 and the Notes to the Required Supplementary Information on page 83, 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
May 9, 2022.

Stamp No. E490600 was affixed
to the original of this report.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2020

The following discussion and analysis 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, 2020. Its purpose is to provide explanations and insights into the information provided in the basic financial statements and required supplementary information. This discussion and analysis is intended to be read in conjunction with the Company's basic financial statements for the fiscal year ended June 30, 2020 taken as a whole.

This discussion and analysis 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) (deficit), (iii) statement of revenues, expenditures, and changes in fund balances, 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 three 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 (iv) notes to basic financial statements.

Financial Highlights

- The Company continues to be impacted by the actual fiscal deterioration of 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 credit market. There has been a prolonged economic recession since year 2006, high unemployment, population decline and high level of debt and pension obligations.
- 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 Vázquez-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.
- 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.
- The Company's governmental activities reflect a negative net position (deficit) of approximately \$59.6 million for the fiscal year ended June 30, 2020.
- The Company incurred approximately \$45.9 million in expenses to promote Puerto Rico as a premier international tourist destination.
- Hotel room tax amounted to approximately \$56.1 million for the fiscal year ended June 30, 2020. This represents a decrease in hotel room tax revenue of approximately \$17.3 million when compared to \$73.4 million for the fiscal year ended June 30, 2019.

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June 30, 2020

- During the fiscal year ended June 30, 2020 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. Since fiscal year ended June 30, 2016, the Commonwealth budget did not include appropriations for the debt service payments on the PFC debt. As of June 30, 2020, the principal balance and the related accrued interest amounted to approximately \$45.3 million and approximately \$13.3 million, respectively.

On January 20, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of PFC bonds. The PFC RSA contemplates that the notes will be cancelled and extinguished and that HDC will be discharged from any liability arising from or related to the notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

- 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).
- The Company continue its reorganization process pursuant to Act No. 171 of 2020. The Act requires that a process will be performed to consolidate the Company into the Puerto Rico Department of Economic Development and Commerce. A transition process has been initiated and it will require a final certification from the Secretary of the Puerto Rico Department of Economic Development and Commerce to be submitted to the Governor of the Commonwealth of Puerto Rico and the Legislature, once the transition process is completed.
- On July 29, 2019, the Governor signed into law Act No. 81-2019, known as "Ley de la Comisión de Juegos del Gobierno de Puerto Rico", that creates a new agency called the Games Commission of the Government of the Commonwealth. This Act transfers the slots machines operations from the Company to the Games Commission of the Government of Puerto Rico. The transfer was made effective 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 (deficit) and a statement of activities.

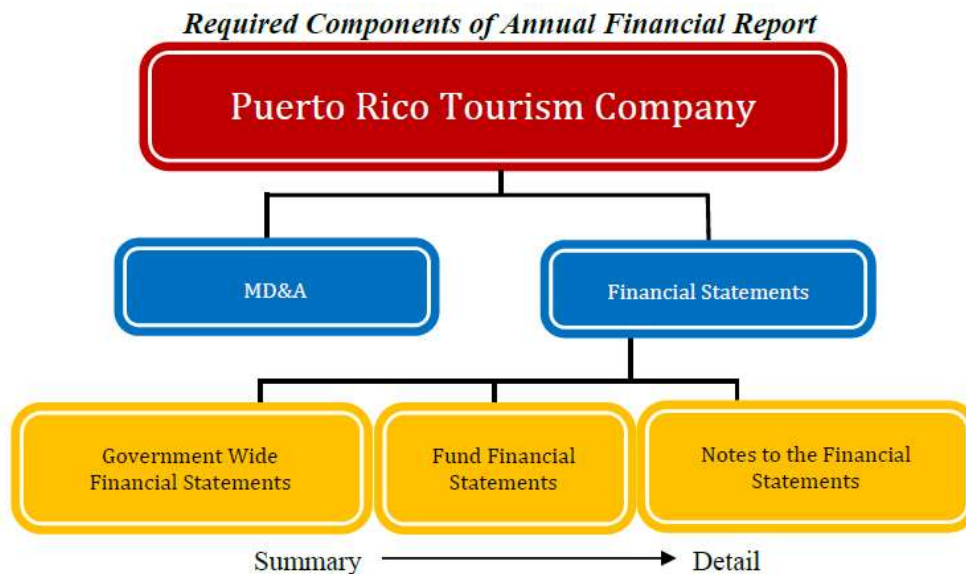
The remaining statements are fund financial statements that focus on individual parts of the Company's government, thus, reporting the Company's operations in more detail than the government-wide financial statements. The governmental funds statements show how services, such as promotional activities 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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June 30, 2020

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. The components of the financial statements are as follows:



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 (deficit) 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 (deficit) restricted by enabling legislation or net position (deficit) 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 (deficit) 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 increased 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.

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- 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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June 30, 2020

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, 2020 and 2019, is shown below:

	<u>As of June 30,</u>		Increase (Decrease)	Variance Percentage
	<u>2020</u>	<u>2019</u>		
ASSETS				
Current assets	\$ 163,673,486	\$ 134,457,503	\$ 29,215,983	21.7%
Noncurrent assets	300,000	450,000	(150,000)	-33.3%
Capital assets, net	20,412,232	20,997,767	(585,535)	-2.8%
Total assets	<u>184,385,718</u>	<u>155,905,270</u>	<u>28,480,448</u>	<u>18.3%</u>
Deferred Outflows of Resources	9,429,521	5,820,976	3,608,545	62.0%
LIABILITIES				
Current liabilities	132,221,408	99,924,816	32,296,592	32.3%
Noncurrent liabilities	114,515,816	113,760,504	755,312	0.7%
Total liabilities	<u>246,737,224</u>	<u>213,685,320</u>	<u>33,051,904</u>	<u>15.5%</u>
Deferred Inflows of Resources	6,664,433	6,641,455	22,978	0.3%
NET POSITION (DEFICIT):				
Net investment in capital assets	20,270,624	20,676,583	(405,959)	-2.0%
Unrestricted	<u>(79,857,042)</u>	<u>(79,277,112)</u>	<u>(579,930)</u>	<u>0.7%</u>
Total net position (deficit)	<u>\$ (59,586,418)</u>	<u>\$ (58,600,529)</u>	<u>\$ (985,889)</u>	<u>1.7%</u>

As of June 30, 2020, total assets of governmental activities amounted to approximately \$184.4 million; total liabilities amounted to approximately \$246.7 million, and a net deficit of approximately \$59.6 million. Net deficit reflects an increase of approximately \$986 thousand, when compared to prior year.

Net position (deficit) has been broken down into (i) net investment in capital assets of approximately \$20.3 million and (ii) unrestricted net deficit of approximately \$79.9 million.

Total assets increased by approximately \$28.5 million, mainly to the increase in restricted cash and due from other funds as a result of the net operations.

The total liabilities increased by approximately \$33.1 million during 2020, where the most noticeable increase resided in the amount due to the Puerto Rico Convention Center District Authority and the Corporación para la Promoción de Puerto Rico como Destino, Inc.

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June 30, 2020

Condensed financial information of governmental activities in the statement of activities for the fiscal years ended June 30, 2020 and 2019, is shown below:

	<u>Year ended June 30,</u>		<u>Increase (Decrease)</u>	<u>Variance Percentage</u>
	<u>2020</u>	<u>2019</u>		
Program revenues				
Charges for services	\$ 3,462,559	\$ 1,885,840	\$ 1,576,719	83.6%
Contributions from Commonwealth of Puerto Rico	4,500,000	-	4,500,000	100.0%
	7,962,559	1,885,840	6,076,719	322.2%
General revenues:				
Hotel room taxes	56,073,752	73,384,599	(17,310,847)	-23.6%
Investment earnings	902,329	1,109,679	(207,350)	-18.7%
Total general revenues	56,976,081	74,494,278	(17,518,197)	-23.5%
Total revenues	64,938,640	76,380,118	(11,441,478)	-15.0%
Functions/programs:				
General government	59,308,545	53,374,029	5,934,516	11.1%
Advertising and promotion	45,937,770	52,580,842	(6,643,072)	-12.6%
Programs and services	1,389,496	1,481,870	(92,374)	-6.2%
Public relations	1,612,231	2,403,896	(791,665)	-32.9%
Total function/programs	108,248,042	109,840,637	(1,592,595)	-1.4%
Net expenses before transfers in	(43,309,402)	(33,460,519)	(9,848,883)	29.4%
Transfers in	42,323,513	56,081,733	(13,758,220)	-24.5%
Change in net position	(985,889)	22,621,214	(23,607,103)	-104.4%
Net deficit - beginning of year	(58,600,529)	(81,221,743)	22,621,214	-27.9%
Net deficit - end of year	\$ (59,586,418)	\$ (58,600,529)	\$ (985,889)	1.7%

Total revenues decreased by approximately \$11.4 million. The COVID-19 pandemic caused a direct impact over the tourism industry. It caused a decrease in hotel room taxes of approximately \$17.3 million. There was a minor increase of approximately \$1.6 million on other charges for services.

