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, 2021

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(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2021

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RSM Puerto Rico
PO Box 10528
San Juan, PR 00922-0528

T 787-751-6164
F 787-759-7479
www.rsm.pr

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, 2021, 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.

Opinion

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, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Deficit in Puerto Rico Tourism Company's Governmental Activities

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 $41.5 million, as of June 30, 2021. Such deficit is mainly due to the recognition of an obligation of approximately $120 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.

Deficit in Puerto Rico Tourism Company's Business-Type Activities

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 $65 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.

Our opinion is not modified with respect to these matters.

Restatement to Net Position (Deficit)

As discussed in Note 4 to the accompanying basic financial statements, the net position (deficit) balance as of July 1, 2020 of the governmental activities and the fund balance of the General Fund were restated to correct various misstatements. Our opinion is not modified with respect to this matter.

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 14, the Schedule of Proportionate Share of Collective Total Pension Liability and Related Ratios on page 76 and the Schedule of Proportionate Share of Collective Total Postemployment Benefit Liability and Related Ratios on page 77 and the Notes to the Required Supplementary Information on page 78, 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
February 18, 2023.

RSM Puerto Rico

Stamp No. E522932 was affixed to
the original of this report.

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, 2021. 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, 2021 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 two 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's governmental activities reflect a negative net position (deficit) of approximately $41 million for the fiscal year ended June 30, 2021.
- Hotel room tax amounted to approximately $64.9 million for the fiscal year ended June 30, 2021. This represents an increase in hotel room tax revenue of approximately $8.8 million when compared to approximately $56.1 million for the fiscal year ended June 30, 2020.
- During the fiscal year ended June 30, 2021, the Company incurred approximately $34.5 million in expenses to promote Puerto Rico as a premier international tourist destination. This represents a decrease of approximately $11.5 million when compared to approximately $45.9 million for the fiscal year ended June 30, 2020.
- During the fiscal year ended June 30, 2021 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 the required debt service payment. 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, 2021, the principal balance and the related accrued interest amounted to approximately $45.3 million and approximately $15.8 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. On October 25, 2022, AAFAF, on behalf of the PFC, and the Oversight Board launched solicitation of the PFC Qualifying Modification. On October 28, 2022, the Oversight Board, as the Title VI Administrative Supervisor, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico ("the District Court"). The District Court held a hearing to consider approval of the PFC Qualifying Modification on December 14, 2022. On December 30, 2022, the District Court entered an order approving the PFC Qualifying Modification. The effective date of the PFC Qualifying Modification occurred on January 12, 2023 and was substantially consummated. The PFC Bonds and Notes will be discharged. The notes will be cancelled and extinguished and Hotel Development Corporation, a component unit of the Company, (the "HDC") will be discharged from any liability arising from or related to the notes.

- Since January 2017, the Puerto Rico Medical Tourism Corporation discontinued its operations 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 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 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 Puerto Rico (the "Games Commission"). Effective July 1, 2020, the Company transferred the Slots Machines Operations ("the SMOs") to the Games Commission. The transfer of the SMOs resulted in a gain on disposition of approximately $1 million in the statement of activities.

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 ("U.S. GAAP"), 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.

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.

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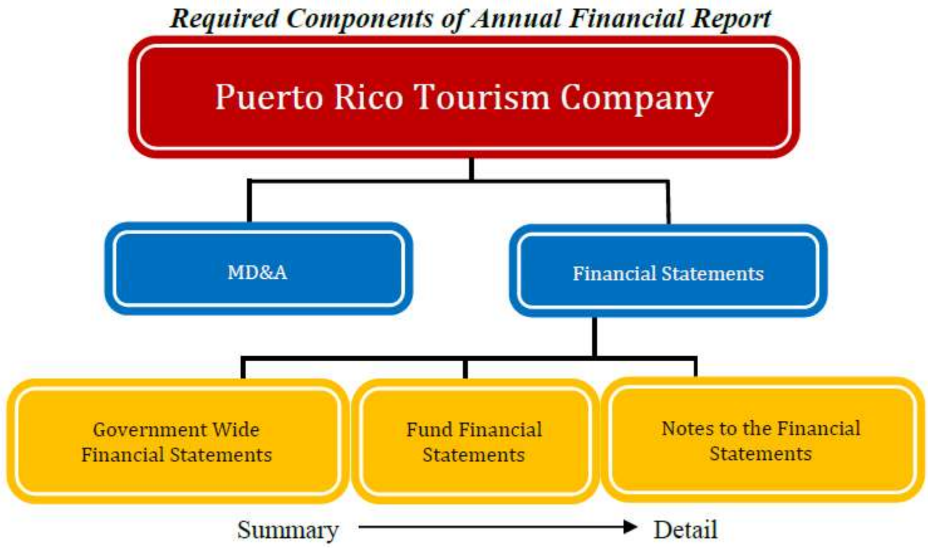
The components of the financial statements are as follows:



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 amounts, or unrestricted amounts. 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.

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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, tourism-related transportation services, and other related regulatory matters are included herein. These activities are mainly financed through hotel room tax and legislative appropriations from the Commonwealth.
- Business-type activities – The Company promotes the development of the hotel and tourism industry including the construction and financing of tourism facilities in Puerto Rico.

Fund Financial Statements

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

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

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

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Government-Wide Financial Analysis

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

Governmental Activities

Condensed financial information of governmental activities in the statement of net position (deficit) as of June 30, 2021 and 2020, is shown below:

	As of June 30,						
		2021		2020 As Restated		Increase (Decrease)	Variance Percentage
ASSETS							
Current assets	$	218,460,104	$	163,673,486	$	54,786,618	33.5%
Noncurrent assets		-		300,000		(300,000)	(100.0%)
Capital assets, net		19,611,912		20,412,232		(800,320)	(3.9%)
Total assets		238,072,016		184,385,718		53,686,298	29.1%
Deferred outflows of resources		21,179,413		9,429,521		11,749,892	124.6%
LIABILITIES							
Current liabilities		167,106,519		134,273,548		32,832,971	24.5%
Noncurrent liabilities		128,386,356		114,515,816		13,870,540	12.1%
Total liabilities		295,492,875		248,789,364		46,703,511	18.8%
Deferred inflows of resources		5,247,161		6,664,433		(1,417,272)	(21.3%)
NET POSITION (DEFICIT):							
Net investment in capital assets		19,611,912		20,270,624		(658,712)	(3.2%)
Unrestricted		(61,100,519)		(81,909,182)		20,808,663	(25.4%)
Total net position (deficit)	$	(41,488,607)	$	(61,638,558)	$	20,149,951	(32.7%)

As of June 30, 2021, total assets of governmental activities amounted to approximately $238 million; total liabilities amounted to approximately $295 million, and a net deficit of approximately $41 million. Net deficit reflects a decrease of approximately $20.1 million, when compared to the prior year. The net deficit decrease was mainly due to the increase in room tax revenues of approximately $8.8 million, distributions from Slots Machines of $6.0 million, and improvement of governmental activities of approximately $6.7 million.

Net position (deficit) has been broken down into (i) net investment in capital assets of approximately $19.6 million and (ii) unrestricted net deficit of approximately $61.1 million.

Total assets increased by approximately $54.8 million, mainly to the increase in restricted cash of approximately $32 million and accounts receivable of approximately $12.3 million.

The total liabilities increased by approximately $46.7 million during 2021, where the most noticeable increase resided in the amount due to the Puerto Rico Convention Center District Authority of approximately $30.3 million and accounts payable of approximately $13.4 million.

