

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

**Basic Financial Statements
and Required Supplementary Information
June 30, 2022**

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

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Tourism Company

Opinions

We have audited the 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, 2022, 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.

In our opinion, the accompanying 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Puerto Rico Tourism Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

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

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 but this deficit will decrease considerably as a result of the subsequent discharge of the notes payable due to Public Finance Corporation (another component unit of the Commonwealth of Puerto Rico). Our opinion is not modified with respect to this matter.

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

In addition, as discussed in Note 4 to the accompanying basic financial statements, the net position (deficit) balance as of July 1, 2021 of the governmental activities, the business-type activities, the fund balance of the General Fund and the net position of the proprietary funds were restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Tourism Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Puerto Rico Tourism Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico Tourism Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 14, the Schedule of Proportionate Share of Collective Total Pension Liability and Related Ratios on page 74, the Schedule of Proportionate Share of Collective Total Postemployment Benefit Liability and Related Ratios on page 75, and the Notes to the Required Supplementary Information on page 76, be presented to supplement the basic financial statements. Such information, is the responsibility of management and, although not a part of the basic financial statements required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
November 22, 2023.

Stamp No. E554110 was affixed to
the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) June 30, 2022

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, 2022. 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 are intended to be read in conjunction with the Company's basic financial statements for the fiscal year ended June 30, 2022 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), (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 net position of approximately \$31.3 million for the fiscal year ended June 30, 2022.
- Hotel room tax amounted to approximately \$116 million for the fiscal year ended June 30, 2022. This represents an increase in hotel room tax revenue of approximately \$51 million when compared to approximately \$65 million for the fiscal year ended June 30, 2021.
- During the fiscal year ended June 30, 2022, the Company incurred approximately \$49 million in expenses to promote Puerto Rico as a premier international tourist destination. This represents an increase of approximately \$14 million when compared to approximately \$35 million for the fiscal year ended June 30, 2021.
- On August 25, 2021, the Company was notified by the Coronavirus Relief Fund Disbursement Oversight Committee that an allocation of \$7 million was granted under the Coronavirus Relief Fund ("CRF") Transfer Agreement with the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority for the celebration of Miss World International 2021 Contest. Total funds advanced to the Company amounted to \$3 million and total expenditures incurred during the year ended June 30, 2022, amounted to \$1.75 million. Funds amounting to \$1.25 million were reimbursed to the Puerto Rico Treasury Department. In addition, on February 15, 2022, the Company was notified by the Coronavirus Relief Fund Disbursement Oversight Committee that an allocation of \$20 million was granted under the CRF Transfer Agreement with the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority for the Promote Puerto Rico: Promote Domestic Tourism Program. Total funds advanced to the Company amounted to \$5.2 million and no expenditures were incurred during the year ended June 30, 2022.
- 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. 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. At the effective date of the PRCCDA Qualifying Modification, the Company had a balance due to PRCCDA for the repayment of the PRCCDA Bonds for approximately \$162.7 million including interest. Pursuant to the confirmation order of the PRCCDA Qualifying Modification, the U.S. District Court for the District of Puerto Rico ordered the transfer of the cash in deposit accounts held by the Company to the Puerto Rico Treasury Single Account ("TSA"). As discussed in Note 16, the Company transferred approximately \$156.6 million to the TSA. The PRCCDA Bonds were discharged, and the Company recognized an extraordinary gain from release of the amount due to PRCCDA, for the amount of approximately \$6.1 million.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

Overview of the Financial Statements

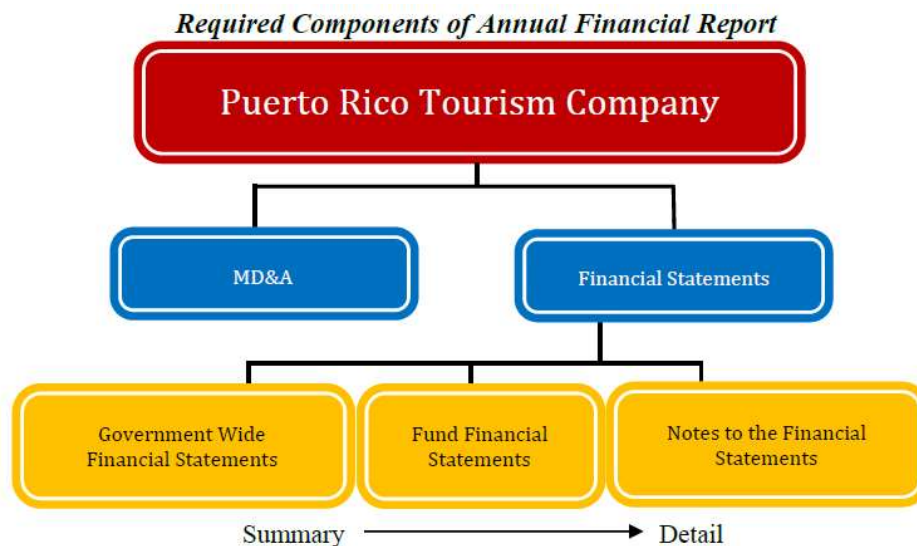
The basic financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to governmental entities. Accordingly, the basic financial statements include two kinds of statements that present different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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

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

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

- Governmental activities - Most of the Company's basic services, such as tourism promotions development, general administration, 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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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

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, 2022 and 2021, is shown below:

	As of June 30,		Increase (Decrease)	Variance Percentage
	2022	2021		
ASSETS:				
Current assets	\$ 156,002,660	\$ 218,460,104	\$ (62,457,444)	(28.6%)
Capital assets, net	19,010,126	19,611,912	(601,786)	(3.1%)
Total assets	175,012,786	238,072,016	(63,059,230)	(26.5%)
Deferred outflows of resources	18,645,729	21,179,413	(2,533,684)	(12.0%)
LIABILITIES:				
Current liabilities	33,176,825	163,297,241	(130,120,416)	(79.7%)
Noncurrent liabilities:	123,993,845	128,386,356	(4,392,511)	(3.4%)
Total liabilities	157,170,670	291,683,597	(134,512,927)	(46.1%)
Deferred inflows of resources	5,224,973	5,247,161	(22,188)	(.4%)
NET POSITION (DEFICIT):				
Net investment in capital assets	19,010,126	19,611,912	(601,786)	(3.1%)
Unrestricted (deficit)	12,252,746	(57,291,241)	69,543,987	(121.4%)
Total net position (deficit)	\$ 31,262,872	\$ (37,679,329)	\$ 68,942,201	(183.0%)

As of June 30, 2022, total assets of governmental activities amounted to approximately \$175 million; total liabilities amounted to approximately \$157.2 million, and a net position of approximately \$31.3 million. Net position reflects an increase of approximately \$72.8 million, when compared to the prior year. The net position increase was mainly due to the increase in room tax revenues of approximately \$51.5 million and increase in distributions from Slots Machines of approximately \$13 million.

Net position has been broken down into (i) net investment in capital assets of approximately \$19 million and (ii) unrestricted net position of approximately \$12.3 million.

Total assets decreased by approximately \$63.1 million, mainly to the decrease in cash and restricted cash for approximately \$43.7 million and accounts receivable of approximately \$15.6 million. The decrease in cash was mainly due to cover the principal and interest payment of Puerto Rico Convention Center District Authority debt with Government Development Bank.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

The total liabilities decreased by approximately \$138.3 million during 2022, where the most noticeable decrease resided in the amount paid to the Puerto Rico Convention Center District Authority of approximately \$140 million. Condensed financial information of governmental activities in the statement of activities for the fiscal years ended June 30, 2022 and 2021, is shown below:

