RSM Puerto Rico

Hotel Development Corporation

(A Component Unit of the Puerto Rico Tourism Company)

Basic Financial Statements and
Required Supplementary Information
Fiscal Year Ended June 30, 2016

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HOTEL DEVELOPMENT CORPORATION

(A Component Unit of the Puerto Rico Tourism Company)

Basic Financial Statements and Required Supplementary Information
Fiscal Year Ended June 30, 2016

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RSM Puerto Rico

PO Box 10528
San Juan, PR 00922-0528

T (787) 751-6164
F (787) 759-7479

www.rsm.pr

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors
Puerto Rico Tourism Company:

We have audited the accompanying financial statements of the Hotel Development Corporation, a blended component unit of the Puerto Rico Tourism Company, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hotel Development Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hotel Development Corporation as of June 30, 2016, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty About Ability to Continue as a Going Concern – Hotel Development Corporation

As described in Note 3 to the accompanying financial statements, as of June 30, 2016, Hotel Development Corporation reflects a net deficit of approximately $41.8 million. Such deficit is attributed to the fact that for several years Hotel Development Corporation had not been able to recover the investments made in tourism projects and has recognized permanent impairment losses in the fair value of these investments. Further, as also described in Note 3, Hotel Development Corporation is dependent on the Commonwealth of Puerto Rico for the payment of the notes payable to Puerto Rico Finance Corporation (the PFC Notes). Pursuant to the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act No. 21 of April 6, 2016 (the Moratorium Act), on June 30, 2016, the Governor of Puerto Rico signed Executive Order EO-2016-30 suspending any obligation of the Legislature of Puerto Rico to appropriate funds for the payment of PFC bonds and notes. As such, this obligation will remain on default while the Moratorium and EO-2016-30 are in effect. All such events create uncertainty about Hotel Development Corporation's ability to continue as a going concern. The financial statements do not include any adjustment that may result from this uncertainty. Our opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
December 12, 2016.

Stamp No. E259407 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

As management of the Hotel Development Corporation (the Corporation), a component unit of the Puerto Rico Tourism Company (the Company), that in turn is another component unit of the Commonwealth of Puerto Rico (the Commonwealth), we offer readers of these basic financial statements our discussion and analysis of the Corporation's financial performance during the fiscal year ended on June 30, 2016. Please read the information presented in this section together with the Corporation's basic financial statements, including the notes thereto, which follow this section.

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements, which comprise the following components: (1) statement of net position (deficit); (2) statement of revenues, expenses, and changes in net position (deficit); (3) statement of cash flows; and (4) notes to basic financial statements.

Financial Highlights

- The Corporation continues to be impacted by the actual fiscal deterioration of the economic condition of the Commonwealth of Puerto Rico. As publicly disclosed, the Commonwealth of Puerto Rico is facing a severe fiscal, economic and liquidity crisis. There has been a prolonged economic recession since year 2006, high unemployment, population decline and high level of debt and pension obligations.
- The Corporation's net deficit, increased by approximately $3.2 million, from approximately $38.7 million as of June 30, 2015 to approximately $41.9 million during the year ended June 30, 2016.
- During the year ended June 30, 2016, loan receivables increased by approximately $5.1 million to the improvement of the Ambassador Plaza Hotel.
- During the fiscal year ended June 30, 2016, HDC entered into a loan purchase agreement in which HDC agreed to sell, assign, and transfer the credit interest in Coco Beach, LLC established in the credit agreement dated February 28, 2011. The initial purchase price was the agreed amount of $1.5 million.
- During the year ended June 30, 2016, the Corporation recorded an impairment loss on deposits with Government Development Bank of approximately $2.4 million.

Overview of the Financial Statements

The basic financial statements of the Corporation are prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Corporation is considered a special-purpose government unit, engaged only in business-type activities, and, therefore, follows the requirements for enterprise fund reporting. It follows the economic resources measurement focus and the accrual basis of accounting to prepare the basic financial statements.

The statement of net position includes all of the entity'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, or unrestricted. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position, regardless of when cash is received or paid. All changes in net position are reported as soon as the underlying event gives rise to the change that occurs, regardless of the timing of the related cash flows.

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.

Financial Analysis

Condensed financial information of the Corporation's statement of net position as of June 30, 2016 and 2015 is as follows:

Description	As of June 30, 2016	As of June 30, 2015	Increase (Decrease)	Variance Percentage
Assets:				
Current assets	$ 1,051,584	$ 3,550,765	$ (2,499,181)	-70.4%
Noncurrent assets	11,055,404	5,718,108	5,337,296	93.3%
Total assets	12,106,988	9,268,873	2,838,115	30.6%
Deferred Outflows of Resources:				
Deferred loss on note refunding	1,443,757	1,560,525	(116,768)	-7.5%
Total deferrred outflows of resources	1,443,757	1,560,525	(116,768)	-7.5%
Liabilities:				
Current liabilities	10,309,025	4,276,092	6,032,933	141.1%
Noncurrent liabilities	45,182,436	45,240,351	(57,915)	-0.1%
Total liabilities	55,491,461	49,516,443	5,975,018	12.1%
Net Deficit:				
Unrestricted	(41,940,716)	(38,687,045)	(3,253,671)	8.4%
Total net deficit	$ (41,940,716)	$ (38,687,045)	$ (3,253,671)	8.4%

The Corporation's net position (deficit) amounted to approximately $41.9 million and $38.7 million as of June 30, 2016 and 2015, respectively.