Condensed financial information of governmental activities in the statement of activities for the fiscal years ended June 30, 2021 and 2020, is shown below:

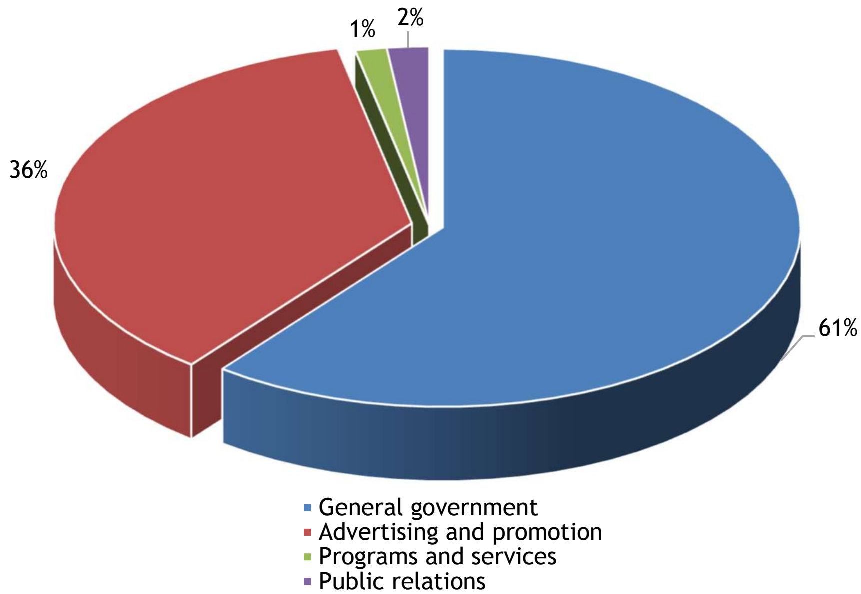
	Year ended June 30, 2021	Year ended June 30, 2020	Increase (Decrease)	Variance Percentage
Program revenues				
Charges for services	$ 1,818,460	$ 3,462,559	$ (1,644,099)	(47.5%)
Contributions from Commonwealth of Puerto Rico	-	4,500,000	(4,500,000)	(100.0%)
	1,818,460	7,962,559	(6,144,099)	(77.2%)
General revenues:				
Hotel room taxes	64,851,692	56,073,752	8,777,940	15.7%
Distributions of slot machines revenues	48,347,103	-	48,347,103	100.0%
Investment earnings	-	902,329	(902,329)	(100.0%)
Total general revenues	113,198,795	56,976,081	56,222,714	98.7%
Gain on transfer of the Slots Machines Operations	1,044,293	-	1,044,293	100.0%
Total revenues	116,061,548	64,938,640	51,122,908	78.7%
Functions/programs:				
General government	57,835,591	59,308,545	(1,472,954)	(2.5%)
Advertising and promotion	34,872,045	45,937,770	(11,065,725)	(24.1%)
Programs and services	1,355,556	1,389,496	(33,940)	(2.4%)
Public relations	1,848,405	1,612,231	236,174	14.6%
Total function/programs	95,911,597	108,248,042	(12,336,445)	(11.4%)
Net revenues (expenses) before transfers in	20,149,951	(43,309,402)	63,459,353	(146.5%)
Transfers in	-	42,323,513	(42,323,513)	(100.0%)
Change in net position	20,149,951	(985,889)	21,135,840	(2143.8%)
Net deficit - beginning of year, as restated	(61,638,558)	(58,600,529)	(3,038,029)	5.2%
Net deficit - end of year	$ (41,488,607)	$ (59,586,418)	$ 18,097,811	(30.4%)

Total revenues increased by approximately $51.1 million mostly related to the final share of the distributions of slots machines revenues of approximately $48.3 million that were transferred by the Games Commission to the General Fund of the Company. In fiscal year 2020 slots machines revenue distributions were accounted for as transfers in, from the former Slots Machines Operations Proprietary Fund (the "SMO" Fund). Also, recovery from COVID-19 pandemic caused a direct impact over the tourism industry. It caused an increase in hotel room taxes of approximately $8.8 million. There was a decrease of approximately $1.6 million on other charges for services.

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

General government expenses decreased by approximately $12.9 million, mainly due to advertising and promotion.

The following chart summarizes the Company's function/programs expenses for the governmental activities for the fiscal year ended June 30, 2021.



General government expenditures are one of the main expenses of the Company, constituting 61% of Government-activity expenses.

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Business-Type Activities

Condensed financial information of business-type activities in the statement of net deficit as of June 30, 2021 and 2020, is shown below:

	As of June 30,			
	2021	2020	Increase (Decrease)	Variance Percentage
Assets				
Current assets	$ 13,806,626	$ 19,191,342	$ (5,384,716)	(28.1%)
Other noncurrent assets	7,365,896	6,911,214	454,682	6.6%
Capital assets, net	-	29,387	(29,387)	(100.0%)
Total assets	21,172,522	26,131,943	(4,959,421)	(19.0%)
Deferred outflows of resources:				
Loss on note refunding	859,917	976,685	(116,768)	(12.0%)
Liabilities				
Current liabilities	41,683,497	51,908,392	(10,224,895)	(19.7%)
Noncurrent liabilities	45,356,181	38,915,659	6,440,522	16.5%
Total liabilities	87,039,678	90,824,051	(3,784,373)	(4.2%)
Net Position (Deficit)				
Net investment in capital assets	-	29,387	(29,387)	(100.0%)
Unrestricted deficit	(65,007,239)	(63,744,810)	(1,262,429)	2.0%
Total net deficit	$ (65,007,239)	$ (63,715,423)	$ (1,291,816)	2.0%

Business-type activities include the Hotel Development Corporation Fund (the "HDC Fund") and the Medical Tourism Company Fund (the "MTC Fund"). Total current assets decreased by approximately \$5.4 million from approximately \$19.2 million as of June 30, 2020 to approximately \$13.8 million as of June 30, 2021. The decrease was driven by a decrease in accounts receivable pertaining to the SMOs, that were now recognized on the Governmental Fund of approximately \$6.2 million and the HDC Fund's increase in cash and loans receivable by approximately \$700 thousand and approximately \$400 thousand, respectively.

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Condensed financial information of business-type activities in the statement of activities for the fiscal years ended June 30, 2021 and 2020, is shown below:

	As of June 30,			
	2021	2020	Increase (Decrease)	Variance Percentage
Program revenues				
Charges for services - financing and investing	$ 1,144,008	$ 1,040,086	$ 103,922	10.0%
Charges for services - other	1,170,980	125,686,446	(124,515,466)	(99.1%)
Total programs revenues	2,314,988	126,726,532	(124,411,544)	(98.2%)
Functions/programs				
Hotel Development Corporation	3,605,998	3,792,239	(186,241)	(4.9%)
Slot Machines Corporation	-	81,697,285	(81,697,285)	(100.0%)
Medical Tourism Company	806	77	729	946.8%
Total function/programs	3,606,804	85,489,601	(81,882,797)	(95.8%)
Net (expenses) / revenues before transfers	(1,291,816)	41,236,931	(42,528,747)	(103.1%)
Transfer out	-	(42,323,513)	42,323,513	(100.0%)
Change in net deficit	(1,291,816)	(1,086,582)	(205,234)	18.9%
Net deficit - beginning of year	(63,715,423)	(62,628,841)	(1,086,582)	1.7%
Net deficit - end of year	$ (65,007,239)	$ (63,715,423)	$ (1,291,816)	2.0%

Total revenues decreased by approximately $124.4 million during the fiscal year ended June 30, 2021. Total expenses decreased by approximately $81.9 million. Such decreases are due mainly to the transfer of the SMOs from the Company to the Games Commission. The net loss of the HDC Fund during the fiscal year ended June 30, 2021 amounting to approximately $1.3 million remained consistent with prior year.

Analysis of Fund Financial Statements

The Company has one governmental fund (the "General Fund") and two major proprietary funds (the HDC Fund, and the MTC Fund). The following is an analysis of the financial position and changes in the financial position by the major funds.

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General Fund

The General Fund's assets as of June 30, 2021 consist substantially of approximately $161 million of cash and restricted cash and accounts receivable of approximately $57.4 million.

Cash and restricted cash increased by approximately $34.5 million. Specifically, cash and restricted cash increased from approximately $126.5 million in fiscal year 2020 to approximately $161 million in fiscal year 2021. Hotel room tax receivables, net of uncollectible amounts, increased by approximately $6 million or more specifically, from approximately $7.8 million to approximately $13.8 million, as a result of an increase in hotel room tax revenues.

Liabilities increased by approximately $31 million from approximately $133 million in fiscal year 2020 to approximately $167 million in fiscal year 2021.