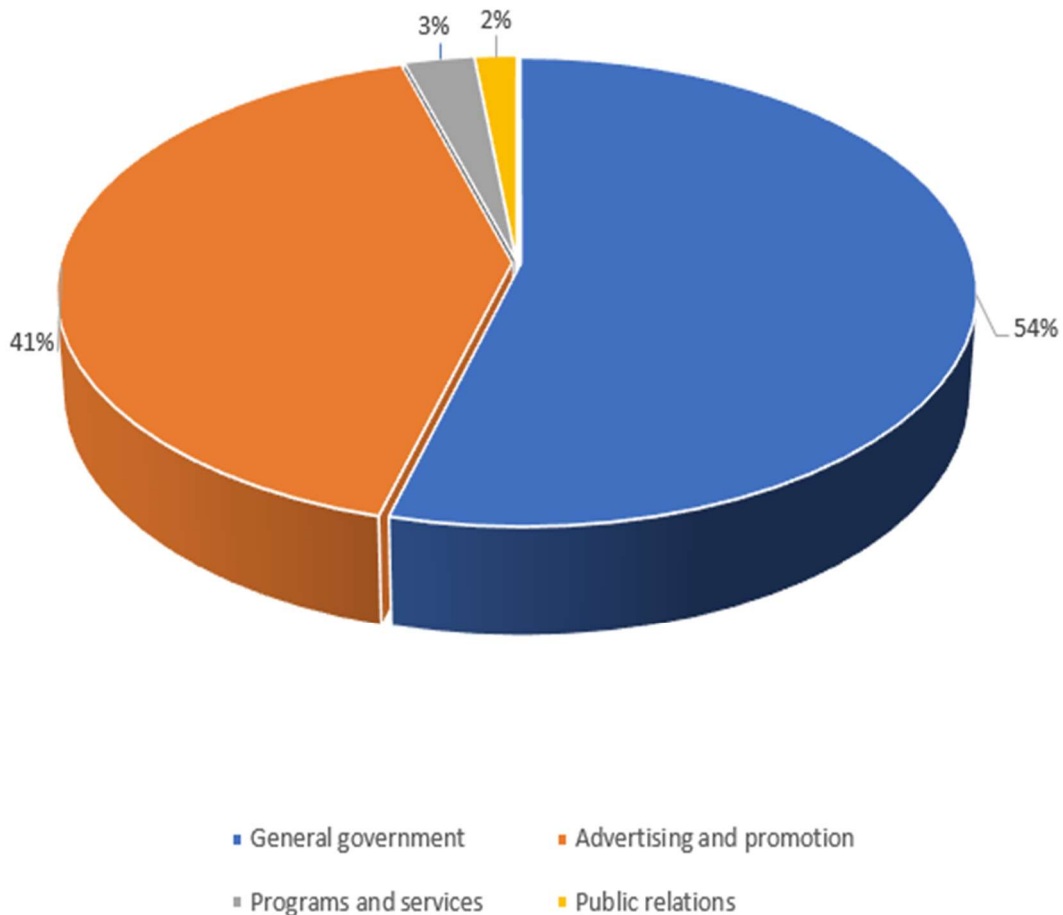
	Year ended June 30,			
	2022	2021 (As restated)	Increase (Decrease)	Variance Percentage
Program revenues:				
Charges for services	\$ 1,520,835	\$ 1,616,561	\$ (95,726)	(5.9%)
Operating grants and contributions	1,992,000	-	1,992,000	100.1%
Total program revenues	3,512,835	1,616,561	1,896,274	117.3%
General revenues:				
Hotel room taxes	116,310,147	64,851,692	51,458,455	79.3%
Distributions from Slot Machines Operations	61,326,944	48,347,103	12,979,841	26.8%
Investment income	73,537	201,899	(128,362)	(63.6%)
Miscellaneous	91,512	222,751	(131,239)	(58.9%)
Total general revenues	177,802,140	113,623,445	64,178,695	56.5%
Extraordinary item				
Gain on disposition of Slot Machines Operations	-	1,044,293	(1,044,293)	(100.0%)
Gain from release of amount due to Puerto Rico Convention Center District Authority	6,067,691	-	6,067,691	100.0%
	6,067,691	1,044,293	5,023,398	481.0%
Total extraordinary items	187,382,666	116,284,299	71,098,367	61.1%
Functions/programs:				
General government	64,145,140	54,249,064	9,896,076	18.2%
Advertising and promotion	49,018,378	34,872,045	14,146,333	40.6%
Programs and services	3,308,233	1,355,556	1,952,677	144.0%
Public relations	1,968,714	1,848,405	120,309	6.5%
Total function/programs	118,440,465	92,325,070	26,115,395	28.3%
Change in net position	68,942,201	23,959,229	44,982,972	187.7%
Net position - beginning of year	(37,679,329)	(61,638,558)	23,959,229	(38.9%)
Net position - end of year	\$ 31,262,872	\$ (37,679,329)	\$ 68,942,201	(183.0%)



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

Total revenues increased by approximately \$64.5 million mostly related to a recovery from COVID-19 pandemic that caused a direct impact over the tourism industry. It caused an increase in hotel room taxes of approximately \$51.5 million. In addition, there was an increase in grants and contributions of approximately \$1.8 million, and a gain from release of amount due to PRCCDA of approximately \$6.1 million. Distributions of slots machines revenues increased by approximately \$13 million that were transferred by the Games Commission to the General Fund of the Company. Hotel room tax revenues are still the main source of income for governmental activities. Government expenses increased by approximately \$22.5 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, 2022.



General government expenditures are one of the main expenses of the Company, constituting 54% of Government-activity expenses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

Business-Type Activities

Condensed financial information of business-type activities in the statement of net position (deficit) as of June 30, 2022 and 2021, is shown below:

	As of June 30,		Increase (Decrease)	Variance Percentage
	2022	2021 (As restated)		
Assets:				
Current assets	\$ 11,191,655	\$ 13,806,626	\$ (2,614,971)	(18.9%)
Other noncurrent assets	52,621,144	7,365,896	45,255,248	614.4%
Total assets	63,812,799	21,172,522	42,640,277	201.4%
Deferred outflows of resources:				
Loss on note refunding	743,149	859,917	(116,768)	(13.6%)
Liabilities:				
Current liabilities	43,647,053	41,182,365	2,464,688	6.0%
Noncurrent liabilities:	45,414,096	45,356,181	57,915	0.1%
Total liabilities	89,061,149	86,538,546	2,522,603	2.9%
Deferred inflows of resources				
Leases	40,464,725	-	40,464,725	100.0%
	129,525,874	86,538,546	42,987,328	49.7%
Net Position (deficit):				
Total net position (deficit)	\$ (64,969,926)	\$ (64,506,107)	\$ (463,819)	0.7%

Business-type activities include the Hotel Development Corporation Fund (the "HDC Fund") and the Medical Tourism Company Fund (the "MTC Fund"). Total current assets increased by approximately \$42.6 million from approximately \$21.2 million as of June 30, 2021 to approximately \$63.8 million as of June 30, 2022 mainly due to an increase in lease receivable as required by the GASB No. 87 implementation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

Condensed financial information of business-type activities in the statement of activities for the fiscal years ended June 30, 2022 and 2021, is shown below:

	Year ended June 30,		Increase (Decrease)	Variance Percentage
	2022	2021 (As restated)		
Program revenues:				
Charges for services - financing and investing	\$ 3,559,899	\$ 1,144,008	\$ 2,415,891	211.2%
Charges for services - other	-	1,170,980	(1,170,980)	(100.0%)
Total assets	3,559,899	2,314,988	1,244,911	53.8%
Functions/programs				
Hotel Development Corporation	4,022,778	3,104,866	917,912	29.6%
Medical Tourism Company	940	806	134	16.6%
Total functions/programs	4,023,718	3,105,672	918,046	29.6%
Change in net position	(463,819)	(790,684)	326,865	(41.3%)
Net position - beginning of year	(64,506,107)	(63,715,423)	(790,684)	1.2%
Net position - end of year	\$ (64,969,926)	\$ (64,506,107)	\$ (463,819)	0.7%

Total revenues increased by approximately \$1.2 million during the fiscal year ended June 30, 2022, mostly due to impact of GASB No. 87, *Leases*, implementation. Total expenses increased by approximately \$417 thousand due to the net effect of increase of bad debt expense and decrease of repairs and maintenance.

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.

General Fund

The General Fund's assets as of June 30, 2022 consist substantially of approximately \$117.3 million of cash and restricted cash and accounts receivable of approximately \$40.8 million.

Cash and restricted cash decreased by approximately \$50.9 million. Specifically, cash and restricted cash decreased from approximately \$161 million in fiscal year 2021 to approximately \$117.3 million in fiscal year 2022. Hotel room tax receivables, net of uncollectible amounts, decreased by approximately \$312 thousand or more specifically, from approximately \$13.8 million to approximately \$13.4 million, as a result of a decrease in hotel room tax revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

Liabilities decreased by approximately \$131 million from approximately \$167.1 million in fiscal year 2021 to approximately \$36 million in fiscal year 2022.

Revenue from hotel room tax increased by approximately by \$51.5 million, from approximately \$64.9 million in fiscal year 2021 to approximately \$116.3 million in fiscal year 2022, due to an increase in occupancy mainly caused by the recovery from the COVID-19 pandemic.

General government expenditures increased by approximately \$6.3 million, from approximately \$57.8 million in fiscal year 2021 to approximately \$64.1 million in fiscal year 2022.

Advertising and promotion expenditures increased approximately \$14.1 million, from approximately \$34.9 million in fiscal year 2021 to approximately \$49 million in fiscal year 2022.

The General Fund received approximately \$61.3 million of the total slots machines distributions from the Games Commission.

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.

Federal Funds

Puerto Rico tourism is leading the recovery of the COVID-19 pandemic among the domestic destinations and receiving breaking records of visits and room tax revenues during the current year. Access to additional local and federal funds played a key role in these results and provided the support needed to reach new markets, implement new strategies and address the impact of these unexpected scenarios. During the year, the Company received approximately \$7.2 million in federal funds to subsidize the private sector to develop tourism related events that result in positive effects to the Puerto Rico tourism sector. As of June 30, 2022, approximately \$2 million have been expended.