Hotel room tax revenues still the main source of income for the governmental activities.

During the fiscal year 2020 the Commonwealth of Puerto Rico made appropriations amounting \$4.5 million to the Corporation to cover promotion expenses associated to the Destination Marketing Organization ("DMO").

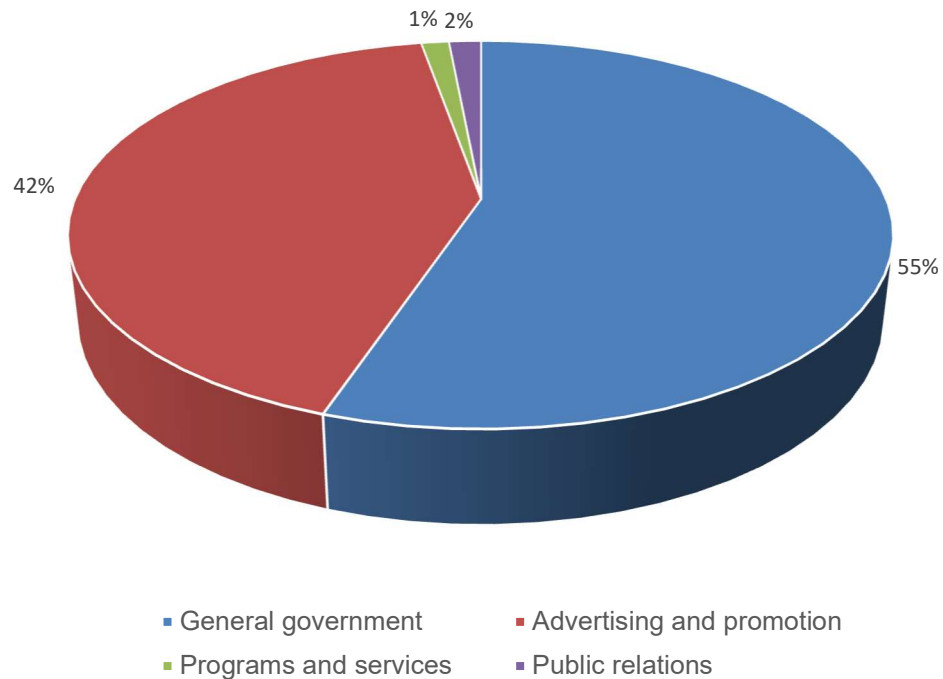
General government expenses increased by approximately \$5.9 million, mainly due to pension expense.

Advertising and promotion expenses experienced the greatest decrease of \$6.6 million when compared with fiscal year ended June 30, 2019. This decrease is directly related to the COVID-19 pandemic.

PUERTO RICO TOURISM COMPANY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020

The following chart summarizes the Company's function/programs expenses for the governmental activities for the fiscal year ended June 30, 2020.



General government are one of the main expenses of the Company, constituting 55%, 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 the certified budget cuts implemented.

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PUERTO RICO TOURISM COMPANY
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June 30, 2020

Business-Type Activities

Condensed financial information of business-type activities in the statement of net deficit as of June 30, 2020 and 2019, is shown below:

	<u>As of June 30,</u>		Increase (Decrease)	Variance Percentage
	<u>2020</u>	<u>2019</u>		
Assets				
Current assets	\$ 19,191,342	\$ 13,717,311	\$ 5,474,031	39.9%
Other noncurrent assets	6,911,214	8,218,012	-1,306,798	-15.9%
Capital assets, net	<u>29,387</u>	<u>12,941</u>	<u>16,446</u>	<u>127.1%</u>
Total assets	<u>26,131,943</u>	<u>21,948,264</u>	<u>4,183,679</u>	<u>19.1%</u>
Deferred Outflows of Resources:				
Loss on note refunding	<u>976,685</u>	<u>1,093,453</u>	<u>-116,768</u>	<u>-10.7%</u>
Liabilities				
Current liabilities	51,908,392	39,630,106	12,278,286	31.0%
Noncurrent liabilities	<u>38,915,659</u>	<u>46,040,452</u>	<u>-7,124,793</u>	<u>-15.5%</u>
Total liabilities	<u>90,824,051</u>	<u>85,670,558</u>	<u>5,153,493</u>	<u>6.0%</u>
Net Position (Deficit)				
Net investment in capital assets	29,387	12,941	16,446	127.1%
Unrestricted	<u>(63,744,810)</u>	<u>(62,641,782)</u>	<u>-1,103,028</u>	<u>1.8%</u>
Total net deficit	<u>\$ (63,715,423)</u>	<u>\$ (62,628,841)</u>	<u>\$ -1,086,582</u>	<u>1.7%</u>

Business-type activities include the Hotel Development Corporation Fund (HDC), and Slot Machines Operations Fund (SMO), and the Medical Tourism Company Fund (MTC). Total current assets increased by approximately \$5.5 million from approximately \$13.7 million as of June 30, 2019 to approximately \$19.2 million as of June 30, 2020. Increase was driven by HDC increase in cash and loans receivable by approximately \$3.8 million and \$150 thousand, respectively, and SMO accounts receivable of approximately \$1.5 million. Other noncurrent assets decreased by approximately \$1.3 million driven by an early pay-off from Ashford 1369, LLC loan collected on August 29, 2019 for the amount of \$5.5 million and the originated non-revolving loan of \$4.2 million due from IV Hospitality, LLC.

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June 30, 2020

Condensed financial information of business-type activities in the statement of activities for the fiscal years ended June 30, 2020 and 2019, is shown below:

	<u>Year ended June 30,</u>		<u>Increase (Decrease)</u>	<u>Variance Percentage</u>
	<u>2020</u>	<u>2019</u>		
Program revenues				
Charges for services - financing and investing	\$ 1,040,086	\$ 1,784,181	\$ (744,095)	-41.7%
Charges for services - other	125,686,446	163,474,551	(37,788,105)	-23.1%
Total programs revenues	<u>126,726,532</u>	<u>165,258,732</u>	<u>(38,532,200)</u>	<u>-23.3%</u>
Functions/programs				
Hotel Development Corporation	3,792,239	3,541,366	250,873	7.1%
Slot Machines Operations	81,697,285	104,496,502	(22,799,217)	-21.8%
Medical Tourism Company	77	136	(59)	-43.4%
Total function/programs	<u>85,489,601</u>	<u>108,038,004</u>	<u>(22,548,403)</u>	<u>-20.9%</u>
Net revenues before transfers	41,236,931	57,220,728	(15,983,797)	-27.9%
Transfers out	(42,323,513)	(56,081,733)	13,758,220	-24.5%
Change in net position (deficit)	<u>(1,086,582)</u>	<u>1,138,995</u>	<u>(2,225,577)</u>	<u>-195.4%</u>
Net deficit - beginning of year	<u>(62,628,841)</u>	<u>(63,767,836)</u>	<u>1,138,995</u>	<u>-1.8%</u>
Net deficit - end of year	<u>\$ (63,715,423)</u>	<u>\$ (62,628,841)</u>	<u>\$ (1,086,582)</u>	<u>1.7%</u>

Total revenues decreased by approximately \$38.5 million during the fiscal year ended June 30, 2020. This was a result of the decrease in Slot Machine Operations. Total expenses decreased by approximately \$22.2 million.

Analysis of Fund Financial Statements

The Company has one governmental fund (the General Fund) and three major proprietary funds (the Hotel Development Corporation, the Slot Machine Operations, and Medical Tourism Company). The following is an analysis of the financial position and changes in financial position by major fund.

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PUERTO RICO TOURISM COMPANY

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2020

General Fund

General Fund's assets as of June 30, 2020, consist substantially of approximately \$126.5 million of cash and accounts receivable of approximately \$9.4 million.

Cash increased by approximately \$7 million, from approximately \$119.5 million in fiscal year 2019 to approximately \$126.5 million in fiscal year 2020. Hotel room taxes receivables, net of uncollectible amounts, decreased by approximately \$2.3 million, from approximately \$10.1 million to approximately \$7.9 million, as a result of a decrease in hotel room taxes revenues.

Liabilities increased by approximately \$13.9 million from approximately \$120.1 million in fiscal year 2019 to approximately \$134 million in fiscal year 2020.

Revenue from hotel room taxes decreased by approximately by \$17.3 million, from approximately \$73.4 million in fiscal year 2019 to approximately \$56.1 million in fiscal year 2020, due to a decrease in occupancy mainly caused by the COVID-19 pandemic.

