

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

**Basic Financial Statements
and Required Supplementary Information
June 30, 2024**

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

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2024

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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, 2024, 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, 2024, 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.

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.

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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 70 and the Schedule of Proportionate Share of Collective Total Post-employment Benefit Liability and Related Ratios on page 71 and the Notes to the Required Supplementary Information on pages 72 and 73, 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, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required 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
July 8, 2025.



D0P91-724
Puerto Rico Tourism Company

RSM Puerto Rico



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2024

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, 2024. Its purpose is to provide explanations and insights into the information provided in the basic financial statements and required supplementary information. This discussion and analysis is intended to be read in conjunction with the Company's basic financial statements for the fiscal year ended June 30, 2024.

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 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, (iii) statement of revenues, expenditures, and changes in fund balance, and (iv) reconciliation of the statement of revenues, expenditures, and changes in fund balance to the statement of activities; (3) Proprietary Fund Financial Statements, composed of two proprietary funds, including (i) statement of net position, (ii) statement of revenues, expenses, and changes in net position, 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 \$157 million for the fiscal year ended June 30, 2024.
- Hotel room tax amounted to approximately \$145 million for the fiscal year ended June 30, 2024. This represents an increase in hotel room tax revenue of approximately \$16 million when compared to approximately \$129 million for the fiscal year ended June 30, 2023.
- During the fiscal year ended June 30, 2024, the Company incurred approximately \$100 million in expenses to promote Puerto Rico as a premier international tourist destination. This represents an increase of approximately \$40 million when compared to approximately \$60 million for the fiscal year ended June 30, 2023.

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 financial 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 financial statements are presented on the accrual basis of accounting and comprise a statement of net position and a statement of activities.

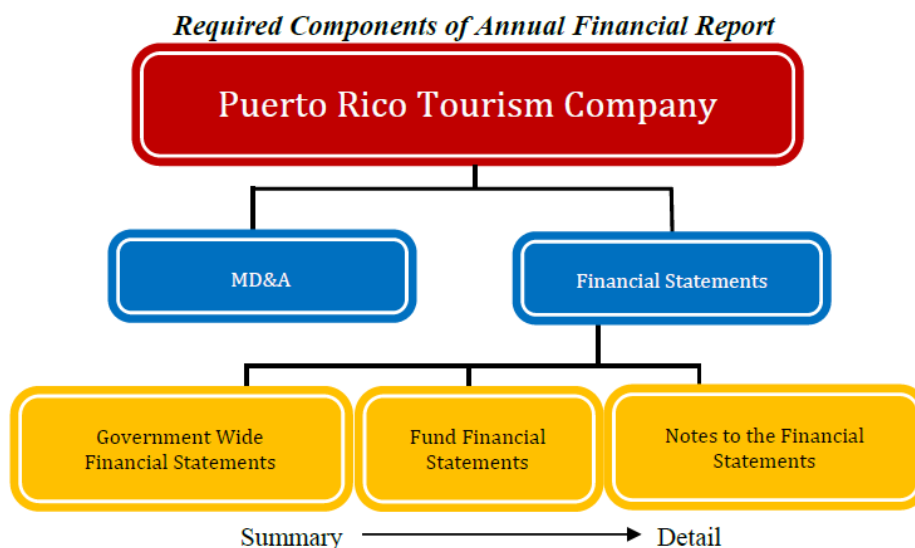
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2024

The remaining financial 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 financial 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 financial 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 includes all the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources.

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

All the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. All changes in net position are reported as soon as the underlying event that 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 and how they have changed during the year. Net position is one of the measures of the Company's financial health. Increases or decreases in the Company's net position 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) June 30, 2024

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, and General Funds.
- 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 the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental fund with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of financial decisions related to the Company's governmental activities. Both, the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- 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, 2024

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 as of June 30, 2024 and 2023, is shown below:

	As of June 30,		Increase	Variance
	2024	2023	(Decrease)	Percentage
ASSETS:				
Current assets	\$ 246,979,641	\$ 246,741,195	\$ 238,446	0.1%
Capital assets, net	18,593,634	18,920,781	(327,147)	-1.7%
Total assets	265,573,275	265,661,976	(88,701)	0.0%
Deferred Outflows of Resources	8,626,505	14,029,507	(5,403,002)	-38.5%
LIABILITIES:				
Current liabilities	40,188,657	74,344,951	(34,156,294)	-45.9%
Noncurrent liabilities:	76,877,560	84,753,603	(7,876,043)	-9.3%
Total liabilities	117,066,217	159,098,554	(42,032,337)	-26.4%
Deferred Inflows of Resources	553,394	14,751,793	(14,198,399)	-96.2%
NET POSITION:				
Net investment in capital assets	17,908,169	18,377,448	(469,279)	-2.6%
Unrestricted	138,672,000	87,463,688	51,208,312	58.5%
Total net position	\$ 156,580,169	\$ 105,841,136	\$ 50,739,033	47.9%

As of June 30, 2024, total assets of governmental activities amounted to approximately \$266 million; total liabilities amounted to approximately \$117 million, and a net position of approximately \$157 million. Net position reflects an increase of approximately \$51 million, when compared to the prior year. The net position increase was mainly due to the increase in room tax revenues of approximately \$15 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2024

Net position has been broken down into (i) net investment in capital assets of approximately \$18 million and (ii) unrestricted net position of approximately \$139 million. Total assets decreased by approximately \$89 thousand, mainly to the net effect of decrease of net capital assets of \$327 thousand. The decrease in cash is mainly due to the amount distributed of room tax at year end and the increase in account receivables is mostly due to amount due from Games Commission of the Government of Puerto Rico for the distributions from slot machine operations.

Total liabilities decreased by approximately \$42 million during 2024 where the most noticeable changes is a decrease in due to Commonwealth of Puerto Rico and a decrease in the pension plan liability.

Condensed financial information of governmental activities in the statement of activities for the fiscal years ended June 30, 2024 and 2023, is shown below:

	Year ended June 30,		Increase (Decrease)	Variance Percentage
	2024	2023		
Program revenues:				
Charges for services	\$ 1,293,673	\$ 1,896,692	\$ (603,019)	-31.8%
Operating grants and contributions	9,754,686	11,989,087	(2,234,401)	-18.6%
	<u>11,048,359</u>	<u>13,885,779</u>	<u>(2,837,420)</u>	<u>-20.4%</u>
General revenues:				
Hotel room taxes	144,926,622	129,656,067	15,270,555	11.8%
Miscellaneous	1,232,623	404,408	828,215	204.8%
Unrestricted investments' earnings	7,801,983	3,082,888	4,719,095	153.1%
Distributions from Slot Machines Operations	61,763,423	61,975,583	(212,160)	-0.3%
Contributions to Commonwealth of Puerto Rico	<u>(11,495,742)</u>	<u>(16,950,000)</u>	<u>5,454,258</u>	<u>-32.2%</u>
Total general revenues	204,228,909	178,168,946	26,059,963	14.6%
Total revenues	<u>215,277,268</u>	<u>192,054,725</u>	<u>23,222,543</u>	<u>12.1%</u>
Functions/programs:				
General government	49,662,023	43,038,949	6,623,074	15.4%
Advertising and promotion	100,510,505	60,405,973	40,104,532	66.4%
Programs and services	10,712,999	12,550,877	(1,837,878)	-14.6%
Public relations	<u>3,652,708</u>	<u>1,480,662</u>	<u>2,172,046</u>	<u>146.7%</u>
Total function/programs	<u>164,538,235</u>	<u>117,476,461</u>	<u>47,061,774</u>	<u>40.1%</u>
Change in net position	50,739,033	74,578,264	(23,839,231)	-32.0%
Net position - beginning of year	<u>105,841,136</u>	<u>31,262,872</u>	<u>74,578,264</u>	<u>238.6%</u>
Net position - end of year	<u>\$ 156,580,169</u>	<u>\$ 105,841,136</u>	<u>\$ 50,739,033</u>	<u>47.9%</u>

Total general revenues increased by approximately \$26 million, mostly related to the hotel room taxes revenues increase of approximately \$15 million, increase in unrestricted investments' earnings of approximately \$5 million and decrease of distributions from Slot Machines Operations of approximately \$200 thousand. Also, there was a decrease in contributions to Commonwealth of Puerto Rico of approximately \$5 million.

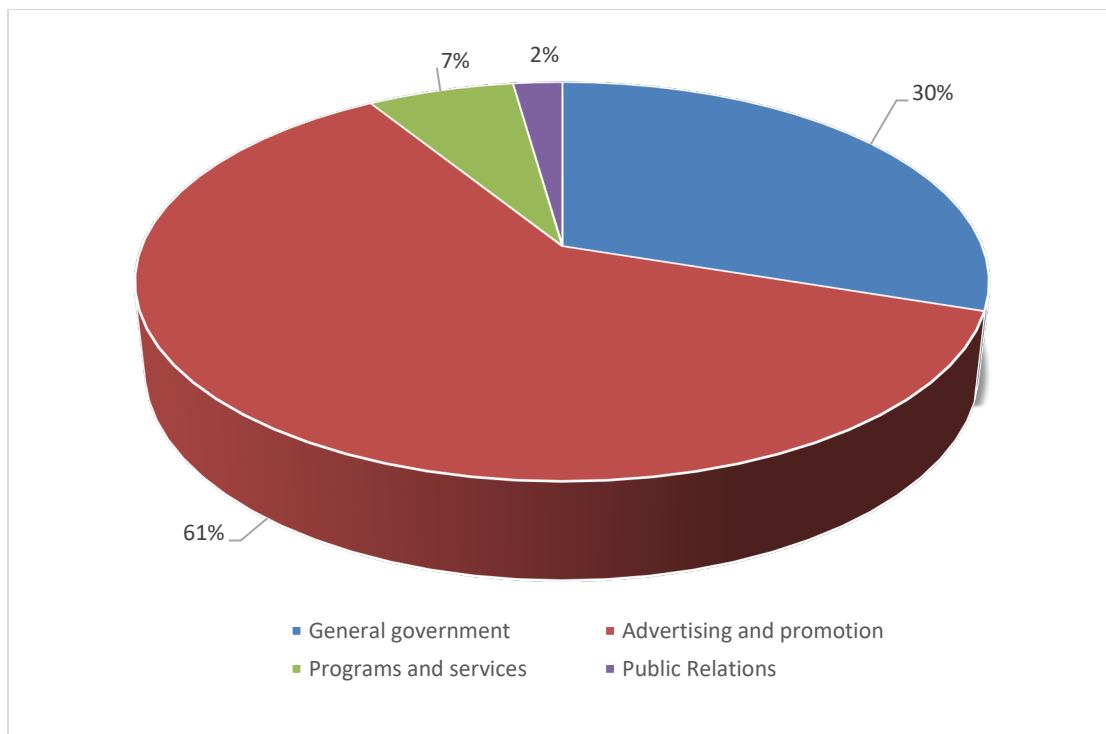


MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) June 30, 2024

Hotel room taxes revenue is still the main source of income for governmental activities. Functions / Program expenses increased by approximately \$47 million, mainly due to an increase of general government expenses and public relations of approximately \$9 million, an increase of advertising and promotion of approximately \$40 million, and a decrease of approximately \$2 million of program and services expenses.

The following chart summarizes the Company's function/programs expenses for the governmental activities for the fiscal year ended June 30, 2024.

Advertising and promotion expenditures are one of the main expenses of the Company, constituting 61% of Government-activity expenses.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2024

Business-Type Activities

Condensed financial information of business-type activities in the statement of net position as of June 30, 2024 and 2023, is shown below:

	As of June 30,		Increase	Variance
	2024	2023	(Decrease)	Percentage
Assets:				
Current assets	\$ 20,009,299	\$ 19,575,054	\$ 434,245	2.2%
Other noncurrent assets	53,146,020	47,581,199	5,564,821	11.7%
Total assets	73,155,319	67,156,253	5,999,066	8.9%
Liabilities				
Current liabilities	28,634,896	25,851,343	2,783,553	10.8%
Deferred inflows of resources				
Leases	39,482,370	40,039,761	(557,391)	-1.4%
Total liabilities and deferred inflows of resources	68,117,266	65,891,104	2,226,162	3.4%
Net Position:				
Unrestricted	5,038,053	1,265,149	3,772,904	298.2%
Total net position	\$ 5,038,053	\$ 1,265,149	\$ 3,772,904	298.2%

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 \$400 thousand from approximately \$19.6 million as of June 30, 2023, to approximately \$20 million as of June 30, 2024, mainly due to an increase in cash collected from notes and accounts receivables.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2024

Condensed financial information of business-type activities in the statement of activities for the fiscal years ended June 30, 2024 and 2023 is shown below:

	Year ended June 30,			
	2024	2023	Increase (Decrease)	Variance Percentage
Program revenues:				
Charges for services - financing and investing	\$ 4,484,736	\$ 3,696,572	\$ 788,164	21.3%
Functions/programs:				
Hotel Development Corporation	780,607	1,482,180	(701,573)	-47.3%
Medical Tourism Company	1,165	1,197	(32)	-2.7%
Total function/programs	781,772	1,483,377	(701,605)	-47.3%
Net revenues before transfers	3,702,964	2,213,195	1,489,769	67.3%
Extraordinary gain:				
Extinguishment of debt	-	63,851,880	(63,851,880)	100.0%
Change in net position	3,702,964	66,065,075	(62,362,111)	-94%
Net position - beginning of year	1,265,149	(64,799,926)	66,065,075	-102.0%
Net position - end of year	\$ 4,968,113	\$ 1,265,149	\$ 3,702,964	292.7%

Total revenues increased by approximately \$800 thousand during the fiscal year ended June 30, 2024. Total expenses decreased by approximately \$700 thousand mostly due to a decrease in interest expenses.