The increase in total assets of approximately $2.8 million was mainly due to increase in loan receivable of approximately $5.1 and the decrease of cash by approximately $1.7 million.

Condensed financial information of the statement of revenues, expenses, and changes in net position for the years ended June 30, 2016 and 2015, is shown below:

Description	Year ended June 30, 2016	Year ended June 30, 2015	Increase (Decrease)	Variance Percentage
Operating revenues	$ 3,513,657	$ 1,373,948	$ 2,139,709	156%
Operating expenses	(867,703)	(1,313,823)	446,120	34%
Operating revenues (loss)	2,645,954	60,125	2,585,829	4301%
Nonoperating expenses	(5,899,625)	(900,599)	(4,999,026)	555%
Change in net deficit	(3,253,671)	(840,474)	(2,413,197)	287%
Net deficit – beginning of year	(38,687,045)	(37,846,571)	(840,474)	2%
Net deficit – end of year	$ (41,940,716)	$ (38,687,045)	$ (3,253,671)	8%

The Corporation's change in net deficit increased by approximately $2.4 million from a deficit of approximately $840 thousand in fiscal year ended June 30, 2015 to a deficit of approximately $3.3 million for the fiscal year ended June 30, 2016.

The increase was as a result of increase in revenues by approximately $2.1 million mainly due to increase in investment income of approximately $797 thousand and a decrease on rent income by approximately $194 thousand, and the assignment, purchase and sale of a credit interest in Coco Beach of $1.5 million.

Total operating expenses decreased by approximately $446 thousand, from approximately $1.3 million in 2015 to approximately $867 thousand in year ended June 30, 2016, as a result of overall Commonwealth strategy to cut costs.

Long-Term Debt

The Corporation's long-term debt amounted to approximately $45.1 million as of June 30, 2016. The long-term debt consisted of a long-term note payable to PFC. The decrease amounting to approximately $58 thousand when compared to the balance as of June 30, 2015 is related to the amortization of premium and deferred losses arising from notes refunding during the year ended June 30, 2016.

See note 8 to the basic financial statements for more detailed information and activity of the Corporation's long-term debt.

Economic Factors

During fiscal year ended June 30, 2016, the number of persons registered in lodgings endorsed by the Company, including residents of Puerto Rico and outer tourists, was approximately 2.64 million, an increase of 1.9% over the number of persons registered during the same period of fiscal year ended June 30, 2015. The average occupancy rate in these lodgings during fiscal year ended June 30, 2016 was 70.4%, a minimal increase of 0.6% from the prior fiscal year. Also, during fiscal year ended June 30, 2016, the average number of rooms available in lodgings endorsed by the Company increased by approximately 1.4% to 14,844 rooms compared to the same period of fiscal year ended June 30, 2015.

According to a payroll survey, employment in the leisure and hospitality sector was approximately 82,300 for fiscal year ended June 30, 2016, an increase of 1.2% over employment for fiscal year ended June 30, 2015 that its final employment numbers was 81,300. These figures imply stabilization on the labor productivity of this sector during fiscal year ended June 30, 2016.

The City of San Juan, Puerto Rico is the largest homeport for cruise ships in the Caribbean and one of the largest homeports for cruise ships in the world. The following tables present a summary of tourism data segregated by number of visitors and their expenditures during the last five years:

Tourism Data[1]
Number of Visitors

	Tourist Hotels[2]	Excursionists [3]	Other [4]	Total
Fiscal year ended June 30:				
2011	1,408,536	1,165,758	1,539,931	4,114,225
2012	1,507,984	1,127,842	1,561,103	4,196,929
2013	1,586,100	1,038,000	1,613,600	4,237,700
2014	1,634,800	1,209,700	1,611,200	4,455,700
2015	1,737,200	1,509,300	1,804,500	5,051,000

Total Visitors' Expenditures
(In millions)

	Tourist Hotels [2]	Excursionists [3]	Other [4]	Total
Fiscal year ended June 30:				
2011	$ 1,618.9	$ 169.3	$ 1,354.6	$ 3,142.8
2012	$ 1,706.9	$ 167.7	$ 1,318.3	$ 3,192.9
2013	$ 1,811.8	$ 156.0	$ 1,365.8	$ 3,333.6
2014	$ 1,874.0	$ 182.3	$ 1,382.3	$ 3,438.6
2015	$ 2,048.0	$ 227.8	$ 1,549.5	$ 3,825.3

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

(2) Includes visitors in guesthouses

(3) Includes cruise ship visitors and transient military personnel

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

Subsequent Events

Refer to Note 11 of the accompanying basis financial statements for a description of subsequent events.