Hotel Development Corporation Fund

The HDC Fund's assets and deferred outflows of resources as of June 30, 2022, consist primarily of cash totaling approximately \$10.4 million, accounts receivable of approximately \$97 thousand, lease receivable of approximately \$40.7 million, loans receivable of approximately \$9.6 million, real estate held for future tourism development of approximately \$2.6 million, and deferred loss on note refunding of approximately \$743 thousand. Total liabilities consist of accounts payable of approximately \$125 thousand, interest payable of approximately \$18.3 million, due to other fund of approximately \$25.2 million, notes payable of approximately \$45.4 million, and deferred inflow of resources of approximately 40.5 million due to leases. Fund deficit decreased by approximately \$10 thousand when compared to the previous year.

Total operating revenues increased by approximately \$1.2 million from approximately \$2.3 million in fiscal year 2021 to approximately \$3.5 million in fiscal year 2022 mainly due to increase in rent.

Total operating expenses increased by approximately \$417 thousand, from approximately \$3.6 million in fiscal year 2021 to approximately \$4 million in fiscal year 2022 due to increase in general and administrative expenses of tourism areas in fiscal year 2022.

Medical Tourism Company Fund

No contributions were made to the MTC Fund for the fiscal year ended June 30, 2022.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

Capital Assets

Governmental

Description	As of June 30, 2022		Increase (Decrease)
	2022	2021	
Land	\$ 3,035,000	\$ 3,035,000	\$ -
Works of art	2,030,930	2,030,930	-
Total capital assets - not being depreciated	5,065,930	5,065,930	-
Infrastructure	9,258,015	13,742,851	(4,484,836)
Buildings and improvements	4,227,888	279,489	3,948,399
Leasehold improvements	2,543	2,679	(136)
Furniture and equipment	414,219	513,449	
Vehicles	41,531	7,514	34,017
Total capital assets, net of accumulated depreciation	13,944,196	14,545,982	(502,556)
Total	\$ 19,010,126	\$ 19,611,912	\$ (601,786)

As of June 30, 2022 and 2021, capital assets for governmental activities are composed of the following:

The Company's capital assets as of June 30, 2022, and 2021 amounted to approximately \$19 million and \$19.6 million, respectively, net of accumulated depreciation. Capital assets consist of land, works of art, buildings and improvements, leasehold improvements, furniture and equipment, and vehicles. See note 10 to the accompanying basic financial statements for additional details on capital assets at year-end and on activity during the fiscal year ended June 30, 2022.

Long-Term Debt

Significant long-term debt activity during fiscal year 2022 was as follows:

- Long-term debt in the governmental activities amounted to approximately \$124 million as of June 30, 2022.
- Long-term debt consists primarily of termination benefits of approximately \$2.4 million, accrued legal claims of approximately \$50 thousand, total pension liability of approximately \$117.3 million and other post employment benefits ("OPEB") of approximately \$2.1 million, accrued compensated absences of approximately \$1.2 million, and a nonexchange financial guarantee liability of approximately \$1 million. Long-term debt decreased by approximately \$4.4 million, from approximately \$128.4 million to approximately \$124 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.
- Long-term debt due within one year is approximately \$6.7 million.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) June 30, 2022

- Long-term debt in the business-type activities amounted to approximately \$45.4 million as of June 30, 2022 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 of the accompanying basic financial statements 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.

Currently Known Facts

- 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.
- The Company continues its reorganization process pursuant to Act No. 171 of 2020. The Act requires that a process 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 of Puerto Rico and the Legislature, once the transition process is completed.

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, 2022

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 103,002,709	\$ 10,839,791	\$ 113,842,500
Restricted cash	14,300,785	-	14,300,785
Accounts receivable:			
Hotel room taxes - net	13,448,656	-	13,448,656
Leases	-	40,695,548	40,695,548
Other - net	-	97,125	97,125
Investments in tourism projects, net of allowance of \$68,219,861	-	-	-
Other assets	27,525	-	27,525
Internal balances	25,222,985	(25,222,985)	-
Loans receivable - net	-	9,580,334	9,580,334
Real estate held for future tourism development	-	2,600,001	2,600,001
Capital assets:			
Land and other nondepreciable assets	5,065,930	-	5,065,930
Depreciable assets and vehicles, net of accumulated depreciation	13,944,196	-	13,944,196
	<u>175,012,786</u>	<u>38,589,814</u>	<u>213,602,600</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on debt refundings	-	743,149	743,149
Pension related	18,476,054	-	18,476,054
Other postemployment benefits related	169,675	-	169,675
	<u>18,645,729</u>	<u>743,149</u>	<u>19,388,878</u>

Continues...

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

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2022

Continued...

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable and accrued liabilities	9,366,071	124,829	9,490,900
Other liabilities	912,365	-	912,365
Interest payable	-	18,299,239	18,299,239
Due to Commonwealth of Puerto Rico	1,140,313	-	1,140,313
Due to Corporación para la Promoción de Puerto Rico como Destino, Inc.	5,000,000	-	5,000,000
Due to University of Puerto Rico	387,991	-	387,991
Due to Games Commission of the Government of Puerto Rico	2,069,300	-	2,069,300
Liabilities payable from restricted assets:			
Unearned revenue	5,200,000	-	5,200,000
Due to Commonwealth of Puerto Rico	9,100,785	-	9,100,785
Long-term obligations due within one year:			
Compensated absences	439,126	-	439,126
Termination benefits	578,872	-	578,872
Notes payable	-	9,666,712	9,666,712
Total pension liability	5,495,892	-	5,495,892
Total other postemployment benefits liability	169,675	-	169,675
Long-term obligations due in more than one year:			
Compensated absences	751,756	-	751,756
Termination benefits	1,772,877	-	1,772,877
Accrued legal claims	50,000	-	50,000
Notes payable	-	35,747,384	35,747,384
Nonexchange financial guarantee liability	1,000,000	-	1,000,000
Total pension liability	111,763,695	-	111,763,695
Total other postemployment benefits liability	1,971,952	-	1,971,952
	<u>157,170,670</u>	<u>63,838,164</u>	<u>221,008,834</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related	5,224,973	-	5,224,973
Leases	-	40,464,725	40,464,725
	<u>5,224,973</u>	<u>40,464,725</u>	<u>45,689,698</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	19,010,126	-	19,010,126
Unrestricted (deficit)	12,252,746	(64,969,926)	(52,717,180)
	<u>\$ 31,262,872</u>	<u>\$ (64,969,926)</u>	<u>\$ (33,707,054)</u>

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2022

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position (Deficit)		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
General government	\$ 64,145,140	\$ 1,520,835	\$ -	\$ (62,624,305)	\$ -	\$ (62,624,305)
Advertising and promotion	49,018,378	-	-	(49,018,378)	-	(49,018,378)
Programs and services	3,308,233	-	1,992,000	(1,316,233)	-	(1,316,233)
Public relations	1,968,714	-	-	(1,968,714)	-	(1,968,714)
Total governmental activities	118,440,465	1,520,835	1,992,000	(114,927,630)	-	(114,927,630)
BUSINESS -TYPE ACTIVITIES						
Hotel Development Corporation	4,022,778	3,559,899	-	-	(462,879)	(462,879)
Medical Tourism Company	1,144	204	-	-	(940)	(940)
Total business-type activities	4,023,922	3,560,103	-	-	(463,819)	(463,819)
	<u>\$ 122,464,387</u>	<u>\$ 5,080,938</u>	<u>\$ 1,992,000</u>	<u>(114,927,630)</u>	<u>(463,819)</u>	<u>(115,391,449)</u>
GENERAL REVENUES						
Hotel room taxes				116,310,147	-	116,310,147
Distributions from Slot Machines Operations				61,326,944	-	61,326,944
Miscellaneous				91,512	-	91,512
Investments earnings				73,537	-	73,537
Total general revenues				177,802,140	-	177,802,140
EXTRAORDINARY ITEM						
Gain from release of amount due to the Puerto Rico Convention Center District Authority				6,067,691	-	6,067,691
Change in net position				68,942,201	(463,819)	68,478,382
NET DEFICIT - Beginning of year, as restated				<u>(37,679,329)</u>	<u>(64,506,107)</u>	<u>(102,185,436)</u>
NET POSITION (DEFICIT) - End of year				<u>\$ 31,262,872</u>	<u>\$ (64,969,926)</u>	<u>\$ (33,707,054)</u>

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, 2022

ASSETS

Cash	\$ 103,002,709
Restricted cash	14,300,785
Accounts receivable - Hotel room taxes, net	13,448,656
Due from other funds	25,222,985
Other assets	27,525
	<hr/>
Total assets	<u>\$ 156,002,660</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 9,366,071
Other liabilities	912,365
Unearned revenue	5,200,000
Due to Commonwealth of Puerto Rico	10,241,098
Due from the Games Commission of the Government of Puerto Rico	2,069,300
Due to Corporación para la Promoción de Puerto Rico como Destino, Inc.	5,000,000
Due to University of Puerto Rico	387,991
	<hr/>
Total liabilities	<u>33,176,825</u>

FUND BALANCES

Nonspendable	27,525
Restricted	9,100,785
Unassigned	113,697,525
	<hr/>
Total fund balances	<u>122,825,835</u>
	<hr/>
Total liabilities and fund balances	<u>\$ 156,002,660</u>

See accompanying notes to basic financial statements.