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, 2024 consist substantially of approximately \$169 million of cash and accounts receivable of hotel room taxes of approximately \$18 million.

Cash decreased by approximately \$11 million. Hotel room tax receivables, net of uncollectible amounts, increased by approximately \$200 thousand as a result of an increase in hotel room tax revenues.

Liabilities decreased by approximately \$34 million, from approximately \$68 million in fiscal year 2023 to approximately \$34 million in fiscal year 2024.

Revenue from hotel room tax increased by approximately \$15 million, from approximately \$130 million in fiscal year 2023 to approximately \$145 million in fiscal year 2024 due to an increase in occupancy.

General government expenditures increased by approximately \$5 million, from approximately \$61 million in fiscal year 2023 to approximately \$66 million in fiscal year 2024.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2024

Advertising and promotion expenditures increased approximately \$40 million, from approximately \$60 million in fiscal year 2023 to approximately \$100 million in fiscal year 2024.

The General Fund recorded approximately \$63 million of the total slots machines distributions from the Games Commission of the Government of Puerto Rico.

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 incurred approximately \$10 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, 2024, approximately \$7 million are to be received.

Hotel Development Corporation Fund

The HDC Fund's assets and deferred outflows of resources as of June 30, 2024, consist primarily of cash totaling approximately \$19 million, accounts receivable of approximately \$460 thousand, lease receivable of approximately \$40 million, loans receivable of approximately \$11 million, and real estate held-for-future tourism development of approximately \$3 million. Total liabilities consist of accounts payable of approximately \$27 thousand, due to other fund of approximately \$29 million, and deferred inflows of resources of approximately \$39 million due to leases. Net position increased by approximately \$4 million when compared to the previous year due to an increase in investment income and a decrease in interest expenses from the extinguishment of debts from PFC notes payable.

Total operating revenues increased by approximately \$800 thousand.

Total operating expenses increased by approximately \$200 thousand, from approximately \$600 thousand in fiscal year 2023 to approximately \$800 thousand in fiscal year 2024 due to an increase in general and administrative expenses of tourism areas in fiscal year 2024.

Medical Tourism Company Fund

No contributions were made to the MTC Fund for the fiscal year ended June 30, 2024.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2024

Capital Assets

Governmental

As of June 30, 2024 and 2023, capital assets for governmental activities are composed of the following:

Description	As of June 30,		Increase (Decrease)
	2024	2023	
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	12,411,630	12,948,672	(537,042)
Leasehold improvements	2,270	2,407	(137)
Furniture and equipment	351,303	323,246	28,057
Lease Assets	631,302	517,891	113,411
Vehicles	131,199	62,635	68,564
Total capital assets, net of accumulated depreciation	13,527,704	13,854,851	(327,147)
Total	\$ 18,593,634	\$ 18,920,781	\$ (327,147)

The Company's capital assets as of June 30, 2024 amounted to approximately \$19 million, net of accumulated depreciation. Capital assets consist of land, works of art, buildings and improvements, leasehold improvements, furniture and equipment, and vehicles. See Note 8 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, 2024.

Long-Term Debt

Significant long-term debt activity during fiscal year 2024 was as follows:

- Long-term debt in the governmental activities amounted to approximately \$83 million as of June 30, 2024.
- Long term debt consists primarily of termination benefits of approximately \$2 million, total pension liability of approximately \$78 million and other post-employment benefits ("OPEB") of approximately \$2 million, accrued compensated absences of approximately \$900 thousand, lease liability of approximately \$700 thousand and accrued legal claims of \$50 thousand. Long-term debt decreased by approximately \$8 million, from approximately \$91 million to approximately \$83 million, mainly due to the effect of the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 73 related to actual employer contributions and change in proportionate share that was implemented during fiscal year 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2024

- Long-term debt due within one year is approximately \$7 million.
- See Note 9 to the accompanying basic financial statements for additional information and activity of the Company's long-term debt.

Economic Factors

During the fiscal year ended June 30, 2024, the number of persons registered in lodgings endorsed by the Company, including residents of Puerto Rico and non-resident tourists, was approximately 7 million, an increase of 2% over the number of persons registered during the same period of fiscal year ended June 30, 2023. The average occupancy rate in these lodgings during fiscal year ended June 30, 2024, was 69.4%, a decrease of 0.8% from the prior fiscal year.

Subsequent Events

Refer to Note 16 to 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

June 30, 2024

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 168,645,434	\$ 19,290,043	\$ 187,935,477
Accounts receivable:			
Hotel room taxes – net	17,853,884	-	17,853,884
Leases	-	40,291,794	40,291,794
Other – net	-	462,370	462,370
Due from the Games Commission of the Government of Puerto Rico	29,125,167	-	29,125,167
Intergovernmental	2,747,431	-	2,747,431
Investments in tourism projects, net of allowance of \$64,064,378	-	-	-
Internal balances	28,607,725	(28,607,725)	-
Loans receivable – net	-	10,511,111	10,511,111
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	13,527,704	-	13,527,704
	<u>265,573,275</u>	<u>44,547,594</u>	<u>310,120,869</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	8,469,300	-	8,469,300
Other post-employment benefits related	157,205	-	157,205
	<u>8,626,505</u>	<u>-</u>	<u>8,626,505</u>

Continues...

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION

June 30, 2024

Continued...

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable and accrued liabilities	20,653,309	27,171	20,680,480
Due to the Games Commission of the Government of Puerto Rico	5,690,981	-	5,690,981
Due to Commonwealth of Puerto Rico	1,932,571	-	1,932,571
Due to Corporacion para la Promocion de Puerto Rico como Destino, Inc.	5,000,000	-	5,000,000
Due to University of Puerto Rico	387,991	-	387,991
Long-term obligations due within one year:			
Lease liability	380,511	-	380,511
Compensated absences	315,424	-	315,424
Termination benefits	487,528	-	487,528
Total pension liability	5,183,137	-	5,183,137
Total other post-employment benefits liability	157,205	-	157,205
Long-term obligations due in more than one year:			
Lease liability	304,954	-	304,954
Compensated absences	549,507	-	549,507
Termination benefits	1,019,870	-	1,019,870
Legal claims	50,000	-	50,000
Total pension liability	72,997,683	-	72,997,683
Total other post-employment benefits liability	1,955,546	-	1,955,546
	<u>117,066,217</u>	<u>27,171</u>	<u>117,093,388</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related	553,394	-	553,394
Leases	-	39,482,370	39,482,370
	<u>553,394</u>	<u>39,482,370</u>	<u>40,035,764</u>
NET POSITION			
Net investment in capital assets	17,908,169	-	17,908,169
Unrestricted	138,672,000	5,038,053	143,710,053
	<u>\$ 156,580,169</u>	<u>\$ 5,038,053</u>	<u>\$ 161,618,222</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, 2024