Request for Information

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

HOTEL DEVELOPMENT CORPORATION
(A Component Unit of the Puerto Rico Tourism Company)

Statement of Net Position (Deficit)
June 30, 2016

ASSETS:	
Current assets:	
Cash	$ 1,006,692
Accounts receivable – net	42,715
Other	2,177
Total current assets	1,051,584
Noncurrent assets:	
Loans receivable	5,169,186
Accrued return on investments	423,218
Investment in tourism projects	2,862,999
Real estate held for future tourism development	2,600,001
Total noncurrent assets	11,055,404
Total assets	12,106,988
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred loss arising from notes refunding	1,443,757
Total assets and deferred outflows of resources	$ 13,550,745
LIABILITIES:	
Current liabilities:	
Accounts payable	$ 106,610
Interest payable	4,283,842
Due to other fund	5,918,573
Total current liabilities	10,309,025
Noncurrent liabilities:	
Notes payable	45,182,436
Total liabilities	55,491,461
NET POSITION (DEFICIT):	
Unrestricted (deficit)	(41,940,716)
Total net position (deficit)	$ (41,940,716)

See accompanying notes to basic financial statements.

HOTEL DEVELOPMENT CORPORATION

(A Component Unit of the Puerto Rico Tourism Company)

Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

Fiscal Year ended June 30, 2016

OPERATING REVENUES:		
Investment income	$	1,234,662
Interest income		41,226
Rent		723,454
Other		1,514,315
Total operating revenues		3,513,657
OPERATING EXPENSES:		
Other		867,703
OPERATING INCOME		2,645,954
NONOPERATING EXPENSES:		
Interest expense		(3,479,286)
LOSS BEFORE EXTRAORDINARY ITEM		(833,332)
EXTRAORDINARY ITEM:		
Impairment loss on investments held in GDB		(2,420,339)
CHANGE IN NET DEFICIT		(3,253,671)
NET DEFICIT - beginning of year		(38,687,045)
NET DEFICIT - end of year	$	(41,940,716)

See accompanying notes to basic financial statements.

HOTEL DEVELOPMENT CORPORATION
(A Component Unit of the Puerto Rico Tourism Company)

Statement of Cash Flows

Fiscal Year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from investments in tourism projects	$	1,030,912
Cash received from interest		41,226
Cash received from rental activities		704,250
Cash received from other activities		1,514,315
Cash paid for other operating expenses		(932,207)
Cash paid on loans granted in connection with tourism project financing		(5,171,363)
Net cash used in operating activities		(2,812,867)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from the Puerto Rico Tourism Company		2,712,644
Net cash provided by noncapital financing activities		2,712,644
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from sale of investments		3,478,959
Cash paid for acquisition of investments		(5,117,217)
Net cash used in investing activities		(1,638,258)
NET DECREASE IN CASH		(1,738,481)
CASH - Beginning of Year		2,745,173
CASH - End of Year	$	1,006,692
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income	$	2,645,954
Adjustments to reconcile operating income to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Increase in accounts receivable		(19,204)
Increase in loans receivable		(5,171,363)
Decrease in accrued return on investments		(203,750)
Decrease in accounts payable		(64,504)
Net cash used in operating activities	$	(2,812,867)
SUMMARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrual of interest on notes payable	$	3,479,286
Impairment loss on investments held in GDB	$	2,420,339

See accompanying notes to basic financial statements.

(1) Reporting Entity

The Hotel Development Corporation (the Corporation), a component unit of the Puerto Rico Tourism Company (the Company), that in turn is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), was created by Resolution No. 91-128 of the Puerto Rico Industrial Development Company, another component unit of the Commonwealth. The Corporation is dedicated to promoting the development of the hotel and tourism industry, including the construction and, when necessary, the financing of tourism facilities, in Puerto Rico. The board of directors of the Corporation is the same as that of the Company's board and, therefore, its operations are blended as part of the Company's proprietary funds, as required by GASB Statement 14, *the Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – An Amendment of GASB Statement No. 14* and No. 61, *the Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and 34.*

The Corporation is exempt from taxation in Puerto Rico in accordance with the provisions of Act No. 10 of 1970.

(2) Basis of Presentation and Summary of Significant Accounting Policies

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles in the United States of America (US GAAP), for governments as prescribed by the Governmental Accounting Standards Board (GASB).

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements of the Corporation are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. The Corporation accounts 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.

The statement of net position presents the Corporation's assets and liabilities, with the difference reported as net position. Net position is reported in the following 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 for bonds, notes, 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. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- *Restricted* – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the assets results from a resource flow that also results in the recognition of a liability or if a liability will be liquidated with the restricted assets reported.

- *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first and the unrestricted resources when they are needed.

The statement of revenues, expenses and changes in net position (deficit) distinguishes operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing the services that correspond to the Corporation's principal ongoing operations. Operating revenues are generated from lending, investing, and other related activities. Operating expenses include tourism projects related expenses, provisions for loan losses and doubtful accounts receivable, and all general and administrative expenses, among others. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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 collectibility is uncertain, generally once a loan receivable is 180 days past due. Once a loan receivable is placed in nonaccrual status, all accrued but uncollected interest is reversed against current interest income. Interest income on nonaccrual loans receivable is thereafter recognized as income only to the extent actually collected. Nonaccrual loans receivable are returned to an accrual status when management has adequate evidence to believe that the loans receivable will be performing as contracted.