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

GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION (DEFICIT)
 June 30, 2022

FUND BALANCE - GOVERNMENTAL FUND	\$ 122,825,835
Amounts reported for governmental activities in the statement	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	19,010,126
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds :	
Pension related	18,476,054
Other postemployment benefits related	169,675
Deferred inflows of resources are not reported in the funds	
Pension related	(5,224,973)
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	(1,190,882)
Termination benefits	(2,351,749)
Total pension liability	(117,259,587)
Total other postemployment benefit liability	(2,141,627)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 31,262,872

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 FUND**
For the year ended June 30, 2022

	<u>General Fund</u>
REVENUES	
Hotel room tax	\$ 116,310,147
Federal grants	1,992,000
Distributions from slot machines	61,326,944
Charge for programs and services	1,520,835
Miscellaneous	91,512
Investment earnings	73,537
	<hr/>
Total revenues	181,314,975
	<hr/>
EXPENDITURES	
Current:	
General government	57,281,609
Advertising and promotion	49,018,378
Programs and services	3,308,233
Public relations	1,968,714
Capital outlays	221,036
	<hr/>
Total expenditures	111,797,970
	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	69,517,005
	<hr/>
EXTRAORDINARY ITEM	
Gain from release of amount due to the Puerto Rico Convention Center District Authority	6,067,691
	<hr/>
NET CHANGE IN FUND BALANCE	75,584,696
	<hr/>
FUND BALANCE — Beginning of year, as restated	47,241,139
	<hr/>
FUND BALANCE — End of year	<u>\$ 122,825,835</u>

See accompanying notes to basic financial statements.

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

GOVERNMENTAL FUND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE (DEFICIT) TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2022

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ 75,584,696
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	(601,786)
<p>Some revenues in the statement of activities do not provide current financial resources, and, therefore, are deferred in governmental funds</p>	520,426
<p>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:</p>	
Termination benefits	1,122,537
Pension expense	234,356
Other postemployment benefit expense	182,350
Compensated absences	341,770
Accounts receivable - other, considered as doubtful at year end	(8,442,148)
	<hr/>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 68,942,201
	<hr/> <hr/>

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, 2022

	<u>Hotel Development Corporation</u>	<u>Medical Tourism Company</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash	\$ 10,436,936	\$ 402,855	\$ 10,839,791
Accounts receivable – net	96,885	240	97,125
Leases receivable	254,739	-	254,739
	<u>10,788,560</u>	<u>403,095</u>	<u>11,191,655</u>
Total current assets			
Non-current assets:			
Loans receivable – net	9,580,334	-	9,580,334
Leases receivable	40,440,809	-	40,440,809
Real estate held for future tourism development	2,600,001	-	2,600,001
	<u>9,580,334</u>	<u>-</u>	<u>9,580,334</u>
	<u>40,440,809</u>	<u>-</u>	<u>40,440,809</u>
	<u>2,600,001</u>	<u>-</u>	<u>2,600,001</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on debt refunding	743,149	-	743,149
	<u>743,149</u>	<u>-</u>	<u>743,149</u>
	<u>\$ 64,152,853</u>	<u>\$ 403,095</u>	<u>\$ 64,555,948</u>
LIABILITIES AND NET POSITION (DEFICIT)			
Current liabilities:			
Accounts payable	\$ 124,829	\$ -	\$ 124,829
Interest payable	18,299,239	-	18,299,239
Due to other fund	25,222,585	400	25,222,985
	<u>43,646,653</u>	<u>400</u>	<u>43,647,053</u>
Total current liabilities			
Non-current liabilities			
Notes payable	45,414,096	-	45,414,096
	<u>45,414,096</u>	<u>-</u>	<u>45,414,096</u>
	<u>89,060,749</u>	<u>400</u>	<u>89,061,149</u>
DEFERRED INFLOWS OF RESOURCES			
Leases	40,464,725	-	40,464,725
	<u>40,464,725</u>	<u>-</u>	<u>40,464,725</u>
	<u>129,525,474</u>	<u>400</u>	<u>129,525,874</u>
NET POSITION (DEFICIT)			
Unrestricted	(65,372,621)	402,695	(64,969,926)
	<u>(65,372,621)</u>	<u>402,695</u>	<u>(64,969,926)</u>
	<u>\$ 64,152,853</u>	<u>\$ 403,095</u>	<u>\$ 64,555,948</u>

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (DEFICIT)

For the year ended June 30, 2022

	Hotel Development Corporation	Medical Tourism Company	Total
OPERATING REVENUES			
Investment income	\$ 2,036,905	\$ -	\$ 2,036,905
Interest income	8,421	-	8,421
Rent	1,514,573	-	1,514,573
Total operating revenues	<u>3,559,899</u>	<u>-</u>	<u>3,559,899</u>
OPERATING EXPENSES			
General and administrative	1,362,354	1,144	1,363,498
Total operating expenses	<u>1,362,354</u>	<u>1,144</u>	<u>1,363,498</u>
OPERATING INCOME (LOSS)	<u>2,197,545</u>	<u>(1,144)</u>	<u>2,196,401</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	-	204	204
Interest expense	(2,660,424)	-	(2,660,424)
Total nonoperating revenues (expenses)	<u>(2,660,424)</u>	<u>204</u>	<u>(2,660,220)</u>
CHANGE IN NET POSITION (DEFICIT)	(462,879)	(940)	(463,819)
NET POSITION (DEFICIT) – Beginning of year, as restated	<u>(64,909,742)</u>	<u>403,635</u>	<u>(64,506,107)</u>
NET POSITION (DEFICIT) – End of year	<u>\$ (65,372,621)</u>	<u>\$ 402,695</u>	<u>\$ (64,969,926)</u>

See accompanying notes to basic financial statements.

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the year ended June 30, 2022

	Hotel Development Corporation	Medical Tourism Company	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from investments in tourism projects	\$ 2,222,466	\$ -	\$ 2,222,466
Loans granted for tourism projects	(5,000,000)	-	(5,000,000)
Cash received from interest	8,421	-	8,421
Cash received from rental activities	1,264,022	-	1,264,022
Cash paid for other operating expenses	(1,387,109)	(1,144)	(1,388,253)
Net cash used in operating activities	<u>(2,892,200)</u>	<u>(1,144)</u>	<u>(2,893,344)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other funds	<u>3,702</u>	<u>-</u>	<u>3,702</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
Interest received	<u>-</u>	<u>204</u>	<u>204</u>
NET CHANGE IN CASH	(2,888,498)	(940)	(2,889,438)
CASH - beginning of year	<u>13,325,434</u>	<u>403,795</u>	<u>13,729,229</u>
CASH - end of year	<u>\$ 10,436,936</u>	<u>\$ 402,855</u>	<u>\$ 10,839,791</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating income (loss)	\$ 2,197,545	\$ (1,144)	\$ 2,196,401
Changes in operating assets and liabilities:			
Decrease in accounts receivable	(250,551)	-	(250,551)
Increase in notes and loan receivable	(4,814,439)	-	(4,814,439)
Increase in accounts payable and accrued expenses	(24,755)	-	(24,755)
Net cash used in operating activities	<u>\$ (2,892,200)</u>	<u>\$ (1,144)</u>	<u>\$ (2,893,344)</u>
SUMMARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Interest accrual on notes payable	<u>\$ 409,535</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

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 (“Act No. 10-1970”) for the purpose of developing the tourism industry in Puerto Rico. The Company is exempt from taxation in Puerto Rico in accordance with Act No. 10-1970.

As required by accounting principles generally accepted in the United States of America (“U.S. GAAP”), the accompanying basic financial statements present the financial position and the results of operations of the Company and its component units, and the cash flows of the proprietary funds.

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

Component Units

As of June 30, 2022, 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 (“Act No. 196-2010”). It was organized as a for-profit corporation under the laws of the Commonwealth. MTC is engaged in the development and promotion of 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 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 Governmental Accounting Standards Board (“GASB”).

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

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 are generally 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, 2022, 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.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

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 received from the Federal Government and from the Commonwealth 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.

Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met (typically when related expenditures are incurred), and the resources are available.

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. 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.
- *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).
- *Committed* - Represents resources used for specific purposes, imposed by formal action of the Company's highest level of decision-making authority (the Board of Directors), and can only be changed by a similar action, no later than the end of a fiscal year, and the formal action is the Board of Director's resolution specifying the purposes for which amounts can be used.
- *Assigned* - Represents resources intended to be used by the Company for specific purposes, but do not meet the criteria to be classified as restricted or committed. It generally includes executive orders approved by the Company's Executive Director.
- *Unassigned* - Represents the residual classification for the Company's general fund and includes all spendable amounts not contained in the other classifications.

