RSM Puerto Rico

Puerto Rico Tourism Company
Slot Machines Operations
(A Proprietary Fund of the Puerto Rico Tourism Company)

Basic Financial Statements and
Required Supplementary Information
Fiscal Year Ended June 30, 2017

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Basic Financial Statements and Required Supplementary Information
Fiscal Year Ended June 30, 2017

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RSM Puerto Rico

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors
Puerto Rico Tourism Company:

We have audited the accompanying financial statements of the Puerto Rico Tourism Company Slot Machines Operations, a proprietary fund of the Puerto Rico Tourism Company, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Puerto Rico Tourism Company Slot Machines Operations 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 Tourism Company Slot Machines Operations as of June 30, 2017, 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

Accounting Pronouncements Related to Pensions

As discussed in Note (3), during the fiscal year ended June 30, 2017, the Puerto Rico Tourism Company implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, through which accounting for pension plans and the related disclosure requirements were modified. Management understand that allocating a portion of the net pension liability required by GASB 68 to the Puerto Rico Tourism Company Slot Machines Operations is contrary to the intention of Act No. 221 of 1948 (Act No. 221). The net proceeds of Slots Machines Operations are fully distributed at the end of each month in accordance with the provisions of Act No. 221; consequently, the financial statements do not present net position. The implementation of GASB 68 would require a restatement to the July 1, 2016 beginning net position in order to recognize the net pension liability. The responsibility of the pension funding when an employee retires corresponds to the Puerto Rico Tourism Company and not to the Slot Machines Operations. Management concluded that the ultimate liability and funding of the pension of the employees of Slot Machines Operations other than current year period contributions, pertains to the Company and that no allocation is considered necessary in Slot Machines Operations. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
January 16, 2020.

Stamp No. E407241 was affixed to
the original of this report.

PUERTO RICO TOURISM COMPANY

SLOT MACHINES OPERATIONS

(A Proprietary Fund of the Puerto Rico Tourism Company)

Management Discussion & Analysis (Unaudited)

Fiscal Year Ended June 30, 2017

As management of the Puerto Rico Tourism Company (the Company) Slot Machines Operations (the Slot Machines Operations), we offer readers of these basic financial statements our discussion and analysis of the Slot Machines Operations' financial performance during the fiscal year that ended on June 30, 2017. Please read the information presented in this section together with the Slot Machines Operations' basic financial statements, including the notes thereto, which follow this section.

This discussion and analysis is intended to serve as an introduction to the Slot Machines Operations' 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 Slot Machines Operations experienced a decrease in net operating revenues of approximately $1 million, as a result of the closing of local hostelry casinos and a reduction of the hourly operation in various casinos.
- The Slot Machines Operations total operating expenses decreased by approximately $638 thousand. This was the result of a contract with the operator of the linked slot machines.
- The distributions made to the Commonwealth of Puerto Rico (the Commonwealth) and the University of Puerto Rico when aggregated to the transfers made to the general fund of the Company during fiscal year ended June 30, 2017, amounted to approximately $136.9 million, which represents a decrease of approximately $322 thousands, when compared to fiscal year ended June 30, 2016.
- The Company is 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.

Overview of the Financial Statements

The basic financial statements of the Slot Machines Operations are prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Slot Machines Operations is a business-type activity of the Company and, as such, is included as a proprietary fund in the Company's basic financial statements. It follows the requirements of proprietary fund reporting, which uses 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 and liabilities. 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 that gives rise to the change occurs, regardless of the timing of the related cash flows.

The notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements. The notes are an integral part of the basic financial statements.