The allowance for losses on loans receivable is established through provisions recorded as an operating expense. This allowance is based on the evaluation of the risk characteristics of the loan receivable or loans receivable portfolio, including such factors as the nature of the individual credit outstanding, past loss experience, known and inherent risks in the portfolios, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the collectibility 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 Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans receivable are accounted for predominantly in the same manner as nonaccrual loans receivable.

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

Investment in Tourism Projects

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

Investments in tourism projects are periodically evaluated for impairment. Management periodically evaluates the financial position and the results of operations of investees, and other industry and economic factors to determine if there are indicators that an 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) in the accompanying financial statements.

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.

Interfund Activities

The Corporation 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.

Long-Term Debt

Long-term debt is presented net of the applicable debt premium and discount. Debt premiums, discounts, and refunding losses are deferred and amortized over the life of the debt using a method that approximates the effective-interest method. Issuance costs are recorded as expenditures.

Refundings

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

Risk Management

The Corporation purchases commercial insurance to cover for casualty, theft, tort claims, and other losses through the Puerto Rico Treasury Department negotiated under a blanket agreement and then charged to the Corporation. The current insurance policies have not been canceled or terminated. There have been no settlements of insurance claims that exceed coverage under such policies in any of the past three years.

Future Accounting Pronouncements

The GASB has issued the following accounting pronouncements that may have a future impact on the accounting and financial reporting of the Corporation:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB No. 67 and 68*, which is effective for periods beginning after June 15, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans*, which is effective for periods beginning after June 15, 2016.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for periods beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures,* which is effective for periods beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plans,* which is effective for periods beginning after December 15, 2015.

GASB Statement No. 79, *Certain External Investment Pool Participants,* which was effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk and shadow pricing that are effective for periods beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Components Units – An Amendment of GASB Statement No. 14,* which is effective for periods beginning after June 15, 2016.

GASB Statement No. 81, *Irrevocable Split Interest Agreements,* which is effective for periods beginning after December 15, 2016.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73,* which is effective for periods beginning after June 15, 2016, except for certain dispositions related to the selection of assumptions that are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB Statement No. 83, *Certain Assets Retirement Obligations,* which is effective for periods beginning after June 15, 2018.

Management is evaluating the impact that these statements will have, if any, on the Corporation's basic financial statements.

(3) Going Concern and Uncertainties

The accompanying statement of net position presents an accumulated deficit of approximately $41.9 million. This situation occurs mainly because for several years the Corporation has not been able to recover the investments made in tourism projects and has recognized permanent impairment losses in the fair value of these investments.

The notes payable due to Public Finance Corporation (PFC), a component unit of the Government Development Bank for Puerto Rico (GDB), in the accompanying statement of net position are completely dependent from appropriations of the Commonwealth. It was expected that the deficit of the Corporation would decrease as the Commonwealth appropriation amortized the principal balance of the notes. However, on April 6, 2016, the Governor of the Commonwealth signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21). Among other objectives, Act No. 21 allows the Governor of the Commonwealth of Puerto Rico to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth and its component units. The temporary period set forth in the Act lasts until January 2017, with a possible two-month extension at the Governor's discretion. The moratorium and stay provisions of Act No. 21 require executive actions of the Governor to become effective.

Pursuant to Act No. 21, on June 30, 2016, the Governor of the Commonwealth signed Executive Order EO-2016-30 declaring the Commonwealth to be in state of emergency and suspending any obligation of the legislature to appropriate funds for the payment of PFC bonds. PFC was unable to pay its debt service on its bonds on July 1, 2016, and is not expected to make any additional service payments while Act No. 21 is in effect. The Corporation has $45,182,436 in outstanding PFC obligations that will remain unpaid and on default until such appropriation will resume.

The significant financial difficulties being experienced by the Commonwealth is likely to have a significant adverse impact on the Corporation given its reliance on the Commonwealth appropriations.

All such events together create uncertainty about the Corporations' ability to continue as a going concern. The financial statements do not include any adjustment that may result from the outcome of this uncertainty.

(4) Deposits and Investments

The Corporation is authorized to deposit funds in the Government Development Bank for Puerto Rico (GDB), a component unit of the Commonwealth, and/or in the custody of financial institutions approved by the Commonwealth. Commonwealth's regulations require domestic commercial banks to maintain collateral securities pledged for the security of public deposits at amounts in excess of federal insurance coverage. GDB is exempt from the collateral requirements established by the Commonwealth.

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

As of June 30, 2016, the Corporation had approximately $755,000 of deposits subject to custodial credit risk.

Impairment of deposits with GDB

The Commonwealth and its component units have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to pay its obligations.