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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.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as 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.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year.

Expenditures are generally 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.

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.

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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.

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.

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Leases

During the year ended June 30, 2022, the Company adopted 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 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 Company only has leasing activities as lessor.

The lease receivable is measured at the present value of lease payments expected to be received during the lease term, discounted using the interest rate the Company charges the lessee. Lease receivables and deferred inflows of resources are recognized at the commencement of the lease term. Deferred inflows of resources are recognized as revenue over the lease term, and lease receivables are reduced by the principal portion of lease payments received. The interest portion of lease payments received is recognized as interest revenue. The Company assesses each lease receivable annually for changes in the terms of the lease, interest rate, impairment of the underlying leased asset, or other factors that may impact the expected lease payments. Lease amendments and other modifications could necessitate remeasuring the lease receivable. All other short-term leases have been classified as operating leases.

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 equity.

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, 2022, 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.

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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, and no depreciation is recognized. 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 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, 2022.

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Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position (deficit) reports a separate section for deferred outflows of resources. These 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) loss on debt refunding, (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, changes in actuarial assumptions 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 are 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. These 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 two items that qualifies for reporting in this category consisting of certain pension related items and leases in which the Company is the lessor. 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. In addition, the Company has one item which is related to its activities as lessor. The deferred inflows of resources are recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources are amortized on a straight -line basis over the term of the lease. The Company subsequently should recognize the deferred inflow of resources as inflows of resources in a systematic and rational manner over the term of the lease. The deferred inflow of resources generally should be adjusted by the same amount as any change resulting from the remeasurement of the lease receivable.

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.

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- *Services provided and used* - Represents sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net position (deficit).
- *Reimbursements* - Represents repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
- *Transfers* - Represents flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

Unearned Revenue

Unearned revenues at the governmental fund level arise when potential revenue does not meet the “available” criteria for revenue recognition in the current period. Unearned revenue also arise when resources are received before the Company has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Company has a legal claim to the resources, the unearned revenue is removed from the balance sheet, and the revenue is recognized.

Unearned revenue at the government wide level arise only when the Company receives resources before it has a legal claim to them.

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.

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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 based on a prescribed formula 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).

The liability has been calculated using the vesting method, in which leave amounts are included for both, employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination. The liability has been calculated based on the employee's current salary level and includes salary-related costs.

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 is 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 purposes as a single-employer defined benefit plan. GASB Statement No. 71 requires that a government recognize a deferred outflow of resources for its pension contributions made subsequent to the measurement date.

Accounting for Postemployment Benefit Costs Other than Pensions

The Company follows the guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Qualified retired employees of the Company participate in the Other Post-Employment Plan of the Commonwealth for Retired Participants of the Employee's Retirement System (the "OPEB Plan"). The OPEB Plan is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan. The OPEB Plan is administered on a pay-as-you-go ("PayGo") basis.

Therefore, in accordance with GASB Statement No. 75, the Company reports its proportionate share of OPEB liability and the related OPEB amounts.

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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 2022 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 impairment 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, 2022:

- 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. The requirements of this Statement are effective for reporting periods beginning after December 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.

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- 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 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

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- 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.

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- 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) 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. However, HDC is collecting enough cash to cover its actual operating expenses, and as discussed in Notes 11 and 20 effective January 12, 2023, there will be a discharge of the debt due to Public Finance Corporation that will decrease significantly the actual deficit, and also will improve its change in net position.

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

The Company has determined that a restatement to the July 1, 2021 beginning net position (deficit) of its governmental activities, its business type activities, beginning fund balance of the General Fund, and net position of its proprietary funds were required for the correction of an error, which resulted from the overstatement of accounts payables as of June 30, 2021, as follows:

Description	Net Position of Governmental Activities	Net Position of Business- Type Activities	Fund Balance of General Fund	Net Position of Proprietary Fund- Hotel Development Corporation
Balance, as of June 30, 2021, as previously reported	\$ (41,488,607)	\$ (65,007,239)	\$ 43,431,861	\$ (65,410,874)
Overstatement of accounts payable as of June 30, 2021	<u>3,809,278</u>	<u>501,132</u>	<u>3,809,278</u>	<u>501,132</u>
Balance, as of June 30, 2021, as restated	<u>\$ (37,679,329)</u>	<u>\$ (64,506,107)</u>	<u>\$ 47,241,139</u>	<u>\$ (64,909,742)</u>

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 financial institution's failure, the Company's deposits may not be returned to it.

Restricted Cash

As of June 30, 2022, restricted cash amounted to approximately \$14.3 million. Approximately \$9.1 million is retained from room tax distributions for the contributions to the Commonwealth due to the Adjustment Plan or Debt Restructuring as per Act No. 53 of 2021 ("Act No. 53-2021"). Refer to Note 16 for additional information. In addition, there are approximately \$5.2 million that represents cash from federal grants.

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As of June 30, 2022, the Company's cash in commercial banks, excluding cash on hand of \$5,261, consist of the following:

Description	Governmental Activities		Business-Type Activities	
	Carrying Amount	Depository Bank Balance	Carrying Amount	Depository Bank Balance
Commercial banks -				
Unrestricted cash	\$ 103,002,709	\$ 101,466,296	\$ 10,839,965	\$ 10,839,791
Restricted cash -				
Room tax distributions	9,100,785	9,100,785	-	-
Federal grants	5,200,000	7,200,000	-	-
	14,300,785	16,300,785	-	-
	<u>\$ 117,303,494</u>	<u>\$ 117,767,081</u>	<u>\$ 10,839,791</u>	<u>\$ 10,839,791</u>

6) Claim Receivable from Public Entity Trust

On November 29, 2018, the Government Development Bank for Puerto Rico ("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).

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The assets of the PET (the “PET Assets”) consist of, among the other items, an unsecured claim of \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth’s Title III case (the “PET Claim”). Non-Municipal Government Entities’ Recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. 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:

Description	Pro rata share of interest in the PET		
	Claim Receivable Balance	Allowance	Book Balance
Pet Claim balance	\$ 35,445,779	\$ (35,445,779)	\$ -

7) Loans Receivable

Business-type loans receivable as of June 30, 2022, are as follows:

Description	Amount
Unsecured noninterest-bearing loan, due from Rio Mar-G.P.L.P. collectible from available distributions, if any, from the partners of Rio Mar Associates' S.E., at a 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
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
	Continues...

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Continued...

Description	Amount
<p>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.</p>	480,865
<p>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 is 90 days LIBOR rate plus 6% per annum that shall be payable in monthly installments until maturity date. The loan was due on July 31, 2019.</p>	4,805,144
<p>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 was originally 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, the 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 a Non-Revolving Loan, (ii) the amount of \$879,084 representing interest accrued during the construction period with the Non-Revolving Loan and (iii) the amount of \$25,833 representing service fees. Refer to note 20.</p>	4,904,917
<p>On July 13, 2021, a loan of \$5 million was granted to Royale Blue Hospitality, LLC to cover certain costs and expenses related to the continued reconstruction, redevelopment, refinancing, landscaping, and equipping of the El Conquistador Resort. The non-revolving loan's interest rate on the unpaid principal balance is two hundred (200) basis points or 2% over the U.S. prime rate per annum that shall be payable in monthly statements until maturity date. The loan is due on July 13, 2025.</p>	5,268,056
Other	405,055
	<u>\$ 38,262,061</u>
Less: Allowance for losses on loans receivable	<u>(28,681,727)</u>
Total Business-type loan receivables, net	<u><u>\$ 9,580,334</u></u>

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As of June 30, 2022, nonperforming loans amounted to approximately \$28.7 million. Interest income that would have been recorded during the fiscal year ended June 30, 2022, if these loans had performed in accordance with their original terms would have been approximately \$734,000.

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, 2022, the HDC received approximately \$940 thousand 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, 2022, investment in tourism projects consist of the following:

<u>Tourism Projects</u>	<u>Carrying Amount</u>
DBR Dorado Owner LLC (DBR)	\$ 7,500,000
Vieques Hotel Partners (VHP)	8,336,859
Bahía Beach CH Development, LLC (“St. Regis 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
Crown Investment, LLC	1,015,861
Flagship Resorts Properties, S.E. (“Flagship”) Resort at Cayo Largo, LLC	4,155,483
	<u>15,000,000</u>
	68,219,861
Less: Allowance for losses on investment in tourism projects	<u>(68,219,861)</u>
	<u>\$ -</u>

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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 it is collected from DBR. As of June 30, 2022, the total accumulated payments received from DBR is approximately \$2.2 million leaving pending balance of approximately \$5.3 million.

During the year ended June 30, 2022, the HDC collected payments for approximately \$519 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.

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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.

Crown Investment LLC formerly 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. On November 2, 2021, was sold to Crown Investment LLC. The investment of the Company was not affected by the sale.