Financial Analysis

Condensed financial information on the Puerto Rico Tourism Company Slot Machines Operations' statement of net position as of June 30, 2017 and 2016 is as follows:

	As of June 30		Increase	Variance
	2017	**2016**	**(decrease)**	**percentage**
Assets:				
Current assets	$ 22,644,024	$ 22,684,137	$ (40,113)	0%
Capital assets	20,862	31,816	(10,954)	-34%
Total assets	22,664,886	22,715,953	(51,067)	0%
Liabilities:				
Current liabilities	$ 22,664,886	$ 22,715,953	$ (51,067)	0%
Net position:				
Net investment in capital assets	20,862	31,816	(10,954)	-34%
Unrestricted (deficit)	(20,862)	(31,816)	10,954	-34%
Total net position	$ -	$ -	$ -	0%

Slot Machines Operations Fund's assets at June 30, 2017, consist substantially of accounts receivable of approximately \$2.5 million, and due from the Company's general fund of approximately \$20.1 million. Total liabilities consist of unremitted distributions to the Commonwealth, the University of Puerto Rico and Participants of Slot Machines Operations of approximately \$1.9 million, \$5.4 million and \$12.7 million, respectively, accrued compensated absences of approximately \$971 thousand and accrued Christmas bonus of approximately \$113 thousand.

Accounts receivable decreased by approximately \$98 thousand. The decrease is due to the net effect of an increase in account receivable amounted to \$1.6 million and a decrease in due from other funds amounted to \$1.7 million.

Accounts payable decreased by approximately \$109 thousand, the decrease is due to the net effect of a decrease in accrued compensate absence of approximately \$1.8 million and the increase of \$1.7 million in other accounts payable and due to other governments.

Condensed financial information on the Slot Machines Operations' revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016 is presented below:

	Year ended June 30		Increase	Variance
	2017	2016	(decrease)	percentage
Net operating revenues	$ 151,566,168	$ 152,525,392	$ (959,224)	-1%
Operating expenses:				
Payroll and related payroll benefits	7,555,513	9,338,650	(1,783,137)	-19%
Depreciation and amortization	28,726	29,056	(330)	-1%
Rent	3,881,599	2,373,752	1,507,847	64%
Other	3,192,138	3,554,218	(362,080)	-10%
Total operating expenses	14,657,976	15,295,676	(637,700)	-4%
Operating income	136,908,192	137,229,716	(321,524)	0%
Nonoperating expenses:				
Distributions to:				
Commonwealth of Puerto Rico	20,741,591	20,790,302	(48,711)	0%
University of Puerto Rico	62,224,773	62,370,906	(146,133)	0%
Transfers to the Puerto Rico Tourism Company's general fund	53,941,828	54,068,508	(126,680)	0%
Total distributions and transfers	136,908,192	137,229,716	(321,524)	0%
Change in net position	$ -	$ -	$ -	0%

Total operating revenues decreased by approximately $959 thousand, from approximately $152.5 million to approximately $151.6 million as a result of the closing of local hostelry casinos and a reduction of the hourly operation in various casinos. This trend has been consistent for the past eight years.

Total operating expenses decreased by approximately $637 thousand during the year ended June 30, 2017. The decrease in mainly due to the net effect of a decrease in payroll expense and other expense by $1.7 million and $362 thousand respectively and the increase in rent expense amounted by $1.5 million.

Interfund transfers to the General Fund decreased by approximately $127 thousand, from approximately $54.1 million to approximately $53.9 million directly related to the reduction in net operating revenues.

The Slot Machines Operations' basic financial statements do not present net position since, as provided by Act No. 221 of 1948, as amended and corresponding regulations, net proceeds are all distributed to the Slot Machines Operations' participants, the Commonwealth, the University of Puerto Rico and the Company, at the end of each month.

Capital Assets

As of June 30, 2017, capital assets additions were approximately $18 thousand. As of June 30, 2017, capital assets amounted to approximately $21 thousand, net of accumulated depreciation.

See note 5 to the basic financial statements for additional details on capital assets at year-end and on activity during the fiscal year ended June 30, 2017.

Subsequent Events

Refer to Note 9 of the accompanying basic financial statements for a description of subsequent events.