Revenue from hotel room tax increased by approximately by $8.8 million, from approximately $56 million in fiscal year 2020 to approximately $64.8 million in fiscal year 2021, due to an increase in occupancy mainly caused by the recovery from the COVID-19 pandemic.

General government expenditures decreased by approximately $5.1 million, from approximately $61.1 million in fiscal year 2020 to approximately $56 million in fiscal year 2021.

Advertising and promotion expenditures decreased approximately $11 million, from approximately $46 million in fiscal year 2020 to approximately $35 million in fiscal year 2021.

The General Fund received approximately $48.3 million of the total slots machines distributions from the Games Commission.

The transfer of the SMOs to the Games Commission resulted in a gain of approximately $1 million for the General Fund, as certain liabilities of the SMOs were not transferred to the General Fund as part of the transaction. Such liabilities were related to accumulated benefits of the personnel transferred to the Games Commission by the Company. In addition, the balance receivable from hotels and casinos for approximately $6.3 million recorded in the SMOs at the effective date of the transfer does not complies with the modified accrual-basis of accounting to be recorded in Company's General Fund statements. To properly present the General Fund balance sheet, the Company adjust the $6.3 million against the distributions from the Games Commission in the year ended June 30, 2021.

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

The HDC Fund's assets and deferred outflows of resources as of June 30, 2021, consist primarily of cash totaling approximately $13.3 million, accounts receivable of approximately $77 thousand, loans receivable of approximately $4.7 million, real estate held for future tourism development of approximately $2.6 million, and deferred loss on note refunding of approximately $900 thousand. Total liabilities consist of accounts payable of approximately $650 thousand, interest payable of approximately $15.8 million, due to other fund of approximately $25.2 million, and notes payable of approximately $45.4 million. Fund deficit increased by approximately $1.2 million when compared to the previous year.

Total operating revenues decreased by approximately $400 thousand from approximately $2.7 million in fiscal year 2020 to approximately $2.3 million in fiscal year 2021 mainly due to decrease in rent.

Total operating expenses decreased by approximately $200 thousand, from approximately $1.1 million in fiscal year 2020 to approximately $900 thousand in fiscal year 2021 due to decrease in repairs and maintenance expenses of tourism areas in fiscal year 2021.

Medical Tourism Company Fund

No contributions were made to the MTC Fund for the fiscal year ended June 30, 2021.

Capital Assets

Governmental

As of June 30, 2021, and 2020, capital assets for governmental activities are composed of the following:

Description	As of June 30, 2021	As of June 30, 2020	Increase (Decrease)
Land	$ 3,035,000	$ 3,035,000	$ -
Works of art	2,030,930	2,018,320	12,610
Total capital assets – not being depreciated	5,065,930	5,053,320	12,610
Infrastructure	13,742,851	13,936,746	(193,895)
Building and improvements	279,489	622,824	(343,335)
Leasehold improvements	2,679	2,816	(137)
Furniture and equipment	513,449	781,476	(268,027)
Vehicles	7,514	15,050	(7,536)
Total capital assets, net of accumulated depreciation and amortization	14,545,982	15,358,912	(812,930)
Total	$ 19,611,912	$ 20,412,232	$ (800,320)

The Company's capital assets as of June 30, 2021 and 2020 amounted to approximately $19.6 million and $20.4 million, respectively, net of accumulated depreciation and amortization. Capital assets consist of land, works of art, buildings and improvements, leasehold improvements, furniture and equipment, and vehicles. See note 10 to the accompanying basic financial statements for additional details on capital assets at year-end and on activity during the fiscal year ended June 30, 2021.

Business type

As of June 30, 2021, and 2020, capital assets for business type activities are composed of the following:

	As of June 30, 2021	As of June 30, 2020	Decrease
Furniture and equipment	$ -	$ 29,387	$ (29,387)

Decrease in business type capital assets was due to the transfer of SMOs capital assets to the General Fund, as part of the SMOs transfer to the Games Commission.

Long-Term Debt

Significant long-term debt activity during fiscal year 2021 was as follows:

- Long-term debt in the governmental activities amounted to approximately $128.4 million as of June 30, 2021. Long-term debt consists primarily of termination benefits of approximately $3.5 million, accrued legal claims of approximately $50 thousand, total pension liability of approximately $120 million and other post employment benefits ("OPEB") of approximately $2.3 million, accrued compensated absences of approximately $1.5 million, and a nonexchange financial guarantee liability of approximately $1 million. Long-term debt increased by approximately $13.9 million, from approximately $114.5 million to approximately $128.3 million, mainly due to the effect of the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 73 related to actual employer contributions and change in proportionate share that was implemented during fiscal year 2021.
- Long-term debt due within one year is approximately $7.3 million.
- Long-term debt in the business-type activities amounted to approximately $45.4 million as of June 30, 2021 and consist primarily of notes payable due to the Puerto Rico Public Finance Corporation, which are expected to be discharged under PFC's pending Qualifying Modification. Refer to Note 20 for a description of Subsequent Events, including the PFC Qualifying Modification.
- 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, 2021, the number of persons registered in lodgings endorsed by the Company, including residents of Puerto Rico and non-resident tourists, was approximately 1.7 million, an increase of 42% over the number of persons registered during the same period of fiscal year ended June 30, 2020. The average occupancy rate in these lodgings during fiscal year ended June 30, 2021 was 46.8%, an increase of 28% from the prior fiscal year.

Subsequent Events

Refer to Note 20 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 Chief Financial Officer, Puerto Rico Tourism Company, Tanca Street #500, Ochoa Building 3rd Floor, Old San Juan, San Juan, PR, 00902-3960.

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PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION (DEFICIT)
June 30, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	$ 25,674,423	$ 13,729,229	$ 39,403,652
Accounts receivable:			
Hotel room taxes – net	13,761,141	-	13,761,141
Hotel and casinos	6,341,824	-	6,341,824
Other - net	1,579,900	77,397	1,657,297
Due from the Games Commission of the Government of Puerto Rico	10,532,319	-	10,532,319
Investment in tourism projects, net of allowance of $68,219,861	-	-	-
Other assets	10,162	-	10,162
Internal balances	25,219,283	(25,219,283)	-
Loans receivable – net	-	4,765,895	4,765,895
Real estate held for future tourism development	-	2,600,001	2,600,001
Restricted cash	135,341,052	-	135,341,052
Capital assets:			
Land and other nondepreciable assets	5,065,930	-	5,065,930
Depreciable assets and vehicles, net of accumulated depreciation and amortization	14,545,982	-	14,545,982
	238,072,016	(4,046,761)	234,025,255
DEFERRED OUTFLOWS OF RESOURCES			
Loss on debt refunding	-	859,917	859,917
Pension related	21,002,598	-	21,002,598
Other postemployment benefits related	176,815	-	176,815
	21,179,413	859,917	22,039,330

Continues…

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

STATEMENT OF NET POSITION (DEFICIT)
June 30, 2021

Continued…

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable and accrued liabilities	13,381,038	650,716	14,031,754
Other liabilities	117,845	-	117,845
Interest payable	-	15,813,498	15,813,498
Due to Puerto Rico Convention Center District Authority	99,200	-	99,200
Due to Commonwealth of Puerto Rico	1,928,359	-	1,928,359
Due to Corporacion para la Promocion de Puerto Rico como Destino, Inc.	8,500,000	-	8,500,000
Due to University of Puerto Rico	3,366,352	-	3,366,352
Liability payable from restricted assets:			
Due to Puerto Rico Convention Center District Authority	139,713,725	-	139,713,725
Long-term obligations due within one year:			
Accrued compensated absences	461,431	-	461,431
Termination benefits	722,071	-	722,071
Notes payable	-	8,319,547	8,319,547
Total pension liability	5,615,594	-	5,615,594
Total other postemployment benefits liability	176,815	-	176,815
Long-term obligations due in more than one year:			
Accrued compensated absences	1,071,222	-	1,071,222
Termination benefits	2,752,216	-	2,752,216
Accrued legal claims	50,000	-	50,000
Notes payable	-	37,036,634	37,036,634
Nonexchange financial guarantee liability	1,000,000	-	1,000,000
Total pension liability	114,382,705	-	114,382,705
Total other postemployment benefits liability	2,154,302	-	2,154,302
	295,492,875	61,820,395	357,313,270
DEFERRED INFLOWS OF RESOURCES			
Pension related	5,247,161	-	5,247,161
NET POSITION (DEFICIT)			
Net investment in capital assets	19,611,912	-	19,611,912
Unrestricted (deficit)	(61,100,519)	(65,007,239)	(126,107,758)
	$ (41,488,607)	$ (65,007,239)	$ (106,495,846)

