



Puerto Rico Medical Tourism Corporation
(A Component Unit of the Puerto Rico Tourism Company)

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

PUERTO RICO MEDICAL TOURISM 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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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors
Puerto Rico Medical Tourism Corporation:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 the Puerto Rico Medical Tourism Corporation as of June 30, 2016, and the changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 6 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. E259404 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



PUERTO RICO MEDICAL TOURISM CORPORATION
(A Component Unit of the Puerto Rico Tourism Company)

Management Discussion and Analysis (Unaudited)

Fiscal year ended June 30, 2016

As management of the Puerto Rico Medical Tourism Corporation (the Corporation), a Component Unit of the Puerto Rico Tourism Company (the Company), we offer readers of these basic financial statements, our discussion and analysis of the Corporation's performance for the fiscal year ended 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.

The 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; (2) statement of revenues, expenses, and changes in net position; (3) statement of cash flows; and (4) notes to basic financial statements.

Financial Highlights

- The Company continues to be impacted by the actual fiscal deterioration of the economic condition of the Commonwealth of Puerto Rico. As publicly disclosed, the Commonwealth of Puerto Rico is facing recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit market. There has been a prolonged economic recession since year 2006, high unemployment, population decline and high level of debt and pension obligations.
- The Corporation was created for the purpose of developing and promote the medical tourism in Puerto Rico. The Corporation is reported as part of the Company's proprietary funds.
- The projected economic impact for the upcoming three years is approximately \$209 million, impacting the medical tourism industry. This includes the creation of approximately four (4) thousand employments. It is estimated that medical services will be provided to approximately 35 thousand patients in the upcoming three (3) years.
- The Corporation received contributions from the Company and from the Puerto Rico Industrial Development Company for \$860,000 and \$400,000 and \$700,000 and \$1,000,000, during the years ended June 30, 2016 and 2015, respectively.
- The Corporation's net position for the fiscal year ended June 30, 2016 was approximately \$185 thousand.

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.

PUERTO RICO MEDICAL TOURISM CORPORATION
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Management Discussion and Analysis (Unaudited)

Fiscal year ended June 30, 2016

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:

	<u>As of June 30</u>		<u>Increase (Decrease)</u>	<u>Variance Percentage</u>
	<u>2016</u>	<u>2015</u>		
Assets:				
Current assets	\$ 449,590	\$ 1,006,416	\$ (556,826)	-55%
Liabilities:				
Current liabilities	264,614	644,224	(379,610)	-59%
Net position - Unrestricted	\$ 184,976	\$ 362,192	\$ (177,216)	-49%

Total assets decreased by approximately \$556 thousand. The decrease was mainly due to a decrease in cash, which was used to pay for goods and services.

Total liabilities decreased mainly due to the payment of unpaid invoices as of June 30, 2015 that were paid during the year ended June 30, 2016.

PUERTO RICO MEDICAL TOURISM CORPORATION
(A Component Unit of the Puerto Rico Tourism Company)

Management Discussion and Analysis (Unaudited)

Fiscal year ended June 30, 2016

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:

	<u>Year ended June 30</u>		<u>Increase (Decrease)</u>	<u>Variance Percentage</u>
	<u>2016</u>	<u>2015</u>		
Operating expenses:				
Professional services	\$ 127,227	\$ 733,273	\$ (606,046)	-83%
Advertising and promotion	1,298,526	592,867	705,659	119%
Other	12,726	12,811	(85)	-1%
Total operating expenses	<u>1,438,479</u>	<u>1,338,951</u>	<u>99,528</u>	<u>7%</u>
Operating loss	<u>1,438,479</u>	<u>1,338,951</u>	<u>99,528</u>	<u>7%</u>
Non-operating revenues:				
Contributions from Puerto Rico Industrial Development and Puerto Rico Tourism Company	\$ 1,260,000	\$ 1,700,000	\$ (440,000)	-26%
Interest income	1,263	1,143	120	10%
Total non-operating revenues	<u>1,261,263</u>	<u>1,701,143</u>	<u>(439,880)</u>	<u>-26%</u>
Change in net position	(177,216)	362,192	(539,408)	-149%
Net position – beginning of year	<u>362,192</u>	<u>-</u>	<u>362,192</u>	<u>100%</u>
Net position – end of year	<u>\$ 184,976</u>	<u>\$ 362,192</u>	<u>\$ (177,216)</u>	<u>-49%</u>

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:

PUERTO RICO MEDICAL TOURISM CORPORATION
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Management Discussion and Analysis (Unaudited)

Fiscal year ended June 30, 2016

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

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.