Request for Information

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

PUERTO RICO TOURISM COMPANY
SLOT MACHINES OPERATIONS
(A Proprietary Fund of the Puerto Rico Tourism Company)

Statement of Net Position (Deficit)
June 30, 2017

ASSETS:		
Current assets:		
Accounts receivable from Slot Machines Operations' participants	$	2,474,772
Due from the Puerto Rico Tourism Company's general fund		20,169,252
		22,644,024
Non-current assets - capital assets, net		20,862
		22,664,886
LIABILITIES:		
Current liabilities:		
Unremitted distributions to:		
Commonwealth of Puerto Rico		1,997,481
University of Puerto Rico		5,445,870
Participants of Slot Machines Operations		12,790,174
Accounts payable and accrued expenses		2,431,361
		22,664,886
NET POSITION (DEFICIT):		
Net investment in capital assets		20,862
Unrestricted (deficit)		(20,862)
	$	-

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY
SLOT MACHINES OPERATIONS
(A Proprietary Fund of the Puerto Rico Tourism Company)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2017

OPERATING REVENUES:	
Revenues, net of distributions to Slot Machines Operations' participants of $127,929,738	$ 151,566,168
OPERATING EXPENSES:	
Payroll and related payroll benefits	7,555,513
Depreciation and amortization	28,726
Rent	3,881,599
Other	3,192,138
	14,657,976
OPERATING INCOME	136,908,192
NON-OPERATING EXPENSES:	
Distributions to:	
Commonwealth of Puerto Rico	(20,741,591)
University of Puerto Rico	(62,224,773)
	(82,966,364)
INCOME BEFORE TRANSFERS	53,941,828
TRANSFERS:	
Puerto Rico Tourism Company's general fund	(53,941,828)
CHANGES IN NET POSITION	-
NET POSITION – Beginning of Year	-
NET POSITION – End of Year	$ -

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM COMPANY
SLOT MACHINES OPERATIONS
(A Proprietary Fund of the Puerto Rico Tourism Company)

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STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from slot machines	$ 277,799,681
Cash paid to participants of Slot Machines Operations	(126,626,795)
Cash paid for payroll and related benefits	(9,456,387)
Cash paid for other operating expenses	(6,887,466)
Net cash provided by operating activities	134,829,033
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Distributions to:	
Commonwealth of Puerto Rico	(20,469,337)
University of Puerto Rico	(61,960,029)
Transfers to other funds	
Puerto Rico Tourism Company's General Fund	(52,381,873)
Net cash used in noncapital and related financing activities	(134,811,239)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:	
Cash paid for acquisition of capital assets	(17,794)
NET CHANGE IN CASH	-
CASH – Beginning of Year	-
CASH – End of Year	$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 136,908,192
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	28,726
Changes in operating assets and liabilities:	
Increase in accounts receivable	(1,696,226)
Increase in unremitted distributions to participants of Slot Machines Operations	1,272,098
Decrease in accounts payable and accrued expenses	(1,683,757)
Net cash provided by operating activities	$ 134,829,033

See accompanying notes to basic financial statements.

(1) Reporting Entity

The Puerto Rico Tourism Company Slot Machines Operations (the Slot Machines Operations) is a business-type activity of Puerto Rico Tourism Company (the Company) and is included as a proprietary fund in the Company's basic financial statements. The Company is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 10 of 1970 for the development of the tourism industry in Puerto Rico. The Slot Machines Operations' are exempt from the payment of taxes.

These financial statements present only the Slot Machines Operations and do not purport to, and do not, present fairly the financial position of the Company as of June 30, 2017, and the statement of changes in financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

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

The accounting and reporting policies of the Slot Machines Operations 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.

Following is a description of the Slot Machines Operation's most significant accounting policies:

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. The proprietary funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

The statement of net position presents the Slot Machines Operations' assets and liabilities, 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.