Due to the existing conditions, on October 18, 2016, the Puerto Rico Department of Treasury issued Circular Letter No. 1300-08-17 whereby it is declaring that GDB's management understand that there is substantial doubt as to GDB's ability to continue as a going concern.

As a result, an impairment loss on deposits held with GDB was recorded in the Corporation's basic financial statements as of and for the year ended June 30, 2016, as follows:

	Deposits held with GDB as of June 30, 2016		
Description	Deposit Balance	Impairment Loss	Book Balance
Investments	$ 2,420,339	$ 2,420,339	$ -

Such amount has been reflected as an extraordinary item in the accompanying statement of revenues, expenses and changes in net position (deficit).

(5) Loans Receivable

Loans receivable as of June 30, 2016, are as follows:

Description		Amount
Current-		
Unsecured noninterest-bearing loan, due from Rio Mar-G.P.L.P. collectable from available distributions, if any, from the partners of Rio Mar Associates' S.E., at rate denominated as 50% of Rio Mar Associates' preferred return, as defined, not to exceed $319 thousand annually	$	3,092,482
Non revolving credit facility of $6 million due from Juaza, Inc. Interest is collectible monthly on the last day of each month at an interest rate of 250 basis points over prime rate. The credit facility was due on June 30, 2010, and is collateralized by a parcel of land located in Luquillo, Puerto Rico owned by Juaza, Inc., and the Trust of Public Land, all personal property of Juaza, Inc., and the personal guarantee of Juaza, Inc.'s stockholders		8,930,924
Interim nonrevolving loan of $7.5 million to cover certain predevelopment expenses in connection with the construction of a hotel composed of 299 guest rooms and related parking facilities and amenities on a portion of a parcel of land known as Parcel H-2 at the Coco Beach Resort in Rio Grande, Puerto Rico, which hotel is expected to be denominated the JW Marriot and Stellairs Casino at Coco Beach at a fixed annual interest rate of 8%. Interest shall be payable quarterly in arrears on the first day of January, April, July and October of each year. Unpaid interest shall be calculated on a quarterly compounded basis		8,989,879
Other		170,076
		21,183,361
Less: allowance for losses on loans receivable		(21,183,361)
	$	-
Noncurrent-		
Nonrevolving loan of $500 thousand due from WC Owner, LLC at a fixed rate of 8% per annum compounded on an annual basis payable in arrears on the first day of January, April, July, and October of each year during the term hereto and on the due date. This loan is due on December 31, 2016.	$	410,705
Nonrevolving credit facility of $5 million due from Ashford 1369 Hospitality, LLC to fund the acquisition, reconstruction renovation, and refurbishing of a preexisting hotel. The subordinated loan's interest rate on the unpaid principal amount will be 90 days LIBOR rate plus 6% maturing eighteen (18) months after the date of the closing. The credit facility may be converted to a permanent loan that will mature five (5) years after its closing.		5,169,186
		5,579,891
Less: allowance for losses on loans receivable		(410,705)
	$	5,169,186

As of June 30, 2016, nonperforming loans amounted to approximately $21.1 million. Interest income that would have been recorded during the fiscal year ended June 30, 2016 if these loans had performed in accordance with their original terms would have been approximately $749 thousand.

In 2009, the Corporation sold the surface rights on certain properties for $9.7 million. The Corporation provided 100% seller financing through the issuance of two mortgage notes, which bore no interest. These notes were subordinated to a construction loan in the amount of $165 million with the Puerto Rico Tourism Development Fund (TDF), a component unit of the GDB, and to an additional $25 million development loan (the Loans). During 2014, TDF and the Corporation entered in a series of transactions with a third-party developer (the Developer) that resulted in the settlement, discharge, and release of the Loans pursuant to a settlement agreement dated March 10, 2014 (the Settlement Agreement) in exchange for the completion of the construction of the Condado Vanderbilt Hotel and the Vanderbilt Hotel Towers (the Vanderbilt Hotels). On March 10, 2014, the Corporation issued an administrative order authorizing the imposition of a temporary 2% charge on the guest stays at the Vanderbilt Hotels as a sole source of repayment of the outstanding $9.7 million surface rights debt. During the fiscal year ended June 30, 2016, the Corporation received approximately $479,300 from Vanderbilt Hotels.

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

On August 31, 2015, the Corporation entered into an Assignment, Purchase and Sale of Credit Interest Agreement with Ohorizons Global, LLC, whereby the Corporation agreed to sell, assign, transfer and convey, without resource, all rights, tittle, obligations and interest in to and under the credit interest agreement dated February 28, 2011. The purchase price has two components: (i) the initial purchase price of $1,500,000 and (ii) the HP2 fee defined as a series of one-time post-closing payments of $1,000 to be made by Ohorizons Global, LLC for each time share, condo, residential or other dwelling unit to be developed on the land following the closing of the HP2 units, which in the aggregate will be equal to $500,000. During the year ended June 30, 2016, the initial purchase price of $1,500,000 was collected and recognized as other revenues.