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
General government	\$ 61,157,765	\$ 1,293,673	\$ -	\$ (59,864,092)	\$ -	\$ (59,864,092)
Advertising and promotion	100,510,505	-	-	(100,510,505)	-	(100,510,505)
Programs and services	10,712,999	-	9,754,686	(958,313)	-	(958,313)
Public relations	3,652,708	-	-	(3,652,708)	-	(3,652,708)
Total governmental activities	176,033,977	1,293,673	9,754,686	(164,985,618)	-	(164,985,618)
BUSINESS -TYPE ACTIVITIES						
Hotel Development Corporation	802,596	4,557,756	-	-	3,755,160	3,755,160
Medical Tourism Company	1,165	18,909	-	-	17,744	17,744
Total business-type activities	803,761	4,576,665	-	-	3,772,904	3,772,904
	<u>\$ 176,837,738</u>	<u>\$ 5,870,338</u>	<u>\$ 9,754,686</u>	<u>(164,985,618)</u>	<u>3,772,904</u>	<u>(161,212,714)</u>
General Revenues:						
Hotel room taxes				144,926,622	-	144,926,622
Distributions from Slot Machines Operations				61,763,423	-	61,763,423
Miscellaneous				1,232,623	-	1,232,623
Investment earnings				7,801,983	-	7,801,983
Total general revenues and contributions				215,724,651	-	215,724,651
Change in net position				50,739,033	3,772,904	54,511,937
NET POSITION — Beginning of year				105,841,136	1,265,149	107,106,285
NET POSITION — End of year				<u>\$ 156,580,169</u>	<u>\$ 5,038,053</u>	<u>\$ 161,618,222</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, 2024

	General Fund
ASSETS	
Cash	\$ 168,645,434
Accounts receivable - Hotel room taxes, net	17,853,884
Intergovernmental receivable	2,747,431
Due from the Games Commission of the Government of Puerto Rico	10,145,765
Due from other fund	28,607,725
	<hr/>
Total assets	\$ 228,000,239
	<hr/> <hr/>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 20,653,309
Due to the Games Commission of the Government of Puerto Rico	5,690,981
Due to Commonwealth of Puerto Rico	1,932,571
Due to Corporacion para la Promocion de de Puerto Rico como Destino, Inc.	5,000,000
Due to University of Puerto Rico	387,991
	<hr/>
Total liabilities	\$ 33,664,852
	<hr/> <hr/>
FUND BALANCE	
Unassigned	194,335,387
	<hr/>
Total liabilities and fund balance	\$ 228,000,239
	<hr/> <hr/>

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

GOVERNMENTAL FUND

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2024

FUND BALANCE - GOVERNMENTAL FUND	\$	194,335,387
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		18,593,634
Asset not available to provide current resources - due from the Games Commission of the Government of Puerto Rico		18,979,402
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds:		
Pension related		8,469,300
Other post-employment benefits related		157,205
Deferred inflows of resources are not reported in the funds		
Pension related		(553,394)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued legal claims		(50,000)
Lease liability		(685,465)
Accrued compensated absences		(864,931)
Termination benefits		(1,507,398)
Total pension liability		(78,180,820)
Total other post-employment benefit liability		(2,112,751)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>156,580,169</u>

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 BALANCE —
GOVERNMENTAL FUND**

For the year ended June 30, 2024

	<u>General Fund</u>
REVENUES	
Hotel room tax	\$ 144,926,622
Intergovernmental federal grants	9,754,686
Distributions from slot machines	61,763,423
Charges for programs and services	1,293,673
Miscellaneous	1,232,623
Investment earnings	7,801,983
	<hr/>
Total revenues	226,773,010
	<hr/>
EXPENDITURES	
General government	77,413,646
Advertising and promotion	100,510,505
Programs and services	10,712,999
Public relations	3,652,708
Capital outlays	242,824
	<hr/>
Total expenditures	192,532,682
	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	34,240,328
	<hr/>
NET CHANGE IN FUND BALANCE	34,240,328
	<hr/>
FUND BALANCE — Beginning of year	160,095,059
	<hr/>
FUND BALANCE — End of year	\$ 194,335,387
	<hr/> <hr/>

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

GOVERNMENTAL FUND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2024

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ 34,240,328
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(327,147)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Termination benefits	221,704
Lease liability	(142,132)
Pension expense	15,241,621
Other post-employment benefit expense	180,406
Compensated absences	324,253
Nonexchange financial guarantee	1,000,000

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 50,739,033
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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

June 30, 2024

	Hotel Development Corporation	Medical Tourism Company	Total
ASSETS			
Current assets:			
Cash	\$ 18,858,850	\$ 431,193	\$ 19,290,043
Accounts receivable - net	462,130	240	462,370
Lease receivable	256,886	-	256,886
Total current assets	19,577,866	431,433	20,009,299
Non-current assets:			
Loans receivable - net	10,511,111	-	10,511,111
Lease receivable	40,034,908	-	40,034,908
Real estate held-for-future tourism development	2,600,001	-	2,600,001
Total non-current assets	53,146,020	-	53,146,020
Total assets	\$ 72,723,886	\$ 431,433	\$ 73,155,319
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued expenses	\$ 27,171	\$ -	\$ 27,171
Due to other fund	28,607,325	400	28,607,725
Total current liabilities	28,634,496	400	28,634,896
DEFERRED INFLOWS OF RESOURCES			
Leases	39,482,370	-	39,482,370
Total liabilities and deferred inflows of resources	68,116,866	400	68,117,266
NET POSITION			
Unrestricted	4,607,020	431,033	5,038,053
Total liabilities and net position	\$ 72,723,886	\$ 431,433	\$ 73,155,319

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

For the year ended June 30, 2024

	Hotel Development Corporation	Medical Tourism Company	Total
OPERATING REVENUES			
Investment income	\$ 2,233,312	\$ -	\$ 2,233,312
Interest income	844,283	-	844,283
Rent	692,667	-	692,667
Total operating revenues	3,770,262	-	3,770,262
OPERATING EXPENSES			
General and administrative	802,596	1,165	803,761
OPERATING INCOME (LOSS)	2,967,666	(1,165)	2,966,501
NONOPERATING REVENUES			
Interest income	787,494	18,909	806,403
CHANGE IN NET POSITION	3,755,160	17,744	3,772,904
NET POSITION (DEFICIT) - Beginning of year, as restated	851,860	413,289	1,265,149
NET POSITION - End of year	\$ 4,607,020	\$ 431,033	\$ 5,038,053