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) to complete the refurbishing and rehabilitation of the hotel; (b) to retire certain operating debts of vendors and suppliers that have accumulated over the last year; and (c) to cover 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.

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Room Tax Assessed Related to Investment in Tourism 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, 2022, as follows:

Tourism Project	Room Tax
DBR Dorado Owner LLC (DBR)	\$ 4,994,400
Bahia Beach CH Development, LLC (St. Regis Hotel at Bahía Beach Resort and Golf Club or Bahia Beach)	3,170,408
Condado Palm Investors, LLC (Condado Palm)	1,036,293
CCHPR Holding, LLC (CCHPR)	2,854,682
Old San Juan Associates LP, SE (Old San Juan Juan)	1,203,993
WC Manager LLC (WC)	113,295
Crown Investment LLC	242,188
Flagship Resorts Properties, SE (Flagship)	<u>613,558</u>
	<u>\$ 14,228,817</u>

9) Interfund Balances and Transfers

The summary of interfund balances as of June 30, 2022, between governmental funds and proprietary funds is as follows:

Interfund receivable	Interfund payable	Purpose	Amount
Governmental fund - General fund	Proprietary fund - HDC	Balance in cash pool	<u>\$ 25,222,585</u>
Governmental fund - General fund	Proprietary fund - MTC	Balance in cash pool	<u>\$ 400</u>

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, 2022, 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	<u>2,030,930</u>	<u>-</u>	<u>-</u>	<u>2,030,930</u>
Total capital assets - not being depreciated	<u>5,065,930</u>	<u>-</u>	<u>-</u>	<u>5,065,930</u>
Capital assets - being depreciated:				
Infrastructure	19,528,062	-	-	19,528,062
Buildings and improvements	9,737,815	-	-	9,737,815
Leasehold improvements	658,621	-	-	658,621
Furniture and equipment	5,496,169	183,046	-	5,679,215
Vehicles	<u>224,993</u>	<u>37,990</u>	<u>-</u>	<u>262,983</u>
Total capital assets - being depreciated	<u>35,645,660</u>	<u>221,036</u>	<u>-</u>	<u>35,866,696</u>
Less accumulated depreciation:				
Infrastructure	(5,785,211)	(196,896)	-	(5,979,107)
Buildings and improvements	(9,458,326)	(342,541)	-	(9,800,867)
Leasehold improvements	(655,942)	(136)	-	(656,078)
Furniture and equipment	(4,982,720)	(282,276)	-	(5,264,996)
Vehicles	<u>(217,479)</u>	<u>(3,973)</u>	<u>-</u>	<u>(221,452)</u>
Total accumulated depreciation	<u>(21,099,678)</u>	<u>(822,822)</u>	<u>-</u>	<u>(21,922,500)</u>
Total capital assets - being depreciated, net	<u>14,545,982</u>	<u>(601,786)</u>	<u>-</u>	<u>13,944,196</u>
Governmental activities capital - assets, net	<u>\$ 19,611,912</u>	<u>\$ (601,786)</u>	<u>\$ -</u>	<u>\$ 19,010,126</u>

During the year ended June 30, 2022, current depreciation expense was charged to functions of the Company, as follows:

Description	Amount
Governmental activities—	
General government	<u>\$ 822,822</u>

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Business Type Activities:

As of June 30, 2022, the HDC holds land, formerly known as Condado Beach Trio (the Trio), which includes La Concha Hotel and Condado Vanderbilt Hotel. This property was written down to estimated net realizable value on June 30, 1993.

11) Long-Term Obligations

A summary of long-term obligations as of June 30, 2022, is as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Compensated absences	\$ 1,532,652	\$ 552,676	\$ (894,446)	\$ 1,190,882	\$ 439,126
Termination benefits	3,474,287	-	(1,122,538)	2,351,749	578,872
Legal claims	50,000	-	-	50,000	-
Nonexchange financial guarantee liability	1,000,000	-	-	1,000,000	-
Total pension liability	119,998,299	2,912,649	(5,651,361)	117,259,587	5,495,892
Total other postemployment benefits liability	2,331,117	-	(189,490)	2,141,627	169,675
Total - Governmental activities	<u>\$ 128,386,355</u>	<u>\$ 3,465,325</u>	<u>\$ (7,857,835)</u>	<u>\$ 123,993,845</u>	<u>\$ 6,683,565</u>
Business type activities:					
Long term notes payable	\$ 44,483,807	\$ -	\$ -	\$ 44,483,807	\$ 9,666,712
Add premiums on notes refunding	872,374	57,915	-	930,289	-
Total - Business type activities:	<u>\$ 45,356,181</u>	<u>\$ 57,915</u>	<u>\$ -</u>	<u>\$ 45,414,096</u>	<u>\$ 9,666,712</u>

Governmental Activities:

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.

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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. The 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, 2022, is approximately \$45.4 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, 2022, are as follows:

Description	Principal	Interest	Total
Year ending June 30, 2023 and in arrears	\$ 9,666,712	\$ 18,355,130	\$ 28,021,842
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	984,511	1,846,618	2,831,129
2028-2031	30,105,741	2,711,154	32,816,895
	44,483,807	\$ 28,943,895	\$ 73,427,702
Plus: premium on notes refunding	930,289		
	\$ 45,414,096		

As discussed in Note 20, on December 30, 2022, the Court approved a Title VI Qualifying Modification for the PFC (the "PFC Qualifying Modification"). On January 12, 2023, the PFC Qualifying Modification became effective, resulting in the discharge of the PFC bonds and the Note. For further discussion of the PFC Qualifying Modification, refer to Note 20 of the subsequent events.

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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, 2022, unpaid benefits on this program were discounted at the corresponding rate between 0.35% and 1.95%. The present value of future incentive payments reported as a liability amounted to approximately \$1.4 million.

From the total aggregate liability of the program as of June 30, 2022, the amount of approximately \$300 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$1.1 million. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position (deficit).

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, 2022, unpaid benefits on this program were discounted for employees at the corresponding rate between 0.35% and 1.95%. 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, 2022, the present value of future incentive payments reported as a liability amounted to approximately \$1 million. From the total aggregate liability of the program as of June 30, 2022, the amount of approximately \$300 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$700 thousand. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position (deficit).

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13) Pension and Plan Description

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 Employees Retirement System of the Commonwealth ("ERS"). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a PayGo system for the payment of pensions. Also, pursuant to Act No. 106-2017, the ERS 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, 2022, were approximately \$5.5 million.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of 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, a 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 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 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, together with other recent funding and design changes, provided for a comprehensive reform of ERS.

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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.

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

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

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 Program, and were rehired on or after July 1, 2013, 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. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

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 a private third party.

On January 18, 2022, the Title III 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>.

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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

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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 Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

- *Accrued Benefit as of June 30, 2013 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.

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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.

- *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). Effective March 15, 2022, cost-of-living adjustments (COLAs) and other features of the ERS pension plans have been eliminated.

- *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.

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

As of June 30, 2022, the Company reported a liability of approximately \$117 million for its proportionate share of the total pension liability.

The June 30, 2022, total pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of July 1, 2020, rolled forward to the measurement date of June 30, 2021 (measurement date as of June 30, 2021). 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, 2022, the Company's proportionate share was 0.43135%, which resulted in an increase of 0.00385% from its proportionate share as of June 30, 2021 (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, 2021 was 2.16%. 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, 2021 actuarial valuation were as follows:

- *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 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 127-1958.

- *Post-retirement Retiree 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-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. The assumption is also used for beneficiaries prior to the member's death.

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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 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

• *Post-retirement Beneficiary Mortality*

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 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, 2021:

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 2.16% 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 (1.16%) or one percentage point higher (3.16%) than the current rate:

Description	At 1% decrease (1.16%)	At current discount rate (2.16%)	At 1% increase (3.16%)
Total pension liability	<u>\$ 133,973,768</u>	<u>\$ 117,259,587</u>	<u>\$ 103,715,492</u>

For the year ended June 30, 2022, the Company recognized a pension expense of \$5,495,892. As of June 30, 2022, 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	\$ 187,307	\$ 3,493,412
Changes of assumptions	12,003,608	1,385,605
Changes in proportion	789,247	345,956
Benefits paid subsequent to measurement date	<u>5,495,892</u>	<u>-</u>
	<u>\$ 18,476,054</u>	<u>\$ 5,224,973</u>

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The deferred outflows of resources related to pension benefit payments made by the Company subsequent to the measurement date that amounted to approximately \$5.5 million, will be recognized as a reduction of the total pension liability in the year ended June 30, 2022.

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2021, will be recognized in the pension expense (benefit) as follows:

Year ending June 30,	Amount
2022	\$ 2,585,063
2023	2,585,063
2024	2,585,063
	\$ 7,755,189

The previous amounts do not include the 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 four (4) years for 2021.