On December 30, 2015, HDC provided a subordinated credit facility of $5,000,000 to fund the acquisition, reconstruction, renovation, and refurbishing of a preexisting hotel. The subordinated loan's interest rate on the unpaid principal amount will be 90 day LIBOR plus 6% maturing eighteen (18) months after closing, paid in monthly installments, with a balloon payment on maturity date. As of June 30, 2016, HDC recognized approximately $169 thousand of interest receivable from the subordinated credit facility. This line of credit may be converted to a permanent loan that will mature five years after its closing.

As of June 30, 2016, the Corporation has loans receivable of $26,673,252 and has provided an allowance for loan losses for $21,594,066.

(6) Investment in Tourism Projects

As of June 30, 2016, investments in tourism projects consist of the following:

Tourism project		Carrying Amount
DBR Dorado Owner LLC (DBR)	$	15,000,000
Vieques Hotel Partners (VHP)		8,336,859
Bahía Beach CH Development, LLC ("St. Regist Hotel at Bahía Beach Resort and Golf Club" or "Bahia Beach")		13,856,667
CCHPR Holding, LLC ("Sheraton Puerto Rico Convention Center Headquarters Hotel" or "CCHPR")		18,101,417
Old San Juan Associates L.P., S.E. ("Old San Juan")		253,574
WC Manager LLC (WC)		1,015,861
Flagship Resorts Properties, S.E.("Flagship")		4,145,283
District Hotel Company, LLC ("DHC")		2,862,999
Total		63,572,660
Less: Allowance for losses in investment in tourism projects		(60,709,661)
Investment in tourism projects - net	$	2,862,999

DBR Dorado Owner, LLC

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

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

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

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

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

On November 12, 2014, the Corporation and DBR Hotel Owner LLC, who manages Ritz Carlton Reserve Hotel (DBR) entered into an agreement in which, commencing February 1, 2015, DBR agrees to pay a fee equal to one percent (1%) of the room occupancy rate paid by overnight guests. DBR shall pay the fee until the amount reaches $7,500,000. During the year ended June 30, 2016, the Corporation received approximately $321,900 from DBR.

Vieques Hotel Partners

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

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

Unpaid minimum return will be added to the Corporation's net invested capital and the Corporation minimum return shall continue to be compounded annually under this new basis. The managing partner shall decide when to redeem the Corporation at the Corporation redemption price, provided however, that on the 10th anniversary of the effective date, the Corporation has not been paid the redemption price, the partnership shall distribute all available cash flow to the Corporation and shall not pay any fees under the deed related to the hotel with an affiliate of the partnership, until the Corporation has been paid the Corporation redemption price in full. No losses will be allocated to the Corporation. 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 Corporation approved an investment of $12 million, not to exceed 10% of the total project cost. The agreement with Bahía Beach establishes that the Corporation 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. The Corporation shall not have any obligation to provide any guarantee, undertaking, or credit enhancement with respect to any project debt. The Corporation's participation in the allocation of net profits or losses will be in proportion to the relative amount allocable to each investor, except that all losses incurred prior to opening date will be allocated only to the developer investor and not the Corporation. The investment yield shall equal 5% during the construction phase and shall increase to 9.5% during the operational phase. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

CCHPR Hospitality 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 Corporation, the Corporation paid an initial capital contribution of $14.5 million to acquire all outstanding Class A preferred shares. CCHPR Hospitality LLC agreed to pay the Corporation a one-time fee equal to 1% of the capital contributed, payable on the Class A redemption date, and an annual fee equal to 0.36% of net investment capital outstanding commencing a year after closing date until the Class A redemption date. These fees are accumulated and payable upon full redemption of the capital contributed by the Corporation.

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

Old San Juan Holdings, LP

The investment consists of a 28.47% limited partnership interest. Pursuant to the partnership agreement between Old San Juan Holdings, L.P. and the Corporation, the Corporation 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 Corporation participates in the allocation of the net profit and net losses in proportion to the relative amounts allocable to each investor in the investment account. This investment has no carrying value since it was considered other-than-temporarily impaired in previous years.

San Juan Water Club

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

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

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

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

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

Flagship

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

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

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

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

Notwithstanding the foregoing, at a minimum, the partnership must pay to the Corporation, on a monthly basis, an amount equivalent to the Corporation's cost of funds, with 100% of the amounts received by the Corporation as a return on the investment.

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

District Hotel Company, LLC

On October 22, 2012, the Corporation entered into a limited liability company agreement for the project District Hotel Company, LLC (DHC). The Corporation is the Class A preferred interest owner and Island Hospitality Partners, LLC (IHP) is the Class B interest owner. The Corporation made a capital contribution for its Class A preferred interest of approximately $2.9 million and IHP made a capital contribution for its Class B interest of approximately $3.2 million, and entered into a legally binding commitment to contribute approximately $5.7 million. The Corporation will not have any obligation to make any other capital contribution of any kind.

Except to the extent of distributions made pursuant to the Agreement, no member shall be entitled to the withdrawal or return of its capital contributions, nor may any member withdraw from this agreement or otherwise have any right to demand or receive the return of its capital contribution. The Corporation will be entitled to an investment fee equal to 1% of its initial capital contribution, which fee shall be payable on the closing date. Subject to the terms of any project debt, the Corporation will be entitled to an annual amount equal to 0.5% of any unredeemed portion of the Corporation's membership interest due on the anniversary of the closing date.