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, 2021

Functions/Programs	Expenses	Program Revenues: Charges for Services	Net Revenues (Expenses) and Changes in Net Position (Deficit): Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES					
General government	$ 57,835,591	$ 1,818,460	$ (56,017,131)	$ -	$ (56,017,131)
Advertising and promotion	34,872,045	-	(34,872,045)	-	(34,872,045)
Programs and services	1,355,556	-	(1,355,556)	-	(1,355,556)
Public relations	1,848,405	-	(1,848,405)	-	(1,848,405)
Total governmental activities	95,911,597	1,818,460	(94,093,137)	-	(94,093,137)
BUSINESS -TYPE ACTIVITIES					
Hotel Development Corporation	3,605,998	2,314,988	-	(1,291,010)	(1,291,010)
Medical Tourism Company	1,009	203	-	(806)	(806)
Total business-type activities	3,607,007	2,315,191	-	(1,291,816)	(1,291,816)
	$ 99,518,604	$ 4,133,651	(94,093,137)	(1,291,816)	(95,384,953)
GENERAL REVENUES					
Hotel room taxes			64,851,692	-	64,851,692
Distributions from Slots Machines Operations			48,347,103	-	48,347,103
Total general revenues			113,198,795	-	113,198,795
SPECIAL ITEM					
Gain on transfer of Slots Machines Operations			1,044,293	-	1,044,293
			114,243,088	-	114,243,088
Change in net position (deficit)			20,149,951	(1,291,816)	18,858,135
NET DEFICIT - Beginning of year, as restated			(61,638,558)	(63,715,423)	(125,353,981)
NET DEFICIT - End of year			$ (41,488,607)	$ (65,007,239)	$ (106,495,846)

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, 2021

		General Fund
ASSETS		
Cash	$	25,674,423
Accounts receivable - Hotel room taxes, net		13,761,141
Due from the Games Commission of the Government of Puerto Rico		10,532,319
Due from other fund		25,228,357
Other assets		10,162
Restricted cash		135,341,052
Total assets	$	210,547,454
LIABILITIES		
Accounts payable and accrued liabilities	$	13,381,038
Other liabilities		117,845
Due to Puerto Rico Convention Center District Authority		99,200
Due to Commonwealth of Puerto Rico		1,928,359
Due to Corporación para la Promoción de Puerto Rico como Destino, Inc.		8,500,000
Due to University of Puerto Rico		3,366,352
Liability payable from restricted assets:		
Due to Puerto Rico Convention Center District Authority		139,713,725
Due to other fund		9,074
Total liabilities		167,115,593
FUND BALANCES		
Nonspendable		25,228,357
Unassigned		18,203,504
Total fund balances		43,431,861
Total liabilities and fund balances	$	210,547,454

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, 2021

FUND BALANCE - GOVERNMENTAL FUND	$	43,431,861
Amounts reported for governmental activities in the statement of net position (deficit) are different because:		
Amounts due from hotels and casinos and accouts receivable - other that will not be collected soon enough thereafter to pay the liabilities of the current period		7,921,724
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		19,611,912
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds:		
Pension related		21,002,598
Other postemployment benefits related		176,815
Deferred inflows of resources are not reported in the funds:		
Pension related		(5,247,161)
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)
Accrued legal claims		(50,000)
Accrued compensated absences		(1,532,653)
Termination benefits		(3,474,287)
Total pension liability		(119,998,299)
Total other postemployment benefit liability		(2,331,117)
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(41,488,607)

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, 2021

	General Fund
REVENUES	
Hotel room tax	$ 64,851,692
Distributions from Slots Machines Operations	42,005,279
Charges for services	1,574,735
Investment earnings	201,899
Total revenues	108,633,605
EXPENDITURES	
Current:	
General government	56,153,015
Advertising and promotion	34,872,045
Programs and services	1,355,556
Public relations	1,848,405
Capital outlays	149,493
Total expenditures	94,378,514
EXCESS OF REVENUES OVER EXPENDITURES	14,255,091
SPECIAL ITEM	
Gain on transfer of Slots Machines Operations	1,014,906
NET CHANGE IN FUND BALANCE	15,269,997
FUND BALANCE — Beginning of year, as restated	28,161,864
FUND BALANCE — End of year	$ 43,431,861

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, 2021

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	$	15,269,997
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 and amortization expense.		(800,320)
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		141,608
Some revenues in the statement of activities do not provide current financial resources, and, therefore, are deferred in governmental funds		6,383,650
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		(160,688)
Pension expense		(257,085)
Other postemployment benefit expense		(114,922)
Compensated absences		(312,289)
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$	20,149,951

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, 2021

	Hotel Development Corporation	Medical Tourism Corporation	Total
ASSETS			
Current assets:			
Cash	$ 13,325,434	$ 403,795	$ 13,729,229
Accounts receivable — net	77,157	240	77,397
Total current assets	13,402,591	404,035	13,806,626
Non-current assets:			
Loans receivable — net	4,765,895	-	4,765,895
Real estate held for future turism development	2,600,001	-	2,600,001
Total noncurrent assets	7,365,896	-	7,365,896
	20,768,487	404,035	21,172,522
DEFERRED OUTFLOWS OR RESOURCES			
Loss on debt refunding	859,917	-	859,917
Total assets and deferred outflows of resourses	$ 21,628,404	$ 404,035	$ 22,032,439
LIABILITIES AND NET POSITION (DEFICIT)			
Current liabilities:			
Accounts payable	$ 650,716	$ -	$ 650,716
Interest payable	15,813,498	-	15,813,498
Due to other fund	25,218,883	400	25,219,283
Total current liabilities	41,683,097	400	41,683,497
Non-current liabilities			
Notes payable	45,356,181	-	45,356,181
Total liabilities	87,039,278	400	87,039,678
NET POSITION (DEFICIT)			
Unrestricted (Deficit)	(65,410,874)	403,635	(65,007,239)
Total net position (deficit)	(65,410,874)	403,635	(65,007,239)
Total liabilities and net position (deficit)	$ 21,628,404	$ 404,035	$ 22,032,439

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, 2021

	Hotel Development Corporation	Medical Tourism Corporation	Total
OPERATING REVENUES			
Investment income	$ 1,132,558	$ -	$ 1,132,558
Interest income	11,450	-	11,450
Rental income	1,170,980	-	1,170,980
Total operating revenues	2,314,988	-	2,314,988
OPERATING EXPENSES			
General and administrative	945,574	1,009	946,583
OPERATING INCOME (LOSS)	1,369,414	(1,009)	1,368,405
NONOPERATING REVENUES (EXPENSES)			
Interest income	-	203	203
Interest expense	(2,660,424)	-	(2,660,424)
Total nonoperating revenues (expenses)	(2,660,424)	203	(2,660,221)
CHANGE IN NET POSITION (DEFICIT)	(1,291,010)	(806)	(1,291,816)
NET POSITION (DEFICIT) — Beginning of year	(64,119,864)	404,441	(63,715,423)
NET POSITION (DEFICIT) — End of year	$ (65,410,874)	$ 403,635	$ (65,007,239)

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, 2021

	Hotel Development Corporation	Medical Tourism Corporation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from investments in tourism projects	$ 677,876	$ -	$ 677,876
Cash received from interest	11,450	-	11,450
Cash received from rental activities	1,336,012	-	1,336,012
Cash paid for other operating expenses	(761,036)	(1,009)	(762,045)
Net cash provided by (used in) operating activities	1,264,302	(1,009)	1,263,293
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES			
Cash received from other funds	794,323	-	794,323
Cash paid to other funds	(1,327,636)	-	(1,327,636)
Net cash used in noncapital financing activities	(533,313)	-	(533,313)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
Interest received	-	203	203
Net change in cash	730,989	(806)	730,183
CASH – beginning of year	12,594,445	404,601	12,999,046
CASH – end of year	$ 13,325,434	$ 403,795	$ 13,729,229

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, 2021

	Hotel Development Corporation	Medical Tourism Corporation	Total
Continued…			
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,369,414	$ (1,009)	$ 1,368,405
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Bad debt expense	92,437	-	92,437
Changes in operating assets and liabilities:			
Decrease in accounts receivable	72,595	-	72,595
Increase in notes and loans receivable	(454,682)	-	(454,682)
Increase in accounts payable and accrued expenses	184,538	-	184,538
Net cash provided by (used in) operating activities	$ 1,264,302	$ (1,009)	$ 1,263,293
SUMMARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Interest accrual on notes payable	$ 2,485,741	$ -	$ 2,485,741

See accompanying notes to basic financial statements.