Additional information on the Plan is provided on its standalone financial statements for the year ended June 30, 2021, 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 PayGo 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, 2022 was \$2,141,627. The total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date as of June 30, 2021). As of June 30, 2022, the Company's proportionate share was 0.26833%, which resulted in an increase of 0.0018% from its proportionate share as of June 30, 2021 (using the measurement date as of June 30, 2020). The Company recognized an OPEB expense of \$169,675 during the year ended June 30, 2022.

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

Discount Rate

The discount rate for June 30, 2021 was 2.16%. 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, 2021 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-2021 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-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

- *Post-retirement 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-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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• *Post-retirement Beneficiary Mortality*

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PUB-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 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 2.16% 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 (1.16%) or one percentage point higher (3.16%) than the current rate:

Description	At 1% decrease (1.16%)	At current discount rate (2.16%)	At 1% increase (3.16%)
Total OPEB liability	<u>\$ 2,350,770</u>	<u>\$ 2,141,627</u>	<u>\$ 1,963,464</u>

Deferred Outflows of Resources

The deferred outflows of resources related to OPEB Plan results from the Company's benefits paid subsequent to measurement date amounting to \$169,675 as of June 30, 2022. This amount will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022. 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, 2021, 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	<u>169,675</u>	<u>-</u>
	<u>\$ 169,675</u>	<u>\$ -</u>

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15) Related-Party Transactions

As of June 30, 2022, related party transactions and amounts due to other government instrumentalities are as follows:

Puerto Rico Convention Center District Authority (“PRCCDA”)

During the year ended June 30, 2022, the Company made distributions from room tax to cover operating costs and deficits of the PRCCDA for approximately \$4.9 million.

As discussed in Note 17, the amount due to PRCCDA from distributions of room tax to cover debt service payment related to PRCCDA’s bonds was settled as per the approval of the Qualifying Modification for PRCCDA Bonds (“the PRCCDA Qualifying Modification”) under Tittle VI of Promesa. The indirect effect of the PRCCDA Qualifying Modification caused the Company to release its obligation to the PRCCDA for the amount of approximately \$6.1 million, which was presented as an extraordinary gain from release of the amount due to PRCCDA in the accompanying statement of activities and the statement of revenues, expenditures and changes in fund balances - governmental general fund. For additional information refer to Note 17.

Commonwealth of Puerto Rico

On October 26, 2021, Act No. 53 “Law to End the Bankruptcy of Puerto Rico” was signed. As a result, the amount previously paid to the PRCCDA to cover debt service payment related to PRCCDA’s bonds going forward will be payable to the general fund of the Commonwealth. As of June 30, 2022, the amount of approximately \$9.1 million is owed to the Commonwealth. Also, there are unremitted distributions from the transfer of the Slot Machines Operations that were assumed by the General Fund for approximately \$1.1 million.

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, 2022, the Company contributed \$25 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, 2022, the Company has a balance due to the DMO of approximately \$5 million as the Company established a matching funds program to provide additional funds to the DMO in an amount that matches the funds (the “Private Funding”), in cash or in-kind, actually collected or generated by DMO from non-governmental sources.

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16) Hotel Room Tax

Act No. 272 of September 9, 2003 (“Act No. 272-2003”), 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.

Act No. 53-2021 amended Act No. 272-2003 to transfer the distributions that were to PRCCDA to the Commonwealth’s General Fund. As of June 30, 2022, those distributions amounted to \$9,100,785 and are presented as a restricted cash since they are pending to be paid to the Commonwealth.

After the enactment of Act No. 53-2021, distributions are as follows:

- 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.
- Up to \$4 million will remain available during each fiscal year, in a special reserve account that the Office of Tourism will maintain for operating expenses dedicated to the sector’s specialized matters, its expenses and/or the oversight and implementation by the latter of the Destination Marketing Services Contract contemplated in Article 8 of the “Law for the Promotion of Puerto Rico as a Destination”.
- 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.
- Excess will be assigned to the general fund of the Company to be used to cover the operating expenses of the Company.

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In addition, on May 25, 2022, the Company and PRCCDA entered into an interagency agreement as amended the Act 272-2003, the term of ten years for the payment of 5% of the tax expired, and the payment of \$2,500,000 was made in its entirety. As no legislation was approved that provide for the payment of additional amounts, the Fiscal Oversight Board authorized an allocation of \$4,923,000 in favor of the PRCCDA to cover its operating expenses and any deficit, if any, arising from the operations of the facilities operated.

During the year ended June 30, 2022, hotel room taxes collected amounted to approximately \$116 million. Distributions for the year ended June 30, 2022, were as follows:

Description	Amount
Two percent to cover operating costs	\$ 1,720,200
Corporación para la Promoción de Puerto Rico como Destino, Inc.	25,000,000
PRCCDA	4,923,000
General Fund of the Company	<u>84,533,804</u>
	<u>\$ 116,177,004</u>

Hotel room taxes assigned to PRCCDA for approximately \$4.9 million has been recorded as part of the general government expense/ expenditure function and distributions to the Corporación para la Promoción de Puerto Rico como Destino, Inc. for \$30 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.

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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 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 20.

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.

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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.

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 million to the TSA.

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17) Extraordinary Item

On January 20, 2022, the U.S. District Court for the District of Puerto Rico entered an order approving the PRCCDA Qualifying Modification under Title VI of PROMESA. 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. At the effective date of the PRCCDA Qualifying Modification, the Company had a balance due to PRCCDA for the repayment of the PRCCDA Bonds for approximately \$162.7 million including interest. Pursuant to the confirmation order of the PRCCDA Qualifying Modification, the U.S. District Court for the District of Puerto Rico ordered the transfer of the cash in deposit accounts held by the Company to the Puerto Rico Treasury Single Account (“TSA”). As discussed in Note 16, the Company transferred approximately \$156.6 million to the TSA. As an indirect result of the PRCCDA Bonds discharged, the Company recognized an extraordinary gain from release of the amount due to PRCCDA, for the amount of approximately \$6.1 million.

18) Commitments and Contingencies

Commitments

Federal Funds

The Company participates as a subrecipient of the federal financial assistance program funded by the federal government. Expenditures financed by this program are subject to financial and compliance audits by grantors.

On August 25, 2021, the Company was notified by the Coronavirus Relief Fund Disbursement Oversight Committee that an allocation of \$7 million was granted under the Coronavirus Relief Fund (“CRF”) Transfer Agreement with the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority for the celebration of Miss World International 2021 Contest. Total funds advanced to the Company amounted to \$3 million and total expenditures incurred during the year ended June 30, 2022, amounted to \$1.75 million. Funds amounting to \$1.25 million were reimbursed to the Puerto Rico Treasury Department.

On February 15, 2022, the Company was notified by the Coronavirus Relief Fund Disbursement Oversight Committee that an allocation of \$20 million was granted under the CRF Transfer Agreement with the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority for the Promote Puerto Rico: Promote Domestic Tourism Program. Total funds advanced to the Company amounted to \$5.2 million and no expenditures were incurred during the year ended June 30, 2022.

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Other 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.

Contingencies

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, 2022, the outstanding principal of those loans and its corresponding guarantee obligations amounted to \$1,000,000.

As of June 30, 2022, 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.

Litigation

As of June 30, 2022, the Company is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Company's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to approximately \$50,000 has been reflected in the accompanying statement of net position (deficit).

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19) Leases

Lessor activities of the Company include various lease agreements covering leases for certain properties. Lease receivable and deferred inflow of resources are as follows:

Description	Leases Receivable	Deferred Inflows of Resources
<i>Leases of certain properties considered as operating activities:</i>		
Lease agreement covering lease of commercial premises in la Plaza Ventana al Mar named as Waffle Avenue. It commenced on August 13, 2013 and calls for monthly installments of \$1,878 up to July 1, 2023 at 1.15% of interest rate.	\$ 24,247	\$ 24,131
Lease agreement covering lease of Condado Vanderbilt parcel for terms of 99 years. It commenced on January 22, 2021 and calls for monthly installments of \$41,667 up to January 31, 2103 at 1.95% of interest rate.	20,307,067	20,192,575
Lease agreement covering lease of La Concha parcel for terms of 99 years. It commenced on January 22, 2021 and calls for monthly installments of \$41,667 up to January 31, 2103 at 1.95% of interest rate.	20,307,067	20,192,575
Lease agreement covering lease of commercial premises in la Plaza Ventana al Mar as Commercial Space number 3 (three), 4 (four) and 5 (five) named as Taberna Medalla. It commenced on November 1, 2021 and calls for monthly installments of \$1,750 up to October 1, 2024 at 1.15% of interest rate.	<u>57,167</u>	<u>57,444</u>
	40,695,548	<u>\$ 40,464,725</u>
Less: Current portion	<u>(254,739)</u>	
Long-term portion	<u>\$ 40,440,809</u>	

Rental income on the above lease agreements considered as operating revenues amounts to approximately \$539,000. Interest income on the above lease agreements amounts to approximately \$793,000.