The return of the Corporation as Class A preferred interest owner will accrue on an annually compounding basis from its funding date until paid, in accordance with the following schedule, payable in cash except as indicated:

- From the closing date to the last day of the 24th month therefrom or the opening date (the First Preferred Return Date) the financing cost of the equity contribution made by the Corporation (the Class A Cost of Funds)
- From day after the First Preferred Return Date, until 24 months thereafter (the Second Preferred Return Date), 7% per annum

- From day after the Second Preferred Return Date, until 24 months thereafter (the Third Preferred Return Date), 8% per annum
    - From day after the Third Preferred Return Date, until 24 months thereafter (the Fourth Preferred Return Date), 9% per annum
    - From day after the Fourth Preferred Return Date, until 24 months thereafter (the Fifth Preferred Return Date), 10% per annum
    - From day after the Fifth Preferred Return Date, until 24 months thereafter (the Sixth Preferred Return Date), 11% per annum
- From day after the Sixth Preferred Return Date, and thereafter, 12% per annum

HDC's participation in the allocation of net profit or losses will be in proportion to relative amount allocable to each investor, except that all losses incurred prior to opening date shall be allocated to IHP and not HDC.

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

The investment in tourism projects generated room tax and slot machine related revenues during the year ended June 30, 2016 as follows:

Tourism Project	Room Tax	Slot Machines	Total
DBR Dorado Owner LLC (DBR)	$ 1,372,810	$ -	$ 1,372,810
Vieques Hotel Partners (VHP)	372,501	-	372,501
Bahia Beach CH Development, LLC (Bahia Beach)	911,151	-	911,151
Condado Palm Investors, LLC (Condado Palm)	288,528	-	288,528
CCHPR Holding, LLC (CCHPR)	908,206	2,681,338	3,589,544
Old San Juan Associates LP, SE (Old San Juan)	461,255	2,819,456	3,280,711
WC Manager LLC (WC)	(1,179)	-	(1,179)
Flagship Resorts Properties, SE (Flagship)	267,657	-	267,657
District Hotel Company, LLC (DHC)	198,989	-	198,989
	$ 4,779,918	$ 5,500,794	$ 10,280,712

(7) Interfund Balances and Transactions

As of year ended June 30, 2016, the Corporation had approximately $5.9 million payable to the general fund. It represents interfund loans granted by the Company to the Corporation. During the year ended June 30, 2016, the Company granted the Corporation an interfund loan amounting to $5,000,000 that was used to provide a nonrevolving credir facility to Ashford 1369 Hospitality, LLC.

(8) Long-Term Obligations

A summary of long-term obligations for the year ended June 30, 2016 is as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term notes payable	$ 44,483,807	$ -	$ -	$ 44,483,807	$ -
Plus: deferred losses arising from notes refunding	756,544	-	(57,915)	698,629	-
Total long-term notes payable	$ 45,240,351	$ -	$ (57,915)	$ 45,182,436	$ -

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

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

During the fiscal year ended June 30, 2012, PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds and refunded a portion of certain of its Commonwealth appropriation bonds issued in 2004 under Act No. 164. The Corporation recognized a mirror effect of this current refunding by PFC in its own notes payable in proportion to the portion of the Corporation's Notes included in the PFC debt refunding. As a result of the PFC debt refunding, the Corporation recognized a deferred loss on defeasance, bond issuance costs, and a premium on the Notes of approximately $1.9 million, $453 thousand, and $911 thousand, respectively. In addition, as part of these transactions, the Corporation recorded a due from Commonwealth amounting to approximately $35.6 thousand at June 30, 2016, for advances made to the bond trustee to cover future debt service requirements of the refunded notes. The aggregate debt service requirements of the refunded notes in excess of the advances already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

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

The Notes' outstanding balance at June 30, 2016 was $45.2 million and matures throughout August 1, 2031. Interest on the unpaid principal amount of the Notes is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164.

The annual debt service requirements to maturity, including principal and interest, for notes payable as of June 30, 2016, are as follows:

Description	Principal	Interest	Amount
Year ending June 30:			
2017:			
Portion in arrears from 2016	$ 1,309,453	$ 2,451,914	$ 3,761,367
Portion due during 2017'	1,062,250	2,414,609	3,476,859
2018	1,098,880	2,374,161	3,473,041
2019	1,140,020	2,329,292	3,469,312
2020	1,185,671	2,280,688	3,466,359
2021	1,234,751	2,227,727	3,462,478
Thereafter	37,452,782	14,865,505	52,318,287
Totals	$ 44,483,807	$ 28,943,896	$ 73,427,703
Plus premium on notes refunding	698,629		
Total principal maturities	$ 45,182,436		

The aggregate debt service requirements of the refunding notes and the excess of advances already made to the bond trustee were required to be funded with annual appropriations from the Commonwealth. As explained in Note 3, the legislature of the Commonwealth did not appropriate the necessary funds for the payment of the notes payable that were due on August 1, 2015 to Puerto Rico Public Finance Corporation (the PFC bonds) that are reflected as part of the Company's business-type activities related to HDC. Such appropriations are the sole source of payment of principal and interest on the PFC bonds by the HDC. Further, on June 30, 2016, the Governor of the Commonwealth signed Executive Order EO 2016-30 that suspends any obligations of the legislature to appropriate funds for the payment of PFC bonds. As such, PFC was also unable to pay in full a debt service payment due on July 1, 2016, and is not expected to make any additional debt service payments while the Moratorium Act is in effect.