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, 2024

	Hotel Development Corporation	Medical Tourism Company	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from investments in tourism projects	\$ 1,620,974	\$ -	\$ 1,620,974
Loans granted for tourism projects	(5,209,347)	-	(5,209,347)
Cash received from rental activities	1,144,080	-	1,144,080
Cash paid for other operating expenses	(800,722)	(1,165)	(801,887)
Net cash used in operating activities	(3,245,015)	(1,165)	(3,246,180)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash received from other funds	2,781,679	-	2,781,679
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:			
Interest received	787,494	18,909	806,403
Net change in cash	324,158	17,744	341,902
CASH – beginning of year	18,534,692	413,449	18,948,141
CASH – end of year	\$ 18,858,850	\$ 431,193	\$ 19,290,043
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating income (loss)	\$ 2,967,666	\$ (1,165)	\$ 2,966,501
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Changes in operating assets and liabilities:			
Increase in accounts receivable	(392,870)	-	(392,870)
Increase in loans receivable	(5,821,685)	-	(5,821,685)
Increase in accounts payable	1,874	-	1,874
Net cash used in operating activities	\$ (3,245,015)	\$ (1,165)	\$ (3,246,180)

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, 2024

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, 2024, 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 will be performed to consolidate the Company into the Department of Economic Development and Commerce ("DDEC" by its Spanish acronym), another component unit of the Commonwealth. 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.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024

2) Basis of Presentation and Summary of Significant Accounting Policies

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

Financial Statements Presentation

Government-Wide Financial Statements – The statement of net position 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, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Company's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on bank accounts and rental revenues.

The statement of net position 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.

Net position is reported in three categories:

- *Net investment in Capital Assets* – This component of net position 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.
- *Restricted* – This component of net position consists of restricted assets reduced by related liabilities. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position 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 often is assigned to indicate that management does not consider them to be available for general operations.

The unrestricted component of net position 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, 2024

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 and the amount due from other fund. Other fund balances have been reported as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent, as described below:

- *Nonspendable* – Represents resources that cannot be spent readily with cash or are legally or contractually required not to be spent.
- *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.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024

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

Measurement Focus and Basis of Accounting

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

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.

PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024

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 funds' principal ongoing operations. Operating revenues are generated from lending, investing, and other related activities. Operating expenses include expenses related to tourism projects, provisions for loan losses and doubtful accounts receivable, and all general and administrative expenses, among others. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

- *The HDC Fund* – The HDC fund is a blended component unit engaged to promote the development of the hotel and tourism industry, including the construction of tourism properties in Puerto Rico.
- *The MTC Fund* – The MTC fund is a blended component unit created to incentivize and promote the development of medical tourism enacted by Act No. 196-2010.

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 that 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2024

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.

Right-of-Use Lease Assets

As per GASB Statement No. 87, *Leases* ("GASB 87"), a lessee is required to recognize a lease liability and a right-of-use lease asset, and the lessor is required to recognize a lease receivable and a deferred inflow of resources. Right-of-use lease asset represents the Company's right over an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right-of-use assets are amortized over the shorter of the asset useful life or the term of the lease.

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PUERTO RICO TOURISM COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024

Leases

In accordance with GASB Statement No. 87, *Leases*, the Company, as a lessor, recognizes lease receivables and deferred inflows of resources for leases that were previously classified as operating leases. For each lease, the Company records a lease receivable, representing the right to receive lease payments during the lease term, and a deferred inflow of resources, representing the unearned revenue associated with the lease. 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 or the Milliman discount rate of 2.21% based on the Bond Buyer General Obligation 20-Bond Municipal Index rate. 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. Additional information is provided in Note 15.

Investment in Tourism Projects

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

Investments in tourism projects are periodically evaluated for impairment. Management periodically evaluates the financial position and the results of operations of investees, and other industry and economic factors to determine if there are indicators that other-than-temporary impairment in the value of the investment has occurred. Other-than-temporary impairment charges are recorded as part of the investment earnings (losses). During the year ended June 30, 2024, the Company did not recognize other-than-temporary impairment losses.

Real Estate Held-for-Future Tourism Development

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

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund statement of net position. 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.

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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
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 were no instances of impairment of capital assets during the year ended June 30, 2024.

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Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statements element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. On the business-type activities of the government-wide financial statements and proprietary funds' statement of net position, the Company has two items that qualify for reporting in this category: (i) certain pension related items and (ii) certain other post-employment benefits ("OPEB") related items. Of the pension related items, changes in proportional share of contributions, changes in 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 is deferred and recognized over a five-year period. Benefits paid made subsequent to the measurement date are recognized as a reduction of the total 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 OPEB liability after the next measurement date.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statements element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. On the business-type activities of the government-wide financial statements and proprietary funds' statement of net position, the Company has two items that qualifies for reporting in this category consisting of (i) certain pension related items and (ii) 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 two-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 recognizes 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 is generally adjusted by the same amount as any change resulting from the remeasurement of the lease receivable.

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Interfund Activities

The Company has the following types of interfund transactions:

- *Loans* – Represents amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by the nonspendable fund balance, which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.
- *Services provided and used* – Represents sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net position.
- *Reimbursements* – Represents repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
- *Transfers* – Represents flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

Unearned Revenue

Unearned revenue at the governmental fund level arises when potential revenue does not meet the “available” criteria for revenue recognition in the current period. Unearned revenue also arises 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 arises only when the Company receives resources before it has a legal claim to them.

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Compensated Absences

Based on Act No. 26-2017, 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 should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

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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.

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 2024 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.

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Future Adoption of Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective as of June 30, 2024:

- 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.

- GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

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- GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. This Statement is effective for fiscal years beginning after June 15, 2025, 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.

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3) 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.

As of June 30, 2024, the Company's cash in commercial banks, excluding cash on hand of \$5,396, consist of the following:

Description	Governmental Activities		Business-Type Activities	
	Carrying Amount	Depository Bank Balance	Carrying Amount	Depository Bank Balance
Commercial banks				
Unrestricted cash	\$ 168,640,038	\$ 169,520,102	\$ 19,290,043	\$ 19,290,043

4) Claim Receivable from Public Entity Trust

On November 29, 2018, the Government Development Bank of 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"), and 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 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	\$ 35,446,494	\$ (35,446,494)	\$ -

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5) Loans Receivable

As of June 30, 2024, business-type loans receivable are as follows:

Description	Amount
Unsecured noninterest-bearing loan, due from Rio Mar-G.P.L.P. collectable from available distributions, if any, from the partners of Rio Mar Associates' S.E., at a rate denominated as 50% of Rio Mar Associates' S.E. 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 which is expected to be denominated the JW Marriot and Stellars Casino at Coco Beach 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, at a fixed annual interest rate of 8%. Interest shall be payable quarterly in arrears on the first day of January, April, July and October of each year. Unpaid interest shall be calculated on a quarterly compounded basis.	8,989,879
Non-revolving loan of \$500 thousand due from WC Owner, LLC at a fixed rate of 8% per annum compounded on an annual basis payable in arrears on the first day of January, April, July, and October of each year during the term hereto and on the due date. This loan was due on December 31, 2016.	480,865
Non-revolving credit facility of \$4 million due from Verde, LLC to cover certain costs and expenses related to the construction and development of ESJ Verde Hotel convertible to a term loan. The subordinated loan's interest rate on the unpaid principal amount 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.	4,805,144
Non-revolving loan of \$5 million due from Royale Blue Hospitality, LLC to cover certain costs and expenses related to continue with the 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.	5,116,424

Continues...