In 2020, the General Fund received \$4.5 million from appropriations of the Commonwealth of Puerto Rico to be used in promotional activities associated to the DMO.

General government expenditures remained consistent with prior year of \$61.2 million.

Advertising and promotion expenditures decreased approximately \$6.7 million, from approximately \$52.6 million in fiscal year 2019 to approximately \$45.9 million in fiscal year 2020.

The General Fund received approximately \$42.3 million of the total transfer from the Slot Machines Operations 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.

Hotel Development Corporation Fund

HDC Fund's assets and deferred outflows of resources as of June 30, 2020, consist primarily of cash of approximately \$12.6 million, accounts receivable of approximately \$242 thousand, loans receivable of approximately \$4.3 million, real estate held for future tourism development of approximately \$2.6 million, and deferred loss on note refunding of approximately \$1 million. Total liabilities consist of accounts payable of approximately \$500 thousand, interest payable of approximately \$13.3 million, due to another fund of approximately \$25.8 million, notes payable of approximately \$45.3 million. Fund deficit increased by approximately \$1.1 when compared to the previous year.

Total operating revenues decreased by approximately \$100 thousand from approximately \$3.1 million in fiscal year 2019 to approximately \$3 million in fiscal year 2020 mainly due to decrease in investment income.

Total operating expenses increased by approximately \$600 thousand, from approximately \$800 thousand in fiscal year 2019 to approximately \$1.4 million in fiscal year 2020 due repairs and maintenance expenses of tourism areas in fiscal year 2020.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020

Slot Machines Operations Fund

Slot Machines Operations Fund's assets as of June 30, 2020, consist primarily of accounts receivable of approximately \$6 million, and due from other fund of approximately \$1.8 million and capital assets net of depreciation of approximately \$29 thousand. Total liabilities consist of unremitted distributions to the Commonwealth of Puerto Rico, and the University of Puerto Rico of approximately \$1.3 million, \$3.4 million, respectively, account payable of approximately \$2.1 million, and accrued compensated absence and other liabilities of \$302 thousand and other liabilities of approximately \$100 thousand.

Total operating revenues decreased approximately by \$38 million, from \$162 million to \$124 million, mainly due to a decrease in collections from Slot Machines Operation's participants.

Total operating expenses increased by approximately \$2.3 million mainly due to increase in rent expense. Total non-operating expenses (distributions to the Commonwealth of Puerto Rico and the University of Puerto Rico) decreased by approximately \$23.6 million, from \$88.7 million to \$65.1 million, directly related to the decrease in operating revenues. Consequently, interfund transfers to the General Fund decreased by approximately \$15.3 million, from approximately \$57.7 million to approximately \$42.3 million.

Medical Tourism Company Fund

No contributions were made to the MTC for the fiscal year ended June 30, 2020.

Capital Assets

Governmental

As of June 30, 2020, and 2019, capital assets for governmental activities are composed of the following:

Description	As of June 30,		Increase (Decrease)
	2020	2019	
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	-
Infrastructure	13,936,746	14,130,641	(193,895)
Building and improvements	622,824	966,158	(343,334)
Leasehold improvements	2,816	48,026	(45,210)
Furniture and equipment	781,476	774,436	7,040
Vehicles	15,050	25,186	(10,136)
Total capital assets, net of accumulated depreciation	15,358,912	15,944,447	(585,535)
Total	\$ 20,412,232	\$ 20,997,767	\$ (585,535)

The Company's capital assets as of June 30, 2020 and 2019 amounted to approximately \$20.4 million and \$21 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, 2020.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020

Business type

As of June 30, 2020, and 2019, capital assets for business type activities are composed of the following:

Description	As of June 30,		
	2020	2019	Increase
Furniture and equipment	\$ 29,387	\$ 12,941	\$ 16,446

Long-Term Debt

Significant long-term debt activity during fiscal year 2020 was as follows:

- Long-term debt in the governmental activities amounted to approximately \$114.6 million as of June 30, 2020. Long-term debt consists primarily of termination benefits of approximately \$3.3 million, accrued legal claims of approximately \$50 thousand, total pension liability of approximately \$106.6 million and OPEB of approximately \$2.2 million, accrued compensated absences of approximately \$1.2 million, obligations under capital leases of approximately \$142 thousand and nonexchange financial guarantee liability of approximately \$1 million. Long-term debt decreased by approximately \$22 million, from \$136 million to \$114.6 million, mainly due to the effect of GASB 73 related to actual employer contributions and change in proportionate share that was implemented during fiscal year 2019.
- Long-term debt due within one year is approximately \$7.2 million.
- Long-term debt in the business-type activities amounted to approximately \$46.2 million as of June 30, 2020 and consist primarily of notes payable due to the Puerto Rico Public Finance Corporation.
- 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, 2020, the number of persons registered in lodgings endorsed by the Company, including residents of Puerto Rico and outer tourists, was approximately 1.2 million, a decrease of 20% over the number of persons registered during the same period of fiscal year ended June 30, 2019. The average occupancy rate in these lodgings during fiscal year ended June 30, 2020 was 36.5%, a decrease of 30.3% from the prior fiscal year. Also, during fiscal year ended June 30, 2020, the average number of rooms available in lodgings endorsed by the Company decreased by approximately 15.72% (-57,000 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 57,500 for fiscal year ended June 30, 2020, a decrease of 24.4% over employment for fiscal year ended June 30, 2019 that its final employment numbers was 76,100.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020

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			Total
	Hotels⁽²⁾	Excursionists⁽³⁾	Other⁽⁴⁾	
Fiscal year ended June 30:				
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
2020	1,196,100	1,264,600	1,421,300	3,882,000

Total Visitors' Expenditures				
(In millions)				
	Tourist			Total
	Hotels⁽²⁾	Excursionists⁽³⁾	Other⁽⁴⁾	
Fiscal year ended June 30:				
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	3,438
2015	2,048	228	1,550	3,826
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
2020	1,449	198	1,274	2,921

⁽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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020

Mainly due to effects of Covid-19 pandemic there was a significant decrease in visitors for the fiscal year 2020, over 300 thousand visitors. Since 2013 there was constant increase until the 2017 due to the effects of Hurricane Irma and Maria. Which was recovered for fiscal year 2019 until 2020 because of Covid-19.

Related to the expenditure there was also an decrease of about \$700 million. Like the visitors chart you can see a steady increase since 2013 until 2017. Even though that both visitors and expenditures were significantly less, the average expenditure by visitors slightly increase from an average of \$732.54 in 2019 to \$752.32 in year 2020. Increase of about \$19.81.

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.



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

STATEMENT OF NET POSITION (DEFICIT)
June 30, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 23,148,468	\$ 12,999,046	\$ 36,147,514
Restricted cash	103,308,222	-	103,308,222
Accounts receivable:			
Hotel room taxes – net	7,842,526	-	7,842,526
Hotels and casinos	-	6,192,296	6,192,296
Other	1,538,074	-	1,538,074
Due from Commonwealth of Puerto Rico	3,875,900	-	3,875,900
Investment in tourism projects, net of allowance of \$75,719,861	-	-	-
Prepaid expenses and other assets	5,260	-	5,260
Internal balances	23,955,036	(23,955,036)	-
Real estate held for future tourism development	-	2,600,001	2,600,001
Notes and loans receivable – net	300,000	4,311,213	4,611,213
Capital assets:			
Land and other nondepreciable assets	5,053,320	-	5,053,320
Depreciable assets and vehicles, net of accumulated depreciation	15,358,912	29,387	15,388,299
	<u>184,385,718</u>	<u>2,176,907</u>	<u>186,562,625</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss arising from notes refunding	-	976,685	976,685
Pension related	9,234,450	-	9,234,450
Other postemployment benefits related	195,071	-	195,071
	<u>9,429,521</u>	<u>976,685</u>	<u>10,406,206</u>

Continues...