1) Reporting Entity

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

The Company maintained the Slot Machines Operations ("SMOs") Proprietary Fund up to June 30, 2020. This fund was used to accounts for the activities related to the collection of funds from slot machines located in Puerto Rico and for its final distribution to recipients as established by legislation. On July 1, 2020, the Company transferred the SMOs to the Games Commission of the Government of Puerto Rico (the Games Commission), another agency of the Government of Puerto Rico pursuant to Act No. 81 of 2019 (Act. No. 81), known as "Ley de Comisión de Juegos del Gobierno de Puerto Rico". In addition, the process of distribution of the net proceeds was transferred to the Puerto Rico Treasury Department.

The transfer was recorded in accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The transaction qualified as a transfer of operations to form a new government, and as described in Note 17, it resulted in a gain on transfer of approximately $1 million. In addition, there were approximately $48.3 million of revenues representing the final share of the revenues that pertains to the Company and were sent by the Games Commission.

Component Units

As of June 30, 2021, 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.

- *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 DDEC 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.

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 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. As of June 30, 2021, the Company does not have restricted net position.

- *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 to indicate that management does not consider them to be available for general operations.

The 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.

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 amount due from other fund. 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 amounts 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. As of June 30, 2021, the Company does not have restricted fund balance.

- *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. As of June 30, 2021, the Company does not have committed fund balance.

- 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. As of June 30, 2021, the Company does not have assigned fund balance.

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

Measurement Focus and Basis of Accounting

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

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

Principal revenue sources considered susceptible to accrual include hotel room tax 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 lending, investing, and other related activities. Operating expenses include 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.

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

- *The HDC Fund* – the HDC fund 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.

- *The MTC Fund* – the MTC fund 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.

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.

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, 2021, the Company did not 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.

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 or amortization 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 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, 2021.

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.

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 the 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. lnterfund 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.

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 vacations 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 Statement 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 No. 68, and Amendments to Certain Provisions* of GASB Statements No. 67 and No. 68.

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

Accounting for Postemployment Benefit Costs Other than Pensions

The Company follows the guidance in GASB Statement No. 75, A*ccounting 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.

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 2021 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. GAAP 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, 2021:

- 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 GASB 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.

- 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.

- 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 GASB 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 GASB 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 GASB Statement 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 GASB 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.

- 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 Interbank offered Rates ("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.

- 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 GASB 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 OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code ("IRC") section 457 deferred compensation plans ("Section 457 Plans") that meet the definition of a pension plan and for benefits provided through those plans.

  The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement No. 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 No. 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 No. 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.

- GASB Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

  - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument

  - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives

  - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset

  - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability

  - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt

  - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)

  - Disclosures related to nonmonetary transactions

  - Pledges of future revenues when resources are not received by the pledging government

- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements

- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

- GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No.62*. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

3) Emphasis of Matters

Deficit in the Company's Governmental Activities

The accompanying statement of net position (deficit) presents a net deficit of approximately $41 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 other than pension benefits.

Deficit in the Company's Business-Type Activities

The accompanying statement of net position (deficit) presents a net deficit of approximately $65 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 is still collecting enough cash to cover for operating expenses, but not enough to cover for prior year operational and investment losses.

4) Restatement to Net Position (Deficit) and Fund Balance

The Company has determined that a restatement to the July 1, 2020 beginning net position (deficit) of its governmental activities and beginning fund balance of the General Fund were required for the correction of an error, which resulted from the understatement of accounts payables as of June 30, 2020.

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This adjustment resulted in a change to the beginning net position (deficit) of the governmental activities and beginning fund balance of the General Fund of the Company as follows:

Description	Fund Balance of General Fund	Net Deficit of Governmental Activities
Balance as of June 30, 2020, as previously reported	$ 31,752,078	$ (59,586,418)
Accounts receivable other that will not be collected soon enough thereafter to pay the liabilities of the current period and were not adjusted as of June 30, 2020	(1,538,074)	-
Unrecorded accounts payable as of June 30, 2020	(2,052,140)	(2,052,140)
Balance as of June 30, 2020, as restated	$ 28,161,864	$ (61,638,558)

5) 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. The 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, 2021, the Company's cash in commercial banks, excluding cash on hand of $9,083, consist of the following:

Financial Institution	Carrying Amount	Depository Bank Balance
Commercial banks	$ 174,735,621	$ 174,888,241

Restricted Cash

As of June 30, 2021, restricted cash amounted to approximately $135.3 million. This amount is retained from room tax distributions for the payment of the debt service of the Puerto Rico Convention Center District Authority (PRCCDA), another component unit of the Commonwealth. Refer to Note 16 for additional information.

6) 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 "GDB Qualifying Modification").

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

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

As a result of the Qualifying Modification transaction and pursuant to the terms of the GDB Restructuring Act, the Company's deposits at GDB were fully extinguished and the Company obtained its pro rata share of interests in the PET (which included a total PET Claim of approximately $35.4 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 Ill 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. 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 confirmed Commonwealth Plan of Adjustment (as defined below), 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 Commonwealth Plan of Adjustment proposes to provide no distribution on account of such claims.

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:

	Pro rata share of interest in the PET		
Description	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)	-
	$ 35,445,779	$ (35,445,779)	$ -

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7) Loans Receivable

Business-type loans receivable as of June 30, 2021, 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. On December 14, 2020, an amendment was made that granted an extension of the maturity date until June 1, 2022. On June 23, 2022, this non-revolving loan was converted into a term loan. Refer to Note 20 for details of subsequent events.		4,550,916
Other		385,056
		32,620,005
Less: Allowance for losses on loans receivable		(27,854,110)
Total Business-type loan receivables, net	$	4,765,895

As of June 30, 2021, nonperforming loans amounted to approximately $27.9 million. Interest income that would have been recorded during the fiscal year ended June 30, 2021, if these loans had performed in accordance with their original terms would have been approximately $740,000.

In 2009, the HDC sold the surface rights on certain properties for $9.7 million. The 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 (together 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 (together the “Vanderbilt Hotels”). On March 10, 2014, the 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, 2021, the HDC received approximately $422,000 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.

8) Investment in Tourism Projects

As of June 30, 2021, investment in tourism projects consist of the following:

Tourism Projects	Carrying Amount
DBR Dorado Owner LLC (DBR)	$ 7,500,000
Vieques Hotel Partners (VHP)	8,336,859
Bahía Beach CH Development, LLC (“St. Regist Hotel at Bahía Beach Resort and Golf Club” or “Bahía Beach”)	13,856,667
CCHPR Holding, LLC (“Sheraton Puerto Rico Convention Center Headquarters Hotel” or “CCHPR”)	18,101,417
Old San Juan Associates L.P., S.E. (“Old San Juan”)	253,574
WC Manager LLC (WC)	1,015,861
Flagship Resorts Properties, S.E.(“Flagship”)	4,155,483
Resort at Cayo Largo, LLC	15,000,000
	68,219,861
Less: Allowance for losses on investment in tourism	(68,219,861)
	$ -

DBR Dorado Owner, LLC

In July 2009, the 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 the HDC contributed an additional $7.5 million for a total preferred equity investment in DBR of $15 million.