PUERTO RICO MEDICAL TOURISM CORPORATION

(A Component Unit of the Puerto Rico Tourism Company)

Statement of Net Position

June 30, 2016

ASSETS:

Cash	\$ 449,590
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LIABILITIES:

Accounts payable	<u>264,614</u>
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NET POSITION - Unrestricted

	<u><u>\$ 184,976</u></u>
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See accompanying notes to basic financial statements.

PUERTO RICO MEDICAL TOURISM CORPORATION
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Statement of Revenues, Expenses, and Changes in Net Position

Fiscal Year Ended June 30, 2016



OPERATING EXPENSES:

Professional services	\$	127,227
Advertising and promotion		1,298,526
Other		<u>12,726</u>

OPERATING LOSS

1,438,479

NONOPERATING REVENUES:

Contribution from Puerto Rico Industrial Development Company and the Puerto Rico Tourism Company		1,260,000
Interest income		<u>1,263</u>

1,261,263

CHANGE IN NET POSITION

(177,216)

NET POSITION - Beginning of Year

362,192

NET POSITION - End of Year

\$ 184,976

See accompanying notes to basic financial statements.

PUERTO RICO MEDICAL TOURISM CORPORATION

(A Component Unit of the Puerto Rico Tourism Company)

Statement of Cash Flows

Fiscal Year Ended June 30, 2016



CASH FLOWS USED IN OPERATING ACTIVITIES:

Cash paid to suppliers \$ (1,818,089)

CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES:

Cash received from the Puerto Rico Tourism Company and
the Puerto Rico Industrial Development Company 1,260,000

CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:

Interest income received 1,263

DECREASE IN CASH (556,826)

CASH - Beginning of Year 1,006,416

CASH - End of Year \$ 449,590

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES:**

Operating loss \$ (1,438,479)

Adjustment to reconcile operating loss to net cash used in operating activities:

Change in operating liability:

Increase in accounts payable (379,610)

Net cash used in operating activities \$ (1,818,089)

See accompanying notes to basic financial statements.

PUERTO RICO MEDICAL TOURISM CORPORATION
(A Component Unit of the Puerto Rico Tourism Company)



Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2016

(1) Reporting Entity

The Puerto Rico Medical Tourism Corporation (the Corporation) is a component unit of the Puerto Rico Tourism Company (the Company) that is in turn a component unit of the Commonwealth of Puerto Rico (the Commonwealth). It was created by Act No. 196 of December 15, 2010. The Corporation is engaged in the development and promotion of the medical tourism in Puerto Rico. Its operations are blended as part of the Company's proprietary funds, as required by GASB Statement 14, *the Financial Reporting Entity*, an amendment of 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 the taxation in the Commonwealth of Puerto Rico in accordance with the provisions of Act No. 10 of 1970 and its Section 101(5) of the Puerto Rico Income Tax Act of 1954, as amended.

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

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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 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.



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Notes to Basic Financial Statements

Fiscal Year Ended June 30, 2016

- *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 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.

Interfund Activities

The Corporation has interfund transactions consisting of transfers which represent 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 fund receiving the transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Risk Management

The Corporation purchases commercial insurance to cover for casualty, theft, tort claims and other losses through the Puerto Rico Department of Treasury 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 Pension Plans, which is effective for periods beginning after June 15, 2016.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit 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 Pools 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.



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Fiscal Year Ended June 30, 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) Custodial Credit Risk

The Corporation is authorized to deposit funds in financial institutions approved by the Commonwealth. Commonwealth's regulations require domestic commercial banks to maintain collateral securities pledged for the security of public deposits in excess of federal insurance coverage. Deposits, either insured or collateralized, are not considered to be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to the transaction, the Corporation may not be able to recover the value of the investment or collateral securities that are in possession of an outside party. As of June 30, 2016, the Corporation has \$200,000 subject to custodial credit risk.

(4) 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 will have fiscal oversight authority over each public entity of the Commonwealth, including the Company. 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.

(5) Subsequent Events

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