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

STATEMENT OF NET POSITION (DEFICIT)
June 30, 2020

Continued...	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Unremitted distributions of slot machines operations to:			
Commonwealth of Puerto Rico	-	1,304,259	1,304,259
University of Puerto Rico	-	3,366,201	3,366,201
Accounts payable and accrued liabilities	14,579,376	2,528,239	17,107,615
Other liabilities	127,200	94,200	221,400
Interest payable	-	13,327,757	13,327,757
Due to Puerto Rico Convention Center District Authority	2,838,919	-	2,838,919
Due to Corporacion para la Promocion de Puerto Rico como Destino, Inc	5,300,000	-	5,300,000
Liability payable from restricted assets:			
Due to Puerto Rico Convention Center District Authority	109,375,913	-	109,375,913
Long-term obligations due within one year:			
Accrued compensated absences	495,647	301,675	797,322
Termination benefits	722,070	-	722,070
Capital lease obligations	141,608	-	141,608
Notes payable	-	7,031,025	7,031,025
Total pension liability	5,674,472	-	5,674,472
Total other postemployment benefits liability	195,071	-	195,071
Long-term obligations due in more than one year:			
Accrued compensated absences	724,717	648,418	1,373,135
Termination benefits	2,591,528	-	2,591,528
Accrued legal claims	50,000	-	50,000
Notes payable	-	38,267,241	38,267,241
Nonexchange financial guarantee liability	1,000,000	-	1,000,000
Total pension liability	100,881,323	-	100,881,323
Total other postemployment benefits liability	2,039,380	-	2,039,380
	<u>246,737,224</u>	<u>66,869,015</u>	<u>313,606,239</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related	<u>6,664,433</u>	-	<u>6,664,433</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	20,270,624	29,387	20,300,011
Unrestricted (deficit)	<u>(79,857,042)</u>	<u>(63,744,810)</u>	<u>(143,601,852)</u>
	<u>\$ (59,586,418)</u>	<u>\$ (63,715,423)</u>	<u>\$ (123,301,841)</u>

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, 2020

	Program Revenues		Net (Expenses) Revenues and Changes in Net Position (Deficit)			
	Operating Grants and Contributions	Charges for Services	Governmental Activities	Business-Type Activities		
GOVERNMENTAL ACTIVITIES						
General government	\$ 59,308,545	\$ 4,500,000	\$ 3,462,559	\$ (51,345,986)	\$ -	\$ (51,345,986)
Advertising and promotion	45,937,770	-	-	(45,937,770)	-	(45,937,770)
Programs and services	1,389,496	-	-	(1,389,496)	-	(1,389,496)
Public relations	1,612,231	-	-	(1,612,231)	-	(1,612,231)
Total governmental activities	108,248,042	4,500,000	3,462,559	(100,285,483)	-	(100,285,483)
BUSINESS -TYPE ACTIVITIES						
Hotel Development Corporation	3,792,239	-	2,705,734	-	(1,086,505)	(1,086,505)
Slot Machines Operations	81,697,285	-	124,020,798	-	42,323,513	42,323,513
Medical Tourism Company	900	-	823	-	(77)	(77)
Total business-type activities	85,490,424	-	126,727,355	-	41,236,931	41,236,931
	\$ 193,738,466	\$ 4,500,000	\$ 130,189,914	(100,285,483)	41,236,931	(59,048,552)
GENERAL REVENUES						
Hotel room taxes				56,073,752	-	56,073,752
Investment earnings				902,329	-	902,329
				56,976,081	-	56,976,081
TRANSFERS IN (OUT)						
				42,323,513	(42,323,513)	-
				99,299,594	(42,323,513)	56,976,081
Change in net position (deficit)				(985,889)	(1,086,582)	(2,072,471)
NET DEFICIT - Beginning of year				(58,600,529)	(62,628,841)	(121,229,370)
NET DEFICIT - End of year				\$ (59,586,418)	\$ (63,715,423)	\$ (123,301,841)

See accompanying notes to basic financial statements.



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

GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2020

	General Fund
ASSETS	
Cash	\$ 23,148,468
Restricted cash	103,308,222
Accounts receivable	
Hotel room taxes — net	7,842,526
Other	1,538,074
Due from Commonwealth of Puerto Rico	3,875,900
Due from other fund	24,952,598
Prepaid expenses and other assets	5,260
Note receivable	300,000
	<hr/>
Total assets	\$ 164,971,048
	<hr/> <hr/>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 14,579,376
Other liabilities	127,200
Due to Puerto Rico Convention Center District Authority	2,838,919
Due to Corporación para la Promoción de Puerto Rico como Destino Inc	5,300,000
Liability payable from restricted assets:	
Due to Puerto Rico Convention Center District Authority	109,375,913
Due to other fund	997,562
	<hr/>
Total liabilities	133,218,970
	<hr/>
FUND BALANCES	
Nonspendable	24,429,822
Unassigned	7,322,256
	<hr/>
Total fund balances	31,752,078
	<hr/>
Total liabilities and fund balances	\$ 164,971,048
	<hr/> <hr/>

See accompanying notes to basic financial statements.



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

GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION (DEFICIT)
June 30, 2020

FUND BALANCE - GOVERNMENTAL FUND	\$ 31,752,078
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	20,412,232
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds :	
Pension related	9,234,450
Other postemployment benefits related	195,071
Deferred inflows of resources are not reported in the funds	
Pension related	(6,664,433)
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	(141,608)
Accrued legal claims	(50,000)
Accrued compensated absences	(1,220,364)
Termination benefits	(3,313,598)
Total pension liability	(106,555,795)
Total other postemployment benefit liability	(2,234,451)
DEFICIT OF GOVERNMENTAL ACTIVITIES	\$ (59,586,418)

See accompanying notes to basic financial statements.



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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES —
 GOVERNMENTAL GENERAL FUND**
Fiscal year ended June 30, 2020

	General Fund
REVENUES	
Hotel room tax	\$ 56,073,752
Contributions from Commonwealth of Puerto Rico	4,500,000
Charge for services	3,462,559
Investment earnings	902,329
	<hr/>
Total revenues	64,938,640
EXPENDITURES	
Current:	
General government	61,148,131
Advertising and promotion	45,937,770
Programs and services	1,389,496
Public relations	1,612,231
Capital outlays	405,134
	<hr/>
Total expenditures	110,492,762
	<hr/>
DEFICIENCY OF EXPENDITURES OVER REVENUES	(45,554,122)
	<hr/>
OTHER FINANCING SOURCES	
Transfers in	42,323,513
	<hr/>
NET CHANGE IN FUND BALANCE	(3,230,609)
FUND BALANCE — Beginning of year	34,982,687
	<hr/>
FUND BALANCE — End of year	<u>\$ 31,752,078</u>

See accompanying notes to basic financial statements.



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

GOVERNMENTAL FUND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Fiscal year ended June 30, 2020

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ (3,230,609)

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. (585,536)

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 614,300

Pension expense 2,376,020

Other postemployment benefit expense (24,846)

Compensated absences (314,794)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (985,889)

See accompanying notes to basic financial statements.



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

PROPRIETARY FUNDS
STATEMENT OF NET POSITION (DEFICIT)
June 30, 2020

	Hotel Development Corporation	Slot Machines Operations	Medical Tourism Company	Total
ASSETS				
Current assets:				
Cash	\$ 12,594,445	\$ -	\$ 404,601	\$ 12,999,046
Accounts receivable — net	242,189	5,949,867	240	6,192,296
Due from other fund	-	1,797,562	-	1,797,562
Total current assets	12,836,634	7,747,429	404,841	20,988,904
Non-current assets:				
Loans receivable — net	4,311,213	-	-	4,311,213
Real estate held for future tourism development	2,600,001	-	-	2,600,001
Capital assets — net	-	29,387	-	29,387
Total noncurrent assets	6,911,214	29,387	-	6,940,601
	19,747,848	7,776,816	404,841	27,929,505
Deferred outflows of resources				
Deferred loss arising from notes refunding	976,685	-	-	976,685
Total assets and deferred outflows of resources	\$ 20,724,533	\$ 7,776,816	\$ 404,841	\$ 28,906,190
LIABILITIES AND NET DEFICIT				
Current liabilities:				
Unremitted distributions to:				
Commonwealth of Puerto Rico	\$ -	\$ 1,304,259	\$ -	\$ 1,304,259
University of Puerto Rico	-	3,366,201	-	3,366,201
Accounts payable	466,176	2,062,063	-	2,528,239
Interest payable	13,327,757	-	-	13,327,757
Accrued compensated absences	-	301,675	-	301,675
Due to other fund	25,752,198	-	400	25,752,598
Other liabilities	-	94,200	-	94,200
Notes payable	7,031,025	-	-	7,031,025
Total current liabilities	46,577,156	7,128,398	400	53,705,954
Non-current liabilities				
Accrued compensated absences	-	648,418	-	648,418
Notes payable	38,267,241	-	-	38,267,241
Total noncurrent liabilities	38,267,241	648,418	-	38,915,659
	84,844,397	7,776,816	400	92,621,613
NET POSITION (DEFICIT)				
Net investment in capital assets	-	29,387	-	29,387
Unrestricted	(64,119,864)	(29,387)	404,441	(63,744,810)
Total net position (deficit)	(64,119,864)	-	404,441	(63,715,423)
Total liabilities and net position (deficit)	\$ 20,724,533	\$ 7,776,816	\$ 404,841	\$ 28,906,190