On November 12, 2014, the HDC and DBR, which manages Ritz Carlton Reserve Hotel, 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. Under the agreement, DBR shall pay the fee until the amount reaches $7.5 million.

As a result of the agreement the total investment and receivable were reduced to $7.5 million. This transaction was accounted for under the cost recovery method. Therefore, no profit is recognized until is collected from DBR. As of June 30, 2021, the total accumulated payments received from DBR is approximately $1.9 million leaving pending balance of approximately $5.6 million.

During the year ended June 30, 2021, the HDC collected payments for approximately $500 thousand from DBR.

Vieques Hotel Partners

On June 3, 2011, the 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. The HDC was entitled to an investment fee equal to 1% of the approved investment limit, equivalent to $85 thousand. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

Bahía Beach

Bahía Beach is a Puerto Rico limited liability company that 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, The HDC approved an investment of $12 million, not to exceed 10% of the total project cost. The agreement with Bahía Beach establishes that the 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. 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 the HDC, the HDC paid an initial capital contribution of $14.5 million to acquire all outstanding Class A preferred shares. CCHPR Hospitality LLC agreed to pay the 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. 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 the HDC, the 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. The HDC participates in the allocation of the net profit and net losses in proportion to the relative amounts allocable to each investor in the investment account. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

San Juan Water Club

On September 18, 2009, the HDC entered into a limited liability company agreement for the project known as San Juan Water Club ("the WC"). The HDC is the Class A preferred interest owner and the WC is the Class B interest owner. The HDC made a capital contribution for its Class A preferred interest of $1 million and the 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. 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, the 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. The 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, the HDC does not participate in the earnings or losses of the partnership.

On December 20, 2011, the 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.

Notwithstanding the foregoing, at a minimum, the partnership must pay to the HDC, on a monthly basis, an amount equivalent to the HDC's cost of funds, with 100% of the amounts received by the 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, the HDC, entered into a limited liability company agreement for the development and construction of Resort Cayo Largo, LLC ("Cayo Largo"). The HDC made a cash distribution of approximately $15 million in exchange for its admission to Cayo Largo's as Class D Member.

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.

Room Tax Assessed Related to Investment in Tourism Projects from Investment Projects

The ultimate construction of new tourism projects bring to the Company revenue sources from room tax assessed on the new hotel rooms.

The investment in tourism projects generated room tax related revenues during the year ended June 30, 2021, as follows:

Tourism Project	Room Tax
DBR Dorado Owner LLC (DBR)	$ 3,502,217
Bahia Beach CH Development, LLC (St. Regis Hotel at Bahía Beach Resort and Golf Club or Bahia Beach)	474,793
Condado Palm Investors, LLC (Condado Palm)	656,187
CCHPR Holding, LLC (CCHPR)	1,290,581
Old San Juan Associates LP, SE (Old San Juan Juan)	568,607
WC Manager LLC (WC)	283,850
Flagship Resorts Properties, SE (Flagship)	295,425
District Hotel Company, LLC (DHC)	314,239
	$ 7,385,899

9) Interfund Balances and Transfers

The summary of interfund balances as of June 30, 2021, between governmental funds and proprietary funds is as follows:

Interfund receivable	Interfund payable	Purpose	Amount
Governmental fund – General fund	Propietary fund – HDC	Balance in cash pool	$ 25,218,883
Governmental fund – General fund	Propietary fund – MTC	Balance in cash pool	$ 400

Amount due by the HDC to the General Fund represents advances under long-term internal borrowings made with an expectation of repayment.

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10) Capital Assets

Capital assets activity for the year ended June 30, 2021, 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	12,610	-	2,030,930
Total capital assets - not being depreciated	5,053,320	12,610	-	5,065,930
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	4,523,407	123,713	849,049	5,496,169
Vehicles	224,993	-	-	224,993
Total capital assets - being depreciated	34,672,898	123,713	849,049	35,645,660
Less accumulated depreciation:				
Infrastructure	(5,591,316)	(193,895)	-	(5,785,211)
Buildings and improvements	(9,114,991)	(343,335)	-	(9,458,326)
Leasehold improvements	(655,805)	(137)	-	(655,942)
Furniture and equipment	(3,741,931)	(421,127)	(819,662)	(4,982,720)
Vehicles	(209,943)	(7,536)	-	(217,479)
Total accumulated depreciation	(19,313,986)	(966,030)	(819,662)	(21,099,678)
Total capital assets - being depreciated, net	15,358,912	(842,317)	29,387	14,545,982
Governmental activities capital - assets, net	$ 20,412,232	$ (829,707)	$ 29,387	$ 19,611,912

During the year ended June 30, 2021, current depreciation expense was charged to functions of the Company, as follows:

Description	Amount
Governmental activities—	
General government	$ 966,030

11) Long-Term Obligations

A summary of long-term obligations as of June 30, 2021, is as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Accrued compensated absences	$ 1,220,363	$ 763,130	$ (450,841)	$ 1,532,652	$ 461,431
Termination benefits	3,313,599	882,759	(722,071)	3,474,287	722,071
Obligations under capital leases	141,608	-	(141,608)	-	-
Legal claims	50,000	-	-	50,000	-
Nonexchange financial guarantee liability	1,000,000	-	-	1,000,000	-
Total pension liability	106,555,795	13,442,504	-	119,998,299	5,615,594
liability	2,234,451	96,666	-	2,331,117	176,815
Total - Governmental Activities	$ 114,515,816	$ 15,185,059	$ (1,314,520)	$ 128,386,355	$ 6,975,911
Business-type activities:					
Accrued compensated absences	$ 950,093	$ -	$ (950,093)	$ -	$ -
Notes payable	44,483,807	-	-	44,483,807	8,319,547
Add premiums on notes refunding	814,459	57,915	-	872,374	57,915
Total - Business-type Activities	$ 46,248,359	$ 57,915	$ (950,093)	$ 45,356,181	$ 8,377,462

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. During the year ended June 30, 2021, the Company paid approximately $142 thousand in its obligation of capital leases.

For information on early retirement programs and legal claims refer to Notes 12 and 18 respectively.

Business Type Activities:

Notes payable (the "Notes") due by the 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 (the "PFC 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 by its Spanish acronym as "COFINA") 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, 2021 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. The 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.

The annual debt service requirements to maturity, including principal and interest for notes payable as of June 30, 2021, are as follows:

Description	Principal	Interest	Total
Year ending June 30, 2022 and in arrears	$ 8,319,547	$ 16,248,308	$ 24,567,855
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	1,663,025	1,926,044	3,589,069
2027-2031	31,090,252	4,557,772	35,648,024
	44,483,807	$ 28,943,895	$ 73,427,702
Plus: premium on notes refunding	872,374		
	$ 45,356,181		

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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 PFC Bonds that are reflected as part of the Company's business-type activities related to the 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 the PFC bonds.

As discussed in Note 20, on December 30, 2022, the Court approved a Title VI Qualifying Modification for the PFC (the "PFC Qualifying Modification"). The effective date of the PFC Qualifying Modification occurred on January 12, 2023, and was substantially consummated. The HDC will be discharged from any liability arising from or related to the notes.

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 and 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.

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 they were eliminated with Act No. 106-2017.

As of June 30, 2021, unpaid benefits on this program were discounted at the corresponding rate between 0.25% and 1.85%. The present value of future incentive payments reported as a liability amounted to approximately $2 million.

From the total aggregate liability of the program as of June 30, 2021, the amount of approximately $393 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $1.6 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 ERS before April 1, 1990 with at least 20 years of service may be eligible to participate in the program. Those who participate in the program would receive a compensation equal to sixty percent (60%) of employee's average compensation as of December 31, 2015; the payment of unused vacation and sick leave; the payment of employer contributions on account of Social Security and Medicare; and the payment of participant's healthcare plan during the first two years of the program. This program also provided for the employer to continue making both individual and employee contributions to ERS until July 1, 2017. These contributions were eliminated as established by Act No. 106-2017.

As of June 30, 2021, unpaid benefits on this program were discounted for employees at the corresponding rate between 0.25% and 1.85%. 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, 2021, 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, 2021, the amount of approximately $329 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to $1.2 million. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position (deficit).