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The schedule of future annual collections on the lease agreements considered as operating activities, are as follows:

Year ending June 30,	Principal	Interest	Total
2023	\$ 254,739	\$ 790,811	\$ 1,045,550
2024	241,632	786,246	1,027,878
2025	227,213	781,787	1,009,000
2026	222,524	777,476	1,000,000
2027	226,906	773,094	1,000,000
2028 - 2032	1,203,282	3,796,718	5,000,000
2033 - 2037	1,326,407	3,673,593	5,000,000
2038 - 2042	1,462,130	3,537,870	5,000,000
2043 - 2047	1,611,742	3,388,258	5,000,000
2048 - 2052	1,776,662	3,223,338	5,000,000
2053 - 2057	1,958,457	3,041,543	5,000,000
2058 - 2062	2,158,855	2,841,145	5,000,000
2063 - 2067	2,379,758	2,620,242	5,000,000
2068 - 2072	2,623,265	2,376,735	5,000,000
2073 - 2077	2,891,688	2,108,312	5,000,000
2078 - 2082	3,187,578	1,812,422	5,000,000
2083 - 2087	3,513,745	1,486,255	5,000,000
2088 - 2092	3,873,286	1,126,714	5,000,000
2093 - 2097	4,269,617	730,383	5,000,000
2098 - 2102	4,706,502	293,498	5,000,000
2103	579,560	3,773	583,333
	\$ 40,695,548	\$ 39,970,213	\$ 80,665,761

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20) Subsequent Events

As of June 30, 2022, subsequent events are as follows:

IV Hospitality, LLC Term Loan

On August 16, 2022, the Board of Directors of HDC approved an early voluntary repayment proposed by IV Hospitality, LLC. IV Hospitality, LLC proposed an early voluntary prepayment in full of the Term Loan to be effectuated at any time within the first 12 months after conversion date, Jun 23, 2022 and request the forgiveness in full of the amount of approximately \$880,000 representing interest accrued on the Non-Revolving Loan prior to conversion date. IV Hospitality, LLC made monthly payments from August 2022 through May 2023 including the lump sum to payoff the note by \$4,000,000 plus accrued interest calculated at 2% plus the service fee due according to the credit agreement.

Aftermath of Hurricane Fiona

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of homes, knocking out power across the entire island and flooding many streets and roads. The Governor of Puerto Rico submitted to the Government of the United States a request of a declaration of major disaster and the activation of funds from the Public Assistance Program of FEMA.

Puerto Rico Finance Corporation's Qualifying Modification

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.

Early Retirement Program Under Law 80-2020

The Oversight Board continues to work with Governor Pedro R. Pierluisi and the Puerto Rico Fiscal Agency and Financial Advisory Authority on a path to partially implementing the early retirement program under Law 80-2020 as modified by the December 28, 2021, order of the U.S. District Court for the District of Puerto Rico.

Pursuant to a stipulation between the Oversight Board and the Government, the U.S. District Court invalidated Law 80, except as set forth in that order.

The Oversight Board informed the court on July 21, 2022 that it agreed to the Government's proposal to limit implementation of the law to certain non-essential governmental employees and is proceeding to work with the Government to reach agreement on the terms of such a partial implementation.

The relevant governmental agencies and instrumentalities have certified that the permanent elimination of the agreed-upon positions of employees eligible for early retirement under this partial implementation of Act 80 will not adversely impact the Government's ability to provide essential services to Puerto Rico residents. The Government notify the employees holding the agreed-upon eliminated positions by July 28, 2022, that their positions shall be permanently eliminated in accordance with their prior election to retire early unless they affirmatively opt-out of the Act 80 early retirement program by August 15, 2022.

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The Oversight Board and the Government continue to work together to reach an agreement on this partial implementation of Act 80 that includes achieving the necessary savings from early retirements of the non-essential employees as well as reporting and monitoring processes and other items.

Economic Development Bank Settlement Agreement

On April 3, 2023, AAFAF submitted to the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") a request pursuant to Section 207 of PROMESA related to the proposed settlement agreement between the Economic Development Bank for Puerto Rico ("EDB") and various government entities over certain deposits at the EDB (the "Proposed Debt Transaction"). Pursuant to the Proposed Debt Transaction, EDB shall make (i) a one-time cash payment of \$9.7 million in full settlement and satisfaction of approximately \$110.4 million in unsecured deposit claims across 17 government entities at a recovery rate of 8.75%, and (ii) a \$3.7 million principal payment (plus accrued interest) in satisfaction in full of a senior secured mortgage loan owed by the EDB to the GDB Debt Recovery Authority. The Proposed Debt Transaction is intended to be the final step in the process to restructure EDB's financial liabilities. Pursuant to the Settlement Agreement, the Puerto Rico Tourism Company will receive a one-time payment of \$71,878.28 within five (5) business days of execution of the Settlement Agreement, which the target date is August 31, 2023.

Resolution 2022-152

On September 21, 2022, by unanimous consent of the members of the Secretary of the Coronavirus Relief Fund Disbursement Oversight Committee (the "Committee"), amended the promote of Puerto Rico Domestic Tourism Project guidelines to include Puerto Rico Tourism Company eligible for the use of funds. On February 15, 2022, the Committee, by means of the Resolution 2022-15, approved the allocation of \$20 million to the Company with an initial disbursement of \$5,200,000 to implement many initiatives, including i) Promotion and Marketing (\$8 million), ii) Market Study: for the Investigation of the Profile of the Domestic Tourist (\$800,000), and iii) the Company program expansion by means of additions of several initiatives for Puerto Rico's local tourism (\$4 million).

On June 28, 2022, the Company submitted an updated proposal to AAFAF to include the Recovery and Development of Domestic Air Access for \$2 million and Improving Tourist Attractions for \$1.2 million initiatives. The recovery and development of Domestic Air Access initiative aims to address the negative economic impacts caused by the COVID-19 pandemic by granting funds to qualified airlines providing service to Puerto Rico during the project's period. The Company requires all airlines seeking a grant to include detailed information in their applications to support the above requirements and obligates airlines to return funds if they are out of compliance with any program requirements. Additionally, airlines may not use grants provided under this program for expenses that have been otherwise covered or reimbursed or that are provided by other state, federal, or private programs in the future. The success of this program will be measured by the creation of new airline routes, load factor numbers, and increased capacity. The distribution has been spent by July 2023 for approximately \$6.8 million.

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Resolution 2023-50

On May 25, 2023, the Company submitted a request for \$2,000,000 of Coronavirus State Fiscal Recovery Fund (“CSFRF”) to sponsor the Isa World Surfing Games 2024. The International Surfing Association selected Puerto Rico, specifically the PR SUP and Paddleboard World Championships Corp., a non-profit incorporated in Puerto Rico, to organize and host the 2024 World Surfing Games. In order to host the Event, the Company will be contributing \$2,500,000 to cover operational expenses and the franchise fee. These amounts are divided as follows: \$500,000 from the funds approved through Resolution 2022-15 (Promote Puerto Rico; the Company) and \$2,000,000 additional CSFRF funds received on June 22, 2023.

Resolution 2023-77

On July 7, 2023, the Company submitted a second disbursement request of \$9,710,886 to the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) to continue with the implementation of the program initiatives for Puerto Rico’s local tourism. The funds requested will cover the costs for the initiatives programmed throughout the period of July 2023 to December 2023. On July 17, 2023, by unanimous consent of the members of the Committee, authorized a second disbursement of \$9,710,886 to the Company from the Promote Puerto Rico Program.

Management has evaluated subsequent events through November 22, 2023, the date on which financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

Years Ended June 30, 2022, 2021, 2020, and 2019

Description	2022*	2021*	2020*	2019*
Proportion of Total Pension Liability	0.43135%	0.42750%	0.42879%	0.43022%
Proportionate Share of Total Pension Liability	\$ 117,259,587	\$ 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	N/A

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

*Covered payroll is no longer applicable since Act No. 105-2017 eliminated the contributions which are no longer based on payroll.

Fiscal year 2019 was the first year that the Company transitioned from GASB Statement No. 68 to GASB Statement No. 73, as a result of the enactment of Act 106-2017 (PayGo implementation). This schedule is required to illustrate ten (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.

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

**SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL POSTEMPLOYMENT BENEFIT
 LIABILITY AND RELATED RATIOS (UNAUDITED)**
Years Ended June 30, 2022, 2021, 2020, 2019, 2018 and 2017

Description	2022*	2021*	2020*	2019*	2018*	2017*
Proportion of Total Other Post Employment Benefit Liability	0.26883%	0.26653%	0.26849%	0.26103%	0.25990%	0.24981%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 2,141,627	\$ 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 is omitted.

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 ten (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.

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PUERTO RICO TOURISM COMPANY

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Fiscal Years ended June 30, 2022, 2021, 2020, 2019, 2018 and 2017

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, 2021 actuarial valuation, there was a decrease relating to the discount rate from 2.21% in 2020 to 2.16% in 2021.

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-2020 to Scale MP-2021.