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 POSITION (DEFICIT)

Fiscal year ended June 30, 2020

	Hotel Development Corporation	Slot Machines Operations	Medical Tourism Company	Total
OPERATING REVENUES				
Collection of funds from slot machines — net of \$143 million distributions to participants of Slot Machines Operations	\$ -	\$ 124,020,798	\$ -	\$ 124,020,798
Investment income	1,006,156	-	-	1,006,156
Interest income	33,930	-	-	33,930
Rent	1,665,648	-	-	1,665,648
Total operating revenues	<u>2,705,734</u>	<u>124,020,798</u>	<u>-</u>	<u>126,726,532</u>
OPERATING EXPENSES				
Payroll and related-payroll benefits	-	6,793,465	-	6,793,465
Depreciation and amortization	-	12,191	-	12,191
Rent	-	7,500,185	-	7,500,185
Other	1,131,815	2,294,875	900	3,427,590
Total operating expenses	<u>1,131,815</u>	<u>16,600,716</u>	<u>900</u>	<u>17,733,431</u>
OPERATING INCOME (LOSS)	<u>1,573,919</u>	<u>107,420,082</u>	<u>(900)</u>	<u>108,993,101</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	-	-	823	823
Interest expense	(2,660,424)	-	-	(2,660,424)
Distributions to:				
Commonwealth of Puerto Rico	-	(16,274,143)	-	(16,274,143)
University of Puerto Rico	-	(48,822,426)	-	(48,822,426)
Total nonoperating revenues (expenses)	<u>(2,660,424)</u>	<u>(65,096,569)</u>	<u>823</u>	<u>(67,756,170)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(1,086,505)</u>	<u>42,323,513</u>	<u>(77)</u>	<u>41,236,931</u>
TRANSFERS				
Transfers out	-	(42,323,513)	-	(42,323,513)
CHANGE IN NET POSITION (DEFICIT)	<u>(1,086,505)</u>	<u>-</u>	<u>(77)</u>	<u>(1,086,582)</u>
NET POSITION (DEFICIT) — Beginning of year	<u>(63,033,359)</u>	<u>-</u>	<u>404,518</u>	<u>(62,628,841)</u>
NET POSITION (DEFICIT) — End of year	<u>\$ (64,119,864)</u>	<u>\$ -</u>	<u>\$ 404,441</u>	<u>\$ (63,715,423)</u>

See accompanying notes to basic financial statements.



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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Fiscal year ended June 30, 2020

	<u>Hotel Development Corporation</u>	<u>Slot Machines Operations</u>	<u>Medical Tourism Company</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from slot machines	\$ -	\$ 206,212,338	\$ -	\$ 206,212,338
Cash received from investments in tourism projects	1,006,156	-	-	1,006,156
Cash received from interest	33,930	-	-	33,930
Cash received from rental activities	1,513,213	-	-	1,513,213
Cash collected on notes receivables	6,352,431	-	-	6,352,431
Cash paid for other participants of Slot Machines Operations	-	(97,768,911)	-	(97,768,911)
Cash paid for payroll and related benefits	-	(6,659,076)	-	(6,659,076)
Cash disbursed in new note receivable	(5,045,633)	-	-	(5,045,633)
Cash paid for other operating expenses	(730,991)	(9,519,087)	(900)	(10,250,978)
	<u>3,129,106</u>	<u>92,265,264</u>	<u>(900)</u>	<u>95,393,470</u>
Net cash provided by (used in) operating activities				
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Distributions to:				
Commonwealth of Puerto Rico	-	(17,076,178)	-	(17,076,178)
University of Puerto Rico	-	(51,228,533)	-	(51,228,533)
Cash received (paid) from (to) other funds	686,535	(23,931,916)	-	(23,245,381)
	<u>686,535</u>	<u>(92,236,627)</u>	<u>-</u>	<u>(91,550,092)</u>
Net cash provided by (used in) noncapital financing activities				
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	-	(28,637)	-	(28,637)
	<u>-</u>	<u>(28,637)</u>	<u>-</u>	<u>(28,637)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES				
Interest received	-	-	823	823
	<u>-</u>	<u>-</u>	<u>823</u>	<u>823</u>
Net change in cash	3,815,641	-	(77)	3,815,564
CASH – beginning of year	8,778,804	-	404,678	9,183,482
CASH – end of year	<u>\$ 12,594,445</u>	<u>\$ -</u>	<u>\$ 404,601</u>	<u>\$ 12,999,046</u>

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, 2020

	Hotel Development Corporation	Slot Machines Operations	Medical Tourism Company	Total
Continued...				
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,573,919	\$ 107,420,082	\$ (900)	\$ 108,993,101
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	-	12,191	-	12,191
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable	(152,435)	(1,506,032)	-	(1,658,467)
Decrease in notes and loan receivable	1,306,798	-	-	1,306,798
Decrease in unremitted distributions to participants of Slot Machines Operations	-	(14,071,339)	-	(14,071,339)
Increase in accounts payable and accrued expenses	400,824	410,362	-	811,186
Net cash provided by (used in) operating activities	<u>\$ 3,129,106</u>	<u>\$ 92,265,264</u>	<u>\$ (900)</u>	<u>\$ 95,393,470</u>
SUMMARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Interest accrual on notes payable	<u>\$ 2,485,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,485,741</u>

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2020

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. 10-1970) 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. 10-1970.

As required by accounting principles generally accepted in the 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 are 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 component units.

Component Units

As of June 30, 2020, 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, the 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 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. 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.

- *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.

Reorganization Process of the Company

The Company is in a reorganization process pursuant to Act No. 171 of 2020. The Act requires that a process will be performed to consolidate the Company into the Puerto Rico Department of Economic Development and Commerce (DDEC). A transition process has been initiated and it will require a final certification from the Secretary of the Puerto Rico Department of Economic Development and Commerce to be submitted to the Governor of the Commonwealth and the Legislature, once the transition process is completed. At the date of these financial statements this process has not been completed.



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

NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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).

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.

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 or 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.



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

NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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.

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 amount due from other fund.
- *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 changed 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.



PUERTO RICO TOURISM COMPANY
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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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, pensions, other postemployment benefit 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.

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, 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.



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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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.

On July 29, 2019, the Governor of the Commonwealth 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 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.

Company's most 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 are 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 Machines Operations

Slot machines 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 machines 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 machines operator participants. Refer to Note 9 for additional detail of slot machines 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 it is 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.



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Fiscal year ended June 30, 2020

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, 2020, the Company didn't recognize 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.



PUERTO RICO TOURISM COMPANY
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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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, 2020.

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 (deficit) 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) certain 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 date 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 benefits (OPEB) liability after the next measurement date.

PUERTO RICO TOURISM COMPANY
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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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 (deficit) 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.

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 (deficit).
- *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 Notes and Obligations

The liabilities reported in the government-wide financial statements include long-term notes and obligations. 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.



PUERTO RICO TOURISM COMPANY
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Fiscal year ended June 30, 2020

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 (deficit) 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 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 made subsequent to the measurement date.

Accounting for Postemployment Benefit Costs Other than Pensions

The Company follows 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 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.



PUERTO RICO TOURISM COMPANY
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NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal year ended June 30, 2020

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 2020 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. 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.

Future Adoption of Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective as of June 30, 2020:

- 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 June 15, 2021.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in the financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.



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- GASB Statement No. 90, *Majority Equity Interests*. The primary objectives of this are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain- component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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

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

- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and *No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.



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

This statement achieves its objective by:

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

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 LIBOR'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 LIBOR. 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, except for the requirements related to lease modifications, which are effective for reporting periods beginning after June 15, 2021.

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- 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 previously described.
- 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. Earlier application is encouraged.
- GASB Statement No. 97, *Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other 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.



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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.

- GASB Statement 98, *The Annual Comprehensive Financial Report*. This Statement amends National Council on Governmental Accounting Statement 1, *Governmental Accounting and Financial Reporting Principles*, Summary Statement of Principles No. 12, paragraphs 4, 12, 128, 135, 138, 139, 143, 155, 157, 173, and 175, and footnote 22; Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, paragraph 13; Statement No. 14, *The Financial Reporting Entity*, paragraph 50; Statement No. 30, *Risk Financing Omnibus*, paragraph 7; Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, footnote 7; NCGA Interpretation 10, *State and Local Government Budgetary Reporting*, paragraph 14; Implementation Guide No. 2015-1, Questions 2.4.1, 3.35.2, 4.28.11, 4.43.2, 7.5.1, 7.5.2, 7.48.2, 7.69.1, 7.91.3, 9.2.1, 9.2.2, 9.14.2, and 9.33.3; and Implementation Guide No. 2016-1, *Implementation Guidance Update—2016*, Question 5.10. Establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on the Company’s basic financial statements.