13) Pension and Plan Description

General Information about the Pension Plan

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of 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. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the ERS. 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. Also, pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of the Treasury of the Commonwealth to pay pension benefits. Total Company's contributions for the PayGo system during the year ended June 30, 2021 were approximately $5.6 million.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 or 6 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.

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including ERS) were covered by ERS, including the Puerto Rico Tourism Company.

Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers {including the Puerto Rico Tourism Company). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers {including the Puerto Rico Tourism Company) were required to reimburse the· Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that were being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

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

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

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017. In addition, all accrued pension benefits under ERS's pension plans for active and retired public employees were preserved under the Commonwealth Plan of Adjustment, which was confirmed on January 18, 2022 and became effective on March 15, 2022. For further information on the Commonwealth Plan of Adjustment, refer to the discussion in Note 20.

Certain provisions of Act No. 3 were different for the three groups of members who entered the ERS before July 1, 2013, as described below:

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

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

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

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

On January 18, 2022, the Title Ill Court entered an order confirming the Commonwealth Plan of Adjustment for the Commonwealth, ERS, and PBA. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS. Under the Commonwealth Plan of Adjustment certain cost-of-living adjustments (COLAs) and other features of the ERS pension plans have been eliminated from and after the Effective Date (i.e., on or after March 15, 2022). For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at https://cases.ra.kroll.com/puertorico/Home-DocketInfo.

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.

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

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

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

Service Retirement Annuity Benefits

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

- *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.

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 Police and 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 of 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 since 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 that were receiving a monthly benefit on or before January 1, 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).

- *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, 2021, the Company reported a liability of approximately $120 million for its proportionate share of the total pension liability.

The June 30, 2021, total pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of July 1, 2019, rolled forward to the measurement date of June 30, 2020. 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, 2021, the Company's proportion was 0.42750%, which resulted in a decrease of 0.4879% from its proportion as of June 30, 2020 (measurement date).

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, 2020 was 2.21%. 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, 2020 actuarial valuation were as follows:

- *Pre-retirement Mortality*

  For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

  100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

- *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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement.

- *Post-retirement Disabled Mortality*

  Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2020:

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 total pension liability to changes 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 2.21% 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 (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
Total pension liability	$ 137,648,101	$ 119,998,299	$ 105,637,313

For the year ended June 30, 2021, the Company recognized a pension expense of $5,792,593. As of June 30, 2020, 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	$ 247,514	$ 2,701,271
Changes of assumptions	15,064,605	2,059,855
Changes in proportion	74,885	486,035
Benefits paid subsequent to measurement date	5,615,594	-
	$ 21,002,598	$ 5,247,161

Deferred outflows of resources related to pension benefit payments made by the Company subsequent to the measurement date that amounted to approximately $5.6 million, will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2021.

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Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2020 will be recognized in the pension expense (benefit) as follows:

Year ending June 30,	Amount
2021	$ 2,027,969
2022	2,027,969
2023	2,027,969
2024	2,027,969
2025	2,027,967
	$ 10,139,843

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 five (5) years for 2020.

Additional information on the Plan is provided on its standalone financial statements for the year ended June 30, 2020, a copy of which can be obtained from the Retirement Board of the Government 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 OPEB Plan. 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 total 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 of the Company as of June 30, 2021 was $2,331,117. The total OPEB liability as of June 30, 2021 was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date as of June 30, 2020). As of June 30, 2021, the Company's proportionate share was 0.26653%, which resulted in a decrease of 0.00196% from its proportionate as of June 30, 2020 (using the measurement date as of June 30, 2019). The Company recognized an OPEB expense of $291,737 during the year ended June 30, 2021.

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

Discount Rate

The discount rate for June 30, 2020 was 2.21%. 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, 2020 actuarial valuation were as follows:

- *Pre-retirement Mortality*

  For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

  100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

- *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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement.

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- *Post-retirement Disabled Mortality*

  Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disable retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

The following table presents the Company's proportionate share of the total OPEB liability of the Plan at June 30, 2020 calculated using the current discount rate of 2.21% 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 (1.21%) or one percentage point higher (2.21%) than the current rate:

Description	At 1% decrease (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
Total OPEB liability	$ 2,570,066	$ 2,331,117	$ 2,129,268

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 $176,815 as of June 30, 2021, will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2020. 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, 2020, 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	176,814	-
	$ 176,814	$ -

Other Postemployment Benefits

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

15) Related-Party Transactions

As of June 30, 2021, related party transactions and amounts due to other government instrumentalities are as follows:

Puerto Rico Convention Center District Authority

As of June 30, 2021, the amounts due to the Puerto Rico Convention Center District Authority ("PRCCDA") were approximately $100,000 of distributions of room tax to cover operating costs and deficits of the PRCCDA. In addition, a total of approximately $140 million is due to PRCCDA from distributions of room tax to cover debt service payment related to PRCCDA's bonds. For additional information refer to Note 16.

Commonwealth of Puerto Rico

As of June 30, 2021, there are unremitted distributions from the transfer of the SMOs that were assumed by the General Fund. Amount due to the Commonwealth for those unremitted distributions amounts to approximately $1.3 million. In addition, there are approximately $600 thousand due to the Commonwealth that are related to the distributions as per Act No. 66-2014 (also known as Fiscal Operation and Sustainability Act).

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 a 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, 2021, the Company contributed $16.5 million in accordance with the provisions of Act No. 17-2017. This contribution was made from room tax revenue sources (refer to Note 16). As of June 30, 2021, the Company has a balance due to the DMO of approximately $8.5 million.

University of Puerto Rico

As of June 30, 2021, there are unremitted distributions from the transfer of the SMOs to the Games Commission, that are due to the University of Puerto Rico for approximately $3.4 million.

16) Hotel Room Tax

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

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

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

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

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

- Two percent of the total proceeds will be assigned to the general fund of the Company to cover the operating and distribution costs of implementing the new law, or for any other use established by the Company.
- Beginning in fiscal year ended June 30, 2016, a five percent of the proceeds will be assigned to the general fund of the Company. In addition, a five percent of the proceeds will be transferred to the PRCCDA to cover costs associated exclusively with the operation of the Convention Center of Puerto Rico. If in any given year the audited financial statements of the Convention Center of Puerto Rico reflects a net income, a reimbursement should be made to the Company for the excess of net income over the amount transferred. This disposition is effective up to fiscal year ending June 30, 2021.
- Beginning in fiscal year ended June 30, 2016, the amount of $2.5 million will be transferred to the PRCCDA to cover for its operating costs. This disposition is effective up to fiscal year ending June 30, 2021.
- Up to $4 million of the proceeds will be maintained by the Company in a special reserve account to cover operating expenses associated with the DMS Agreement maintained with the DMO.
- Up to $25 million will be transferred to the Organization for the promotion and marketing of the island to non-residents as a visitor destination in accordance with the DMS Agreement.

During the year ended June 30, 2021, hotel room taxes collected amounted to approximately $64.9 million.

Distributions for the year ended June 30, 2021, were as follows:

Description	Amount
Entity/Fund:	
PRCCDA – distribution to cover deficit	$ 1,707,872
PRCCDA – distribution to cover operating costs	2,500,000
Corporación para la Promoción de Puerto Rico como Destino, Inc.	16,500,000
General Fund of the Company	34,337,813
	$ 55,045,685

Hotel room taxes distributed to PRCCDA for approximately $4.2 million has been recorded as part of the general government expense/ expenditure function and distributions to the Organization, Inc. for $16.5 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, 2022 pursuant to the Governor's executive order EO-2021-084 issued on December 27, 2021.

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, 2021 the Company has retained approximately $134 million of room tax revenues.

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 final modified version of the Eighth Amended Plan filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, "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 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.