(9) Commitments and Financial Guarantee

Commitments

On August 8, 2003, the Corporation and International Hospitality Enterprises, Inc., entered into a development agreement (the Development Agreement), which on the same date was assigned and assumed by the International Hospitality Associates, S. en C. por A. (S.E.) (the Partnership), with respect to the planning, design, construction, and development of the Condado Vanderbilt Hotel and La Concha Hotel, including the construction of three additional condo-hotel structures.

Commencing on the rental commencement date, the Partnership originally was to pay annual rent of $500 thousand (basic rental), in equal monthly installments, in advance. In addition, the Partnership must pay rent of 3.5% of the amount by which gross hotel room sales for any year exceeds $500 thousand.

On March 10, 2014, the partnership reached a settlement agreement in which the developer paid a lump sum amount equal to $1.7 million and must pay 2% special fee to be collected from guest stays at Condado Vanderbilt Hotel room until the amount of $9,706,180 has been paid to the Corporation.

On August 8, 2007, the Corporation also entered into a deed of La Concha Hotel and Condado Vanderbilt Parking Parcel Lease with the Partnership with a basic annual rent of approximately $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.

The Corporation's investment in property held under operating lease consists primarily of parcels of land with an original cost of approximately $4.6 million recorded net of a full valuation allowance as of June 30, 2016. The Corporation also leases certain commercial property to third parties, which property was developed by, and belongs to, the Tourism Company and was recorded in the Tourism Company's books at June 30, 2016. The corporation is authorized by the Tourism Company, at no charge, to lease such commercial property to third parties.

During the fiscal year 2009, the Corporation sold land rights over land lots "La Concha Parking Parcel" and "Vanderbilt Tower Parking Parcel" in the Condado area for a total amount of $9.7 million with no interest. The deed of land rights shall be for perpetuity as required by law. The land rights are limited to the full superficial area of the parcels to be identified, projecting vertically upwards to the height of 16 stories above the ground, including a three-story base, and vertically downward up to 27.5 meters. The price for the land rights shall be calculated at $2 thousand per square meter, as reflected in an appraisal prepared by appraisal experts.

Rental Commitments

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

Description	Amount
Year ending June 30,	
2017	$ 135,384
2018	62,655
2019	60,400
2020	60,400
2021	56,200
Thereafter	2,348,665
	$ 2,723,704

(10) Uncertainties

Organic Act of the Fiscal Oversight and Economic Recovery Board – On December 8, 2015, Act No. 208-2015, was approved to create a five-member fiscal and economic oversight board, to be known as the "Puerto Rico Fiscal Oversight and Economic Recovery Board" (the Board). The Board has fiscal oversight authority over each public entity of the Commonwealth, including the Corporation. The Board will be charged with (a) reviewing and approving the Fiscal Economic Growth Plan (FEGP), (b) reviewing the annual budgets of the public entities subject to its fiscal oversight authority, and (c) monitoring compliance with such budgets.

Puerto Rico Emergency Moratorium and Financial Rehabilitation Act – On April 6, 2016, the Governor of the Commonwealth signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21). Among other objectives, Act No. 21 allows the Governor of the Commonwealth of Puerto Rico to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth and its component units. The temporary period set forth in Act No. 21 lasts until January 2017, with a possible two-month extension at the Governor's discretion. The moratorium and stay provisions of Act No. 21 require executive actions of the Governor to become effective.

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) – On June 30, 2016, the President of the United States signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth of Puerto Rico and its component units' access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth of Puerto Rico's Finances. PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

(11) Subsequent Events

PFC Bonds – The legislature of the Commonwealth did not appropriate funds for the payment of PCF Bonds. As such, PCF was unable to pay its debt service on its bonds in July 1, 2016, and is not expected to make any additional service payments while the Moratorium Act No. 21 is in effect. The Corporation has $45,240,351 in outstanding PFC obligations that will remain unpaid and on default until such appropriations resume.

Circular Letter 1300-08-17 – On October 18, 2016, the Puerto Rico Department of Treasury issued Circular Letter 1300-08-17 whereby it is declaring that GDB's management understands that there is substantial doubt as to GDB's ability to continue as a going concern. Further, the Circular Letter requires the public corporations and municipalities to perform an impairment analysis of its deposits on GDB, in which the unrealizable deposits need to be accounted for as an impairment loss. Refer to Note 4 for related adjustment and disclosure.

Management has evaluated subsequent events through December 12, 2016, the date on which financial statements were available to be issued.