3) Uncertainties

Governmental activities

The accompanying statement of net position (deficit) presents a net deficit of approximately \$59.6 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, the pension system was modified to a “Pay-As-You-Go” (PayGo) system. Accordingly, there are no required contributions to be made to the PayGo system.



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Business-type activities – Hotel Development Corporation

The accompanying statement of net position (deficit) presents a net deficit of approximately \$64 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. 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 losses.

The financial statements do not include any adjustment that may result from these uncertainties.

4) Cash, Deposits and Restricted Cash

Cash and Deposits

The Company is authorized to deposit funds in the custody of financial institutions approved by the Commonwealth. Commonwealth’s regulations require domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount in excess of federal insurance coverage.

Deposits, either insured or collateralized, are not considered to be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to the transaction, the Company may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2020, the Company’s cash in commercial banks, excluding cash on hand of \$9,242, consist of the following:

<u>Financial Institution</u>	<u>Carrying Amount</u>	<u>Depository Bank Balance</u>
Commercial banks	\$ 139,446,494	\$ 139,719,937

Restricted Cash

As of June 30, 2020, restricted cash amounted to approximately \$103.3 million. This amount is retained from room tax distributions for the payment of the debt service of the Puerto Rico Convention Center District Authority, another component unit of the Commonwealth, 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.



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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 Title 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.

As described in Note 19, on November 3, 2021, the Oversight Board filed the Eighth Amended Plan, which further revised the Seventh Amended Plan. The Eighth Amended Plan concluded on November 23, 2021 and the final modified version was filed on January 14, 2022 [ECF No. 19813-1].

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

Description	Pro rata share of interest in the PET		
	Claim 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)	-
	<u>\$ 35,445,779</u>	<u>\$ (35,445,779)</u>	<u>\$ -</u>

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%. As described on Note 18, on September 2021 the Company collected \$304,740 corresponding to the principal amount owed plus accrued interests.



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Business-type loans receivable as of June 30, 2020, 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 thousand 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
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 thousand 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 \$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
Non-revolving loan of \$4 million due from IV Hospitality, LLC to cover certain costs and expenses related to the construction and development of Residence Inn Hotel. The non-revolving loan's interest rate on the unpaid principal balance is 8.25% per annum that shall be payable in monthly statements until maturity date. The loan is due on December 1, 2021. As discussed in Note 19, a subsequent amendment was made to extend the maturity date until June 1, 2022.	4,216,333
Other	264,957
	<u>32,165,323</u>
Less: Allowance for losses on loans receivable	<u>(27,854,110)</u>
Total Business-type loan receivables, net	<u>\$ 4,311,213</u>



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As of June 30, 2020, nonperforming loans amounted to approximately \$27.9 million. Interest income that would have been recorded during the fiscal year ended June 30, 2020, if these loans had performed in accordance with their original terms would have been approximately \$1,565,000.

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, 2020, HDC received approximately \$460,000 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, 2020, HDC recognized approximately \$78,000 of interest from this subordinated credit facility. Ashford 1369 Hospitality, LLC offered HDC an early payoff offer, which was accepted and fully collected during the year ended June 30, 2020.

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.

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7) Investment in Tourism Projects

As of June 30, 2020, investment in tourism projects consist of the following:

<u>Tourism Projects</u>	<u>Carrying Amount</u>
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	<u>15,000,000</u>
	75,719,861
Less: Allowance for losses on investment in tourism projects	<u>(75,719,861)</u>
	<u>\$ -</u>

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



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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, 2020, the Corporation received approximately \$234,000 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 thousand.

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.



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Bahía Beach

Bahía Beach is a Puerto Rico limited liability company that developed, 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.



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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.



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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.



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The investment in tourism projects generated room tax and slot machine related revenues during the year ended June 30, 2020, is as follows:

Tourism Project	Room Tax	Slot Machines	Total
DBR Dorado Owner LLC (DBR)	\$ 2,213,972	\$ -	\$ 2,213,972
Bahia Beach CH Development, LLC (St. Regis Hotel at Bahía Beach Resort and Golf Club or Bahia Beach)	1,220,516	-	1,220,516
Condado Palm Investors, LLC (Condado Palm)	542,568	-	542,568
CCHPR Holding, LLC (CCHPR)	2,009,009	5,328,530	7,337,539
Old San Juan Associates LP, SE (Old San Juan)	830,013	-	830,013
WC Manager LLC (WC)	283,053	-	283,053
Flagship Resorts Properties, SE (Flagship)	341,034	-	341,034
District Hotel Company, LLC (DHC)	462,473	-	462,473
	<u>\$ 7,902,638</u>	<u>\$ 5,328,530</u>	<u>\$ 13,231,168</u>

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, 2020, between governmental funds and proprietary funds is as follows:

Interfund receivable	Interfund payable	Purpose	Amount
Proprietary fund –	Governmental fund –		
Slot Machines Operations	General fund	Balance in cash pool	<u>\$ 1,797,562</u>
Governmental fund –	Proprietary fund –		
General fund	HDC	Balance in cash pool	<u>\$ 25,752,198</u>
Governmental fund –	Proprietary fund –		
General fund	MTC	Balance in cash pool	<u>\$ 400</u>

Amount due by HDC to the General Fund represents advances under long-term internal borrowings made with an expectation of repayment. As described in Note 19, a total of approximately \$1,300,000 was collected during the fiscal year ended June 30, 2021. HDC will continue to make repayments in subsequent fiscal years.

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%



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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%

Amount due by HDC to the General Fund represents advances under long-term internal borrowings made with an expectation of repayment. As described in Note 19, a total of \$1,328,000 was collected during the fiscal year ended June 30, 2021. HDC will continue to make repayments in subsequent fiscal years.

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10) Capital Assets

Capital assets activity for the year ended June 30, 2020, 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	<u>5,053,320</u>	<u>-</u>	<u>-</u>	<u>5,053,320</u>
Capital assets – being depreciated:				
Infrastructure	19,528,062	-	-	19,528,062
Buildings and improvements	9,737,815	-	-	9,737,815
Leasehold improvements	658,621	-	-	658,621
Furniture and equipment	4,363,500	405,134	(245,227)	4,523,407
Vehicles	224,993	-	-	224,993
Total capital assets – being depreciated	<u>34,512,991</u>	<u>405,134</u>	<u>(245,227)</u>	<u>34,672,898</u>
Less accumulated depreciation:				
Infrastructure	(5,397,421)	(193,895)	-	(5,591,316)
Buildings and improvements	(8,771,656)	(343,335)	-	(9,114,991)
Leasehold improvements	(610,595)	(45,210)	-	(655,805)
Furniture and equipment	(3,589,064)	(398,094)	245,227	(3,741,931)
Vehicles	(199,807)	(10,136)	-	(209,943)
Total accumulated depreciation	<u>(18,568,543)</u>	<u>(990,670)</u>	<u>245,227</u>	<u>(19,313,986)</u>
Total capital assets – being depreciated, net	<u>15,944,448</u>	<u>(585,536)</u>	<u>-</u>	<u>15,358,912</u>
Governmental activities capital – assets, net	<u>\$ 20,997,768</u>	<u>\$ (585,536)</u>	<u>\$ -</u>	<u>\$ 20,412,232</u>



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Business Type Activities:

Description	Beginning Balance	Additions/ Reclassifications	Reductions/ Reclassifications	Ending Balance
Furniture and equipment being depreciated	\$ 894,118	\$ 28,637	\$ (73,706)	\$ 849,049
Less accumulated depreciation and amortization	(881,177)	(12,191)	73,706	(819,662)
Total Business-type activities capital – assets, net	<u>\$ 12,941</u>	<u>\$ 16,446</u>	<u>\$ -</u>	<u>\$ 29,387</u>

During the year ended June 30, 2020, current depreciation expense was charged to functions of the Company, as follows:

Description	Amount
Governmental activities	
General government	<u>\$ 990,670</u>

11) Long-Term Obligations

A summary of long-term obligations as of June 30, 2020, is as follows:

Description	Beginning Balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Accrued compensated absences	\$ 905,569	\$ 690,769	\$ (375,974)	\$ 1,220,364	\$ 495,647
Termination benefits	3,927,899	-	(614,301)	3,313,598	722,070
Obligations under capital leases	321,184	-	(179,576)	141,608	141,608
Legal claims	50,000	-	-	50,000	-
Nonexchange financial guarantee liability	1,000,000	-	-	1,000,000	-
Total pension liability	105,357,603	1,198,192	-	106,555,795	5,674,472
Total other postemployment benefits liability	2,198,249	36,202	-	2,234,451	195,071
Total – Governmental Activities	<u>\$ 113,760,504</u>	<u>\$ 1,925,163</u>	<u>\$ (1,169,851)</u>	<u>\$ 114,515,816</u>	<u>\$ 7,228,868</u>
Business-type activities:					
Accrued compensated absences	\$ 800,101	\$ 359,443	\$ (209,451)	\$ 950,093	\$ 301,675
Notes payable	44,483,807	-	-	44,483,807	7,031,005
Add premiums on notes refunding	756,544	57,915	-	814,459	-
Total – Business-type Activities	<u>\$ 46,040,452</u>	<u>\$ 417,358</u>	<u>\$ (209,451)</u>	<u>\$ 46,248,359</u>	<u>\$ 7,332,680</u>



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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 \$998,000 payable in equal installments of approximately \$15,000 through May 31, 2021. As of June 30, 2020, the minimum future leases payments due under the capital lease agreements are \$141,608 due on 2021.