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Continued...

Description	Amount
Non-revolving line of credit not to exceed \$6,850,000 in the aggregate from Normandie OZ, LLC to be used exclusively to partially finance (i) the payment of two loans with a current unpaid balance of approximately \$4,750,000; (ii) transaction costs relating to HDC Credit Facility; and (iii) soft costs of the Project. The credit facility shall bear interest at a fixed rate per annum of 7.50%. The line of credit is due on December 29, 2025.	3,270,577
Subordinate loan of \$2 million due from PHCS 405, LLC to cover the financing and construction costs of a 56 room hotel. The subordinate loan's interest rate on the unpaid principal balance is 7.50% per annum that shall be payable in monthly installments starting 12 months after the commencement of operations until maturity date. The loan is due on July 14, 2028.	2,124,110
Other	405,055
	38,600,199
Less: Allowance for losses on loans receivable	(28,089,088)
Total Business-type loan receivables, net	<u>\$ 10,511,111</u>

As of June 30, 2024, nonperforming loans amounted to approximately \$28 million. Interest income that would have been recorded during the fiscal year ended June 30, 2024, if these loans had performed in accordance with their original terms would have been approximately \$95,000.

In 2009, the HDC sold the surface rights on certain properties for \$10 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 \$10 million surface rights debt. During the fiscal year ended June 30, 2024, the HDC received approximately \$975 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.

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6) Investment in Tourism Projects

As of June 30, 2024, investment in tourism projects consist of the following:

Tourism Projects	Carrying Amount
DBR Dorado Owner LLC (DBR)	\$ 7,500,000
Vieques Hotel Partners (VHP)	8,336,859
Bahía Beach CH Development, LLC ("St. Regis Hotel at Bahía Beach Resort and Golf Club" or "Bahía Beach")	13,856,667
CCHPR Holding, LLC ("Sheraton Puerto Rico 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
Resort at Cayo Largo, LLC	15,000,000
	<u>64,064,378</u>
Less: Allowance for losses on investment in tourism projects	<u>(64,064,378)</u>
	<u>\$ -</u>

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.

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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, 2024, the total accumulated payments received from DBR is approximately \$3.3 million leaving pending balance of approximately \$4.2 million.

During the year ended June 30, 2024, the HDC collected payments for approximately \$555 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.

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 brings 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, 2024, as follows:

<u>Tourism Project</u>	<u>Room Tax</u>
DBR Dorado Owner LLC (DBR)	\$ 5,300,096
Bahia Beach CH Development, LLC (St. Regis Hotel at Bahía Beach Resort + Golf Club or “Bahía Beach”)	3,114,227
CCHPR Holding, LLC (CCHPR)	4,064,765
Old San Juan Associates LP, SE (Old San Juan)	983,813
Crown Investment LLC	354,642
	<u>\$ 13,817,543</u>

7) Interfund Balances and Transfers

The summary of interfund balances as of June 30, 2024, between governmental funds and proprietary funds is as follows:

<u>Interfund receivable</u>	<u>Interfund payable</u>	<u>Purpose</u>	<u>Amount</u>
Governmental fund –	Proprietary fund –		
General fund	HDC	Balance in cash pool	<u>\$ 28,607,325</u>
Governmental fund –	Proprietary fund –		
General fund	MTC	Balance in cash pool	<u>\$ 400</u>

The 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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8) Capital Assets

Capital assets activity for the year ended June 30, 2024, is as follows:

Description	Beginning Balance	Additions/ Reclassifications	Reductions/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets – not being depreciated:				
Land	\$ 3,035,000	\$ -	\$ -	\$ 3,035,000
Works of art	2,030,930	-	-	2,030,930
Total capital assets – not being depreciated	5,065,930	-	-	5,065,930
Capital assets – being depreciated:				
Buildings, infrastructure and improvements	29,265,877	-	-	29,265,877
Leasehold improvements	658,621	-	-	658,621
Furniture and equipment	5,799,838	194,245	(387,798)	5,606,285
Vehicles	296,711	89,724	-	386,435
Right-to-use assets	648,603	497,117	-	1,145,720
Total capital assets – being depreciated	36,669,650	781,086	(387,798)	37,062,938
Less accumulated depreciation/amortization:				
Buildings, infrastructure and improvements	(16,317,205)	(537,042)	-	(16,854,247)
Leasehold improvements	(656,214)	(137)	-	(656,351)
Furniture and equipment	(5,476,592)	(166,037)	387,647	(5,254,982)
Vehicles	(234,076)	(21,160)	-	(255,236)
Right-to-use assets	(130,712)	(383,706)	-	(514,418)
Total accumulated depreciation	(22,814,799)	(1,108,082)	387,647	(23,535,234)
Total capital assets – being depreciated, net	13,854,851	(326,996)	(151)	13,527,704
Governmental activities capital – assets, net	\$ 18,920,781	\$ (326,996)	\$ (151)	\$ 18,593,634

Governmental Activities:

During the year ended June 30, 2024, current depreciation and amortization expense of approximately \$1.1 million was charged to governmental activities.

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

NOTES TO BASIC FINANCIAL STATEMENTS **June 30, 2024**

Business Type Activities:

As of June 30, 2024, 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 an estimated net realizable value on June 30, 1993.

9) Long-Term Obligations

A summary of long-term obligations as of June 30, 2024, is as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Lease liability	\$ 543,333	\$ 497,119	\$ (354,987)	\$ 685,465	\$ 380,511
Compensated absences	1,189,184	516,277	(840,530)	864,931	315,424
Termination benefits	1,729,102	265,824	(487,528)	1,507,398	487,528
Legal claims	50,000	-	-	50,000	-
Total pension liability	84,621,606	-	(6,440,786)	78,180,820	5,183,137
Total other post-employment benefits liability	2,298,595	-	(185,844)	2,112,751	157,205
Non-exchange financial guarantee liability	1,000,000	-	(1,000,000)	-	-
Total – Governmental Activities	\$ 91,431,820	\$ 1,279,220	\$ (9,309,675)	\$ 83,401,365	\$ 6,523,805

10) 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 ERS.

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 ERS 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 ERS and the age for retirement or have the age for retirement, the Company made employee and the employer contributions to the ERS for a five-year period until July 1, 2017, since they were eliminated with Act No. 106-2017.

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As of June 30, 2024, unpaid benefits on this program were discounted at the corresponding rate between 3.25% and 4.80%. 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, 2024, the amount of approximately \$266 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to approximately \$771 thousand. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

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, 2024, unpaid benefits on this program were discounted for employees at the corresponding rate between 3.25% and 4.80%. The Act No. 2011-2015 stipulates 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, 2024, the present value of future incentive payments reported as a liability amounted to approximately \$470 thousand. From the total aggregate liability of the program as of June 30, 2024, the amount of approximately \$221 thousand should be funded during the next fiscal year. The non-current portion of the early termination obligation amounted to \$249 thousand. Such amounts are disclosed respectively, as current and non-current liabilities in the accompanying statement of net position.