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) Special Item-Transfer of SMOs to the Games Commission

The Company maintained the Slot Machines Operations ("SMOs") Proprietary Fund up to June 30, 2020. This fund was used to accounts for the activities related to the collection of funds from slot machines located in Puerto Rico and for its final distribution to recipients as established by legislation. On July 1, 2020, the Company transferred the SMOs to the Games Commission of the Government of Puerto Rico (the Games Commission), another agency of the Government of Puerto Rico pursuant to Act No. 81 of 2019 (Act. No. 81), known as "Ley de Comisión de Juegos del Gobierno de Puerto Rico". This transaction was recognized by the Company as a transfer of operations as defined by GASB 69. The Company recognized this transaction in two steps: (i) it dissolved the SMO Fund into the Company's General Fund and (ii) it transferred the corresponding assets and liabilities to the Games Commission. The dissolution of the SMO Fund did not result in a gain or loss on disposal in the proprietary financial statements of the SMOs, as of the date of the transaction, assets equaled its liabilities. The transfer of certain assets and liabilities from the Company's General Fund to the Games Commission resulted in a gain on transfer of approximately $1 million that was presented as a special item in the accompanying statement of activities and the statement of revenues, expenditures and changes in fund balances – governmental general fund. Such gain represents SMOs former employees accrued compensated benefits and the Christmas bonus, which were not assumed by the Company's General Fund, as such employees were transferred to the Games Commission.

18) 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 of 3.50% of gross hotel room sales for any rental year that exceeds the basic rental and the parking parcel lease amount.

In addition, on August 8, 2007, HDC also entered into a deed for the 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, 2021, the outstanding principal of those loans and its corresponding guarantee obligations amounted to $1,000,000.

As of June 30, 2021, the Company's management determined that it is more likely than not that the Company would be required to pay the guaranteed portion of one of the loans under the agreement with the Economic Bank for Puerto Rico. The amount of the liability is the estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee.

Other Rental Commitments

The Company is also committed to several non-cancellable operating leases for various facilities that expire in various years through 2022. Some of the lease contracts contain renewal options. During the year ended June 30, 2021, rent expense of these operating leases amounted to approximately $626,000.

Year ending June 30,	Amount
2022	$ 306,615

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:

Year ending June 30,	Amount
2022	$ 84,146
2023	39,997
2024	35,088
2025	14,620
	$ 173,851

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Contingencies/Litigation

As of June 30, 2021, 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).

19) Fund Balance of the General Fund

As of June 30, 2021, fund balance of the general fund is composed of the following:

Description	Amount
Nonspendable:	
Long-term portion of amount due from other fund	$ 25,228,357
Unassigned	18,203,504
	$ 43,431,861

20) Subsequent Events

As of June 30, 2021, subsequent events are as follows:

Puerto Rico Finance Corporation's Qualifying Modification

On January 20, 2022, FAFAA, on behalf of PFC, entered into, the PFC RSA with holders of a majority of 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 (the Notes) that were issued to the order of PFC by certain Commonwealth instrumentalities, including the 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.

On October 25, 2022, AAFAF, on behalf of the PFC, and the Oversight Board launched solicitation of the PFC Qualifying Modification. On October 28, 2022, the Oversight Board, as the Title VI Administrative Supervisor, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico. The District Court held a hearing to consider approval of the PFC Qualifying Modification on December 14, 2022. On December 30, 2022, the District Court entered an order approving the PFC Qualifying Modification. The effective date of the PFC Qualifying Modification occurred on January 12, 2023 and was substantially consummated.

Conversion of Non-Revolving Loan into a Term Loan

On June 23, 2022, HDC entered into a Term Loan Agreement with IV Hospitality, LLC. The main provision of this Term Loan Agreement is that the previous Non-Revolving Loan was converted into a Term Loan. The Term Loan amount was established as $4,904,917 which includes (i) the principal amount of $4,000,000 disbursed as Non-Revolving Loan, (ii) the amount of $879,084 representing interest accrued during the construction period with the Non-Revolving Loan and (iii) $25,833 representing service fees.

The Term Loan shall be repaid in forty-eight (48) consecutive monthly installments as follows:

- 47 consecutive equal monthly installments of principal plus accrued interest thereon, based on a straight-line amortization schedule over a period of 25 years; and
- A final installment payable on the 48th month after the first anniversary of the Conversion Date, consisting of a balloon payment for the then outstanding balance of principal plus interest thereon, together with any other amounts outstanding under the Loan Documents.

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.

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"), 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 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 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. On March 81 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. 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. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. The teachers' associations filed a petition for a writ of certiorari, which the U.S. Supreme Court denied on November 21, 2022. On July 18, 2022, the First Circuit affirmed the Title Ill Court's finding that the Commonwealth Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. See Case No. 22-1119. That decision is currently pending a writ of certiorari to the United States Supreme Court under Case No. 22-367. On October 27, 2022, the First Circuit denied another retiree group's appeal of the Confirmation Order's preemption of Acts 80, 81, and 82 for lack of appellate jurisdiction. See Case No. 22-1120. On November 23, 20212, the First Circuit dismissed the credit unions' appeal as moot after dismissing their underlying adversary proceeding claims. See Case No. 22-1079. Oral argument on the merits of the remaining appeal [Case No. 22- 1092] was held on April 28, 2022, but a final determination on that appeal remains pending.

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.

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.

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 through 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 through 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.

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 benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

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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.

Pursuant to the confirmation order of the PRCCDA Qualifying Modification, the U.S. District Court for the District of Puerto Rico order the transfer of the cash in deposit accounts held by the Company to the Puerto Rico Treasury Single Account ("TSA"). On February 11, 2022, the Company transferred approximately $156.6 to the TSA.

Management has evaluated subsequent events through February 18, 2023, the date on which financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

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

Fiscal Years Ended June 30, 2021, 2020, and 2019

Description	2021*	2020*	2019*
Proportion of Total Pension Liability	0.42750%	0.42879%	0.43022%
Proportionate Share of Total Pension Liability	$ 119,998,299	$ 106,555,795	$ 105,357,603
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 contribi
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 Supplemetary Information and Independent Auditors' Report.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

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

Fiscal Years Ended June 30, 2021, 2020, 2019, 2018 and 2017

Description	2021*	2020*	2019*	2018*	2017*
Proportion of Total Other Post Employment Benefit Liability	0.26653%	0.26849%	0.26103%	0.25990%	0.24981%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 2,331,117	$ 2,234,451	$ 2,198,249	$ 2,392,383	$ 2,960,558

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

*Currently there are no active participants in this plan. Therefore, the covered payroll disclosure

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.

1) Changes and Assumptions

On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No. 106-2017 established the pay-as-you-go mechanism effective July 1, 2017 for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

Changes in 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 as follows:

In the revised June 30, 2020 actuarial valuation, there was a decrease relating to the discount rate from 3.50% in 2019 to 2.21% in 2020.

In the revised June 30, 2019 actuarial valuation, there was a decrease relating to the discount rate from 3.87% in 2018 to 3.50% in 2019.

In the revised June 30, 2018 actuarial valuation, there was an increase relating to the discount rate from 3.58% in 2017 to 3.87% in 2018.

In the revised June 30, 2017 actuarial valuation, there was an increase relating to the discount rate from 2.85% in 2016 to 3.58% in 2017.

Also, the postretirement and preretirement mortality assumptions were revised as follows:

The postretirement mortality assumptions were revised based on an experience study covering the period from July 1, 2013 through June 30, 30, 2018. The base mortality rates reflect the Society of Actuaries Pub-2010 mortality tables, which were published in January 2019 and are based on public experience. For healthy retirees and beneficiaries prior the member's death, the postretirement mortality rates were revised to 100% and 110% of the Pub-2010 general healthy retiree mortality table for males and females, respectively. For disabled retirees, the postretirement mortality base rates were revised to 80% and 100% of the Pub-2010 general disable retiree mortality table for males and females, respectively. For beneficiaries after the retirees' death, the postretirement mortality base rates were revised to 110% and 120% of the Pub-2010 general below median contingent survivor mortality table for males and females, respectively.

The preretirement mortality assumption was also revised. For general employees not covered under Act 127-1958, the preretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general employee mortality table for males and females, respectively. For members covered under Act 127-1958, the preretirement mortality base rates were revised to the Pub-2010 public safety employee rates.

In addition, the projected mortality improvement scale was updated from Scale MP-2019 to Scale MP-2020.