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 which, pursuant to Act No. 164 of December 17, 2001 (Act No. 164), Puerto Rico Public Finance Corporation (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 thousand, and \$911 thousand, 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, 2020 is approximately \$45.3 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, 2020, are as follows:

Description	Principal	Interest	Total
Year ending June 30, 2021 and in arrears	\$ 7,031,025	\$ 14,078,389	\$ 21,109,414
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	1,663,025	2,025,826	3,688,851
2026-2030	28,494,603	6,366,702	34,861,305
2031	4,258,674	117,114	4,375,788
	44,483,807	\$ 28,943,894	\$ 73,427,701
Plus: premium on notes refunding	814,459		
	\$ 45,298,266		

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. The legislature of the Commonwealth 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 of the Commonwealth signed Executive Order EO 2016-30 that suspends any obligations of the legislature of the Commonwealth 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, 2019, and 2020, no amounts were included in the Commonwealth General Fund budget for the payment of any debt, including PFC bonds.

As discussed in Note 19, on January 20, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of PFC bonds. The PFC RSA contemplates that the notes will be cancelled and extinguished and that HDC will be discharged from any liability arising from or related to the notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

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 (ERS) and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the Company will make the employer contributions to the ERS and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the retirement system.



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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, 2020, 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 \$1.9 million.

From the total aggregate liability of the program as of June 30, 2020, 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 \$1.5 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 paym't 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, 2020, 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, 2020, the present value of future incentive payments reported as a liability amounted to approximately \$1.5 million. From the total aggregate liability of the program as of June 30, 2020, the amount of approximately \$329,000 should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$1.1 million. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position (deficit).



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13) Pension and Plan Description

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities ("ERS participants"). Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Total Company's contributions for the PayGo system during the year ended June 30, 2020 were approximately \$5.7 million.

As a result of the implementation of the PayGo system, 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 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 are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

Act No. 106-2017 also terminated the previously existing pension programs for ERS participants as of June 30, 2017 and created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the Plan. Under the New Defined Contribution Plan, members of the prior programs and new governmental employees hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program that will be selected by the Retirement Board established under Act No. 106-2017. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Act No. 106-2017, among other things, amended Act No. 447 with respect to Plan's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106-2017, Plan's Board of Trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing all of the Commonwealth's three major pension systems, including the Plan.

Defined Benefit Program

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.



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

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1-1990) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305-1999 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution 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. Also, Act No. 3 of April 4, 2013 (Act No. 3-2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

Service Retirement Eligibility Requirements

- *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, and (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

- *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.



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- *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.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
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.

- *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.



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If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

- **Accrued Benefit as of June 30 2013 fo Act No. 1 Members** – The accrued benefit as of June 30, 2013 shall be determined based on the average of compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

Special Benefits

- *Minimum Benefits*

- Past Ad Hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124, approved on June 8, 1973, and Act No. 23, approved on September 23, 1983.

- Minimum Benefits for Members who retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007).

- Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

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- *Cost-of-Living Adjustments (COLA) to Pension Benefits*

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year starting in 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members who were receiving a monthly benefit on or before January 17 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member who was receiving a monthly annuity on or before January 1, 2004, less than \$1,250 per month, received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35 of 2007).

Under the Eighth Amended Plan, these COLAs will be eliminated from and after the Effective Date. As of the date hereof, the Effective Date has not yet occurred. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

- *Special "Bonus" Benefits*

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December, provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July, provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

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

As of June 30, 2020, the Company reported a liability of approximately \$107 million for its proportionate share of the total pension liability.

The June 30, 2020, total pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of July 1, 2018, rolled forward to the measurement date of June 30, 2019. 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, 2019, the Company's proportionate share was 0.42879%.



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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, 2019 was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (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, 2019 actuarial valuation were as follows:

- *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-2019 from the 2006 base year and projected forward using MP-2019 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-2019 from the 2006 base year and projected forward using MP-2019 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 No. 127.

- *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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of 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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.



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Other Assumptions as of June 30, 2019:

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 3.50% 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 (2.50%)	At current discount rate (3.50%)	At 1% increase (4.50%)
Total pension liability	\$ 121,171,293	\$ 106,555,795	\$ 94,682,692

For the year ended June 30, 2020, the Company recognized a pension expense of \$3,298,453. As of June 30, 2019, 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	\$ -	\$ 3,612,552
Changes of assumptions	3,460,131	2,754,753
Changes in proportion	99,847	297,128
Benefits paid subsequent to measurement date	5,674,472	-
	<u>\$ 9,234,450</u>	<u>\$ 6,664,433</u>

Deferred outflows of resources related to pension benefit payments made by the Company subsequent to the measurement date that amounted to approximately \$5.7 million, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2020.



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Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2019 will be recognized in the pension expense (benefit) as follows:

Year ending June 30,	Amount
2020	\$ (620,891)
2021	(620,891)
2022	(620,891)
2023	(620,891)
2024	(620,891)
Total	<u>\$ (3,104,455)</u>

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 and 5 years for 2019.

Additional information on the Plan is provided on its standalone financial statements for the year ended June 30, 2019, 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.

The allocation percentage is based on the ratio of each participating entity's actual benefit payments to the actual benefit payments paid by all participating entities during the year ending on the measurement date.



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Total OPEB Liability and Actuarial Assumptions and Methods:

The total OPEB liability as of June 30, 2019 was \$2,234,451. The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date as of June 30, 2019). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period. As of June 30, 2020, the Company's proportionate share was 0.26849%, which resulted in an increase of 0.00746% from its proportionate as of June 30, 2019 (using the measurement date as of June 30, 2018). The Company recognized an OPEB expense for \$219,917 during the year ended June 30, 2020.

Discount Rate

The discount rate for June 30, 2019 was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

- *Pre-retirement Mortality* — For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 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-2019 from the 2006 base year and projected forward using MP-2019 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 No. 127.

- *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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- *Post-retirement Disabled Mortality* — Rates which vary by gender are assumed for disabled retirees based on a study of 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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.



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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, 2019 calculated using the current discount rate of 3.50% 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 (2.50%) or one percentage point higher (4.50%) than the current rate:

Description	At 1% decrease (2.50%)	At current discount rate (3.50%)	At 1% increase (4.50%)
Total OPEB liability	\$ 2,450,761	\$ 2,234,451	\$ 2,050,724

Deferred Outflows of Resources

The deferred outflows of resources related to OPEB Plan resulting from the Company's benefits paid subsequent to measurement date amounting to \$195,071 as of June 30, 2020, will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2019. 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, 2019, the Company reported deferred outflows of resources and deferred inflows of resources from the following sources related to the 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	195,071	-
	\$ 195,071	\$ -

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.



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15) Related-Party Transactions

Governmental Activities

As of June 30, 2020, the amounts due to the Puerto Rico Convention Center District Authority (PRCCDA) were approximately \$2.8 million of distributions of room tax to cover operating costs and deficits of the PRCCDA. In addition, a total of approximately \$109 million is due to PRCCDA from distributions of room tax to cover debt service payment related to PRCCDA's bonds (PRCCDA Bonds). 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 had an initial term of ten (10) years.

During the year ended June 30, 2020, the Company contributed \$25 million in accordance with the provisions of Act No. 17 2017. This contribution was made with the following sources: (i) approximately \$17.3 million from room tax (refer to Note 16), (ii) approximately \$4.5 million from an appropriation of the Commonwealth, and (iii) approximately \$3.3 million from other revenue sources of the Company. As of June 30, 2020, the Company has a balance due to the DMO of \$5.3 million.

Commonwealth of Puerto Rico

As of June 30, 2020, the amount due from Commonwealth for approximately \$3.9 million are related to: (i) \$4.5 million receivable to be transferred to the Corporacion para la Promocion de Puerto Rico como Destino, Inc.; and (ii) \$624 thousand 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, 2020, 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, 2020, there are unremitted distributions of slot machines operations to the Commonwealth of Puerto Rico and the University of Puerto Rico for approximately \$1.3 million and \$3.3 million, respectively.