11) 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, 2024, were approximately \$5.2 million.

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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.

This summary of ERS's pension plan provisions is intended to describe the essential features of the Plan before the enactment of Act No. 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.

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Certain plan provisions were 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>.

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.

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Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013, are eligible to retire with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

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

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

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

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

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

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

Service Retirement Annuity Benefits

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

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- *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.

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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.

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).

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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.

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

As of June 30, 2024, the Company reported a liability of approximately \$78 million for its proportionate share of the total pension liability.

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The June 30, 2024, total pension liability was measured as of June 30, 2023 and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of July 1, 2022, rolled forward to the measurement date of June 30, 2023 (measurement date as of June 30, 2023). 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, 2023, the Company's proportionate share was 0.37640%, which resulted in a decrease of 0.0560% from its proportionate share as of June 30, 2023 (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, 2023 was 3.65%. 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, 2023 actuarial valuation were as follows:

- *Pre-retirement Mortality*

For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using 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. This 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 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 disabled retiree rates, adjusted by 80% for males and 100% 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 Beneficiary Mortality*

Prior to the 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 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, 2023:

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 years 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 3.65%, 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 (2.65%) or one percentage point higher (4.65%) than the current rate:

Description	At 1% decrease (2.65%)	At current discount rate (3.65%)	At 1% increase (4.65%)
Total pension liability	\$ 87,168,572	\$ 78,180,820	\$ 70,676,886

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For the year ended June 30, 2024, the Company recognized a pension recovery of \$15.2 million. As of June 30, 2024, 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	\$ 54,482	\$ 487,596
Changes of assumptions	2,985,241	-
Changes in proportion	246,440	65,798
Benefits paid subsequent to measurement date	5,183,137	-
	<u>\$ 8,469,300</u>	<u>\$ 553,394</u>

The deferred outflows of resources related to pension benefit payments made by the Company subsequent to the measurement date that amounted to approximately \$5 million, will be recognized as a reduction of the total pension liability in the year ended June 30, 2024.

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2023, will be recognized in the pension expense (benefit) as follows:

Year ending June 30,	Amount
2024	<u>\$2,732,770</u>

The previous amounts do not include the Company's specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts will be recognized (amortized) over the average of the expected remaining service lives of all plan members, which is one (1) year for 2023.

Additional information on the Plan is provided on its standalone financial statements for the year ended June 30, 2023, 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.

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12) Other Post-employment Benefit Plan (OPEB Plan)

In addition to the pension benefits described in Note 11, the Company participates in the OPEB Plan. The OPEB plan is an unfunded, defined benefit other post-employment 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.

Total OPEB Liability and Actuarial Assumptions and Methods:

The total OPEB liability of the Company as of June 30, 2024 was \$2,112,751. The total OPEB liability as of June 30, 2024 was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023 (measurement date as of June 30, 2023). As of June 30, 2024, the Company's proportionate share was 0.32677%, which resulted in a decrease of 0.00368% from its proportionate share as of June 30, 2023 (using the measurement date as of June 30, 2022). The Company recognized an OPEB expense of \$157,000 during the year ended June 30, 2024.

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

Discount Rate

The discount rate for June 30, 2023 was 3.65%. 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.

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Mortality

The mortality tables used in the June 30, 2023 actuarial valuation were as follows:

- *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. This assumption is also used for beneficiaries prior to the member's death.

- *Post-retirement Disabled 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 disabled retiree rates, adjusted by 80% for males and 100% 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 Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the postretirement retiree mortality. For periods after the retiree's death, the PubG-2010(8) 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, 2023 calculated using the current discount rate of 3.65% as well what the Company's proportionate share of the Plan's total OPEB liability if it were calculated using a discount rate of one percentage point lower (2.65%) or one percentage point higher (4.65%) than the current rate:

Description	At 1% decrease (2.65%)	At current discount rate (3.65%)	At 1% increase (4.65%)
Total OPEB liability	\$ 2,293,952	\$ 2,112,751	\$ 1,956,472

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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 \$157,205 as of June 30, 2024. This amount will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024. 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, 2024, 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	157,205	-
	<u>\$ 157,205</u>	<u>\$ -</u>

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June 30, 2024

13) Related-Party Transactions

As of June 30, 2024, related party transactions and amounts due to other government instrumentalities are as follows:

Commonwealth of Puerto Rico

There are unremitted distributions from the transfer of the Slot Machines Operations that were assumed by the General Fund. Amount due to the Commonwealth for those unremitted distributions amounts to approximately \$1 million.

During the fiscal year ended June 30, 2024, contributions to the Commonwealth of Puerto Rico amounting to \$11,495,742 were as follows:

- On January 30, 2024, an Intergovernmental Agreement was made between the Puerto Rico Public Service Regulatory Board ("JRSP"), the DDEC, and the Company. It outlines the transfer of personnel and budget from the Company to JRSP in compliance with Law No. 75-2017 regarding administrative transformation. During the year ended June 30, 2024, the Company contributed \$1,375,000 as a result of this agreement. Contribution is presented as part of the general government expenditures in the accompanying basic financial statements.
- On April 12, 2024, the Government of Puerto Rico's State Historic Preservation Office ("OECH"), the DDEC, and the Company entered into an Interagency Agreement to allocate funds for the rehabilitation of key historic sites in Old San Juan, Puerto Rico. During the year ended June 30, 2024, the Company contributed \$8,978,416 as a result of this agreement. Contribution is presented as part of the general government expenditures in the accompanying basic financial statements.
- On April 25, 2024 the Instituto de Cultura Puertorriqueña ("ICP"), and the Company entered into an agreement for the conservation, maintenance, and security of cultural and historical assets under the ICP's administration. Pursuant to the agreement, during the year ended June 30, 2024, the Company transferred \$1,142,326 to the ICP. Contribution is presented as part of the general government expenditures in the accompanying basic financial statements.

Games Commission of the Government of Puerto Rico

On July 29, 2019, the Governor signed into law Act No. 81-2019, known as "Ley de la Comisión de Juegos del Gobierno de Puerto Rico" that creates a new agency called the Games Commission of the Government of the Commonwealth (the "Games Commission"). The Company generates additional revenues as distributions from the slot machine operations of the Games Commission that are recognized in the general fund of the Company. During the year ended June 30, 2024, the Games Commission distributed to the Company approximately \$63 million.

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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, 2024, the Company contributed \$25 million to the Organization in accordance with the provisions of Act No. 17-2017. This contribution was made from room tax revenue sources (refer to Note 14). During the year ended of June 30, 2024, the Company made other contributions to the Organization for \$28 million as established by the budget approved by the Financial Oversight and Management Board ("FOMB"), and a balance due to the Organization of approximately \$5 million as the Company established a matching funds program to provide additional funds to the Organization in an amount that matches the funds (the "Private Funding").