During the year ended June 30, 2020, the Company contributed approximately \$16.3 million and \$48.8 million to the Commonwealth and the University of Puerto Rico, respectively, related to slot machine distributions.



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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 hostleries and an 11% tax for those operating casinos. However, special treatment is given to hostleries 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.



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During the year ended June 30, 2020, hotel room taxes collected amounted to approximately \$56.2 million.

Distributions for the year ended June 30, 2020, were as follows:

Description	Amount
Entity/Fund:	
PRCCDA – distribution to cover deficit	\$ 1,277,344
PRCCDA – distribution to cover operating costs	2,500,000
Corporación para la Promoción de Puerto Rico como Destino, Inc.	17,258,606
General Fund of the Company	<u>34,845,501</u>
	<u>\$ 55,881,451</u>

Hotel room taxes distributed to PRCCDA for approximately \$3.8 million has been recorded as part of the general government expense/ expenditure function and distributions to the Corporación para la Promoción de Puerto Rico como Destino, Inc. for \$17.3 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 estimates 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 the PRCCDA Bonds.

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. Act No. 5-2017 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. Act No. 5-2017 continued to declare 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 Act No. 5-2017 was set to expire on May 1, 2017 to coincide with the expiration of the Title IV Stay (as discussed above), 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 June 30, 2021 pursuant to the Governor's executive order EO-2020-092 issued on December 17, 2020.

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, 2020 the Company has retained approximately \$113 million of room tax revenues.



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The Company's retention of hotel tax revenues was subject to litigation in the Commonwealth's Title III case. Such litigation has been resolved by the terms of the Commonwealth Plan of Adjustment. Moreover, under the terms of the Commonwealth Plan of Adjustment, all Commonwealth laws that required the transfer of funds from the Commonwealth for the repayment of prepetition debt are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws to repay the PRCCDA Bonds. In addition, the PRCCDA Bonds for which the hotel tax revenues were historically appropriated for the repayment of, have been discharged by the terms of the Commonwealth Plan of Adjustment and CCDA Qualifying Modification. For additional information on such restructuring, refer to the Subsequent Event section in Note 19.

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. This adversary proceeding has been resolved pursuant to the Commonwealth Plan of Adjustment.

The Company is not a party to the adversary proceeding, but was 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.



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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. This adversary proceeding has been resolved pursuant to the Commonwealth 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 thousand and a percentage rent in the amount by which 3.50% 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, 2020, the outstanding principal of those loans and its corresponding guarantee obligations amounted to \$1,000,000.

As of June 30, 2020, 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.



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Other Rental Commitments

The Company is also committed to several non-cancellable operating leases for various facilities that expire in various years through 2022. Some of the lease contracts contain renewal options. During the year ended June 30, 2020, rent expense of these operating leases amounted to approximately \$626,000.

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 290,346
2022	<u>2,787</u>
	<u>\$ 293,133</u>

HDC has entered into various lease agreements for certain property for terms of five (5) to ninety nine (99) years. Future annual minimum rental income commitments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 107,948
2022	84,146
2023	64,544
2024	<u>41,152</u>
	<u>\$ 297,790</u>

Contingencies/Litigation

As of June 30, 2020, 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).

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Other contingency

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 Vaquez-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 Commonwealth and the U.S. Government to provide support and stimulus to front-line 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.

18) Fund Balance of the General Fund

As of June 30, 2020, fund balance of the general fund is composed of the following:

Description	Amount
Nonspendable:	
Prepaid expenses and other assets	\$ 5,260
Long-term portion of amount due from other fund	24,424,562
	24,429,822
Unassigned	7,322,256
	\$ 31,752,078

19) Subsequent Events

As of June 30, 2020, subsequent events are as follows:

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.



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Non-revolving loan due from IV Hospitality, LLC

On December 14, 2020, HDC granted an extension of the non-revolving loan maturity date of IV Hospitality, LLC up to June 1, 2022, due to delays arising as a result of the COVID-19 pandemic.

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.

Collection of Promissory Note Receivable

On September 2021, the Company collected the full amount owed of \$303,645 including interests, on the note receivable resulted from the sale of a property known as Punta Lima.

Collection of Interfund Balances

On October 8, 2020, HDC made repayments amounting to approximately \$1.3 million for its internal borrowings due to the General Fund.

Puerto Rico Finance Corporation's Restructuring Support Agreement

On January 20, 2022, FAFAA, on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including HDC, for the repayment of the PFC Bonds will be cancelled and extinguished and will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the requisite votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

Upon the effective date of the PFC RSA, the outstanding debt of HDC described in Note 12 will be cancelled and considered extinguished.

Title III Court Confirms Plan of Adjustment for the Commonwealth, the ERS, and PBA

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.



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On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and PRCCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the “Law to End the Bankruptcy of Puerto Rico,” which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties’ motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.



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As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately \$7.4 billion, consisting of approximately (i) \$6.6 billion of New GO CIBs, (ii) \$442.5 million of New GO CABs with a 5.375% interest rate, and (iii) \$288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.



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The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million. Similarly, the Clawback CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1-22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first \$100 million will be paid to GO CVIs and the next \$11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Effective Date and will be replenished with an additional aggregate total amount of \$375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to \$30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of \$500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.



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Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

PRCCDA Qualifying Modification for PRCCDA Bonds

On January 20, 2022, the U.S. District Court for the District of Puerto Rico entered an order approving the qualifying modification for PRCCDA Bonds (the PRCCDA Qualifying Modification) under Title VI of PROMESA.

The PRCCDA Qualifying Modification resolves all claims related to the PRCCDA Bonds, including extensive litigation related thereto, in exchange for (i) a 4% allocation of the Clawback CVIs issued pursuant to Commonwealth Plan of Adjustment (premised on outperformance of the SUT relative to the Oversight Board's projections contained in its May 27, 2020 certified fiscal plan for the Commonwealth), (ii) holders' pro rata share of \$97 million of cash in deposit accounts held by the Company at FirstBank, and (iii) certain fees in connection with bondholder support for the restructuring. The PRCCDA-related portion of the CVIs is subject to a lifetime aggregate cap of approximately \$217 million. The CVIs are general obligations of the Commonwealth issued pursuant to the Commonwealth Plan of Adjustment (discussed above).

On the effective date of the PRCCDA Qualifying Modification, the PRCCDA Bonds were canceled and discharged, and PRCCDA Bond claimants released all remaining claims related to the PRCCDA Bonds.

Other Laws Impacting the Company

Act No. 100 of 2020

Empowers the Puerto Rico Tourism Company to designate as a Gastronomic Tourism Zone any sector that is widely recognized locally and internationally as a gastronomic destination; that has a high concentration of restaurants or gastronomic places, which must represent some particular or general culinary style of Puerto Rican cuisine and carry out culinary activities that promote and encourage the delight of Puerto Rican cuisine. The sectors indicated in Article 1 of this Law will have a designation of tourism development for purposes of Law No. 75 of June 24, 1975, as amended. In addition, the designated sector must promote tourism and have tourist attractions."

Management has evaluated subsequent events through May 9, 2022, the date on which financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)



PUERTO RICO TOURISM COMPANY
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**SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY
 AND RELATED RATIOS (UNAUDITED)**

Fiscal Years Ended June 30, 2020, 2019 and 2018

Description	2020*	2019*	2018*
Proportion of Total Pension Liability	0.42879%	0.43022%	0.42968%
Proportionate Share of Total Pension Liability	\$ 106,555,795	\$ 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	N/A

*The amounts presented have a measurement date of the previous fiscal year end.

*Covered payroll is no longer applicable since Act No. 105-2017 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. 75, 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 supplementary information and Independent Auditors' Report.



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**SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL POSTEMPLOYMENT BENEFIT
 LIABILITY AND RELATED RATIOS (UNAUDITED)**
Fiscal Years Ended June 30, 2020, 2019, 2018 and 2017

Description	2020*	2019*	2018*	2017*
Proportion of Total Other Post Employment Benefit Liability	0.26849%	0.26103%	0.25990%	0.24981%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 2,234,451	\$ 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	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 supplementary information and Independent Auditors' Report.



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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
For the Fiscal Years ended June 30, 2020, 2019, 2018 and 2017

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 to pay related benefits. 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 3.50% as of June 30, 2019.

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

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 decrease in the discount rate from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.

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 GASB No. 75, paragraph 4, to pay related benefits.

Factors that significantly affect trends in the amounts reported

Actuarial assumptions

There was a change in the actuarial assumptions or inputs in the determination of the total OPEB liability as a result of the decrease in the discount rate from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.