14) 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 hoteliers and an 11% tax for those operating casinos. However, special treatment is given to hoteliers 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 the Government Development Bank ("GDB") before the beginning of each fiscal year to the Company and the Puerto Rico Convention Center District Authority ("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 existing debt with GDB for the development and construction of the Puerto Rico Convention Center and surrounding district through a \$483 million bond issuance.

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Act No. 53-2021 amended Act No. 272-2003 to transfer the distributions that were made to the PRCCDA to the Commonwealth's general fund.

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 Company 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.

On May 25, 2022, the Company and PRCCDA entered into an interagency agreement as amended by Act 272-2003. The original ten-year term for the payment of 5% of the tax expired, and the payment of \$2.5 million was made in full. Since no legislation was approved for additional payments, the FOMB authorized an allocation of approximately \$5 million to cover PRCCDA's operating expenses and any potential deficits arising from facility operations.

During the year ended June 30, 2024, hotel room taxes collected amounted to approximately \$145 million.

Distributions for the year ended June 30, 2024, were as follows:

Description	Amount
Entity/Fund:	
Two percent to cover operating costs	\$ 2,262,290
Corporación para la Promoción de Puerto Rico como Destino, Inc.	25,000,000
PRCCDA	4,923,000
General fund of the Company	112,352,340
	<u>\$ 144,537,630</u>

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Hotel room taxes assigned to PRCCDA for approximately \$5 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 \$58 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.

15) Commitments and Contingencies

Commitments

Federal Funds

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

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 Puerto Rico Fiscal Agency and Financial Authority ("FAFAA") to include the Recovery and Development of Domestic Air Access for \$2 million and Improving Tourist Attractions for approximately \$1 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 was spent by December 2024 for approximately \$4 million.

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.

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NOTES TO BASIC FINANCIAL STATEMENTS
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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 thousand 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.

HDC as Lessor

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

Description	Lease Receivable	Deferred Inflows of Resources
Lease agreement covering lease of Condado Vanderbilt parcel for a term 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.	\$ 20,095,108	\$ 19,691,415
Lease agreement covering lease of La Concha parcel for a term 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.	20,095,108	19,691,415
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.	90,174	7,860
Lease agreement covering lease of commercial premises in Plaza Ventana al Mar as Commercial Space number 5 (five), 6 (six), and 7 (seven) of Building B named Ben and Jerry's. It commenced on July 28, 2022 and call for monthly installments of \$2,549 at 1.15% of interest rate.	92,599	91,680
	40,372,989	\$ 39,482,370
Less: Allowance for uncollectible	(81,195)	
Long-term portion	\$ 40,291,794	

Rental income on the above lease agreements considered as operating revenues amounts to approximately \$693 thousand. Interest income on the above lease agreements amounts to approximately \$787 thousand.

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 256,886	\$ 782,696	\$ 1,039,582
2026	252,545	778,038	1,030,583
2027	257,270	773,312	1,030,582
2028	233,917	768,632	1,002,549
2029	235,923	764,077	1,000,000
2030 - 2034	1,251,098	3,748,902	5,000,000
2035 - 2039	1,379,115	3,620,885	5,000,000
2040 - 2044	1,520,232	3,479,768	5,000,000
2045 - 2049	1,675,789	3,324,211	5,000,000
2050 - 2054	1,847,263	3,152,737	5,000,000
2055 - 2059	2,036,282	2,963,718	5,000,000
2060 - 2064	2,244,643	2,755,357	5,000,000
2065 - 2069	2,474,325	2,525,675	5,000,000
2070 - 2074	2,727,508	2,272,492	5,000,000
2075 - 2079	3,006,598	1,993,402	5,000,000
2080 - 2084	3,314,246	1,685,754	5,000,000
2085 - 2089	3,653,374	1,346,626	5,000,000
2090 - 2094	4,027,202	972,798	5,000,000
2095 - 2099	4,439,282	560,718	5,000,000
2100 - 2103	3,458,296	125,040	3,583,336
	<u>\$ 40,291,794</u>	<u>\$ 38,394,838</u>	<u>\$ 78,686,632</u>

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June 30, 2024

The Company as Lessee

The Company has entered into various right-to-use assets leases for equipment under cancellable leases, with terms ranging from four to five years, recorded in accordance with GASB 87 Statement No. 87. Total lease liability and expense for the year ended June 30, 2024 for all leases was approximately \$685 thousand, and \$379 thousand respectively. The lease commitment related to non-cancellable leases as of June 30, 2024 is as follows:

Year ending June 30,	Principal	Interest	Total
2025	\$ 380,511	\$ 58,393	\$ 438,904
2026	146,440	35,270	181,710
2027	158,514	13,302	171,816
	<u>\$ 685,465</u>	<u>\$ 106,965</u>	<u>\$ 792,430</u>

Contingencies/Litigation

As of June 30, 2024, 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 thousand has been reflected in the accompanying statement of net position.

16) Subsequent Events

As of June 30, 2024, subsequent events are as follows:

Resolution 2024-154

On November 11, 2024, the Company submitted a second disbursement request of \$5,066,128 to 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 2024 to December 2024. On December 5, 2024, by unanimous consent of the members of the Committee, authorized a disbursement of \$4,000,000 to the Company from the Excellence of Citizens Program.

Management has evaluated subsequent events through July 8, 2025, the date on which financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

Years Ended June 30, 2024, 2023, 2022, 2021, 2020, and 2019

Description	2024*	2023*	2022*	2021*	2020*	2019*
Proportion of Total Pension Liability	0.37640%	0.38200%	0.43135%	0.42750%	0.42879%	0.43022%
Proportionate Share of Total Pension Liability	\$ 78,180,120	\$ 84,621,606	\$ 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	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
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**SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL POST-EMPLOYMENT BENEFIT
LIABILITY AND RELATED RATIOS (UNAUDITED)**
Years Ended June 30, 2024, 2023, 2022, 2021, 2020, 2019, and 2018

Description	2024*	2023*	2022*	2021*	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.32677%	0.33045%	0.26883%	0.26653%	0.26849%	0.26103%	0.25990%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 2,112,751	\$ 2,298,595	\$ 2,141,627	\$ 2,331,117	\$ 2,234,451	\$ 2,198,249	\$ 2,392,383

*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 2018 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.

See accompanying notes to Required Supplementary Information and Independent Auditors' Report.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Fiscal Years ended June 30, 2024, 2023, 2022, 2021, 2020, 2019, and 2018

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, 2023 actuarial valuation, there was an increase relating to the discount rate from 3.54% in 2022 to 3.65% in 2023.

In the revised June 30, 2022 actuarial valuation, there was an increase relating to the discount rate from 2.16% in 2021 to 3.54% in 2022.

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 on June 30, 2021 valuation as follows:

The postretirement mortality assumptions were revised based on an experience study covering the period from July 1, 2013 through June 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.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Fiscal Years ended June 30, 2024, 2023, 2022, 2021, 2020, 2019, and 2018

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.