- *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 Slot Machines Operations' 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 non-operating items. The operating revenues of the Slot Machines Operations are principally generated from the activities related to the collection of funds from the slot machines located in the different casinos of Puerto Rico, less the payments of jackpots and hopper fills. Operating expenses include payroll and related-payroll benefits, depreciation and amortization, rent and other. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The statement of cash flows reports cash receipts, cash payments, and net change in cash resulting from operating, investing, and capital and noncapital financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Capital Assets

Capital assets, which include furniture and equipment, are stated at cost. Capital assets are defined by management as assets with a cost of $500 or more at the date of acquisition and an expected useful life of three or more years. Purchased capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at the fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are expensed. Depreciation is provided on a straight-line method over the estimated useful life of the furniture and equipment that ranges from 3 to 7 years.

Interfund Transactions – Are classified as follows:

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

As of June 30, 2017, Slot Machines has interfund transanctions that represent transfers.

Compensated Absences

Act No. 26 of April 29, 2017, known as the Fiscal Plan Compliance Act establishes that, employees earn vacation benefits at a rate of 15 days per year, with 60 days as the maximum permissible accumulation at the end of any natural year. In addition, employees accumulate sick leave at the rate of 18 days per year, with a maximum permissible accumulation of 90 days at the end of any natural year. However, effective with the approval of Act No. 66 of June 17, 2014 known as the Fiscal Operation and Sustainability Act, such excess has ceased to be paid to employees. Slot Machines Operations records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrued to employees. Compensated absences as of June 30, 2017, amounted to approximately $1,085,000 and are included as a component of accounts payable and accrued expenses in the accompanying statement of net position.

Termination Benefits

Slot Machines Operations accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. Refer to disclosure included in Note (6) to the accompanying basic financial statements.

Postemployment Benefits

The Company provides to certain employees covered under a collective bargaining agreement, a postemployment benefit that includes six months of medical insurance after voluntary termination under an early retirement termination plan. Information and related accruals required under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, has not been included in the accompanying financial statements since the required information is not readily available. Management asserts that additional disclosures and the effect on the financial statement effect are not considered significant, considering the limited number of employees that are covered under this agreement.

GASB Statement No. 45 is superseded by GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which is effective for fiscal years beginning after June 15, 2017.

Risk Management

The Company 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 Slot Machines Operations. 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 practices and policies of the Slot Machines Operations:

- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Statement 75 provides guidance for reporting by state and local governments that provide OPEB, such as retiree health insurance, to their employees and for governments that finance OPEB for employees of other governments. Statement 75 is effective for fiscal years beginning after June 15, 2017.

- GASB Statement 81 – *Irrevocable Split-Interest Agreements*. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split- interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split- interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Statement 81 is effective for fiscal years beginning after December 15, 2016.

- GASB Statement 82 – *Pension issues*. An amendment of GASB Statements 67, 68, and 73 Statement 82 addresses practice issues raised during implementation of Statements 67 Financial Reporting for Pension Plans. Statement 68, Accounting and Financial Reporting for Pensions, and Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Statement 82 is effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end in that circumstance, the requirements for the selection of assumptions 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 83 – *Certain Asset Retirement Obligations*. Statement 83 requires a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability and a corresponding deferred outflow of resources. Statement 83 is effective for reporting periods beginning after June 15, 2018.

- GASB Statement 84 – *Fiduciary Activities*. Statement 84 provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement 84 is effective for reporting periods beginning after December 15, 2018.

- GASB Statement 85 – *Omnibus 2017*. Statement 85 addresses practice issues identified during the implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (both pension and OPEB). Statement 85 is effective for reporting periods beginning after June 15, 2017.

- GASB Statement 86 – *Certain Debt Extinguishment* Issues. Statement 86 requires that debt be considered defeased in substance when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. It also addresses related reporting requirements for financial statements using the economic resources measurement focus. Statement 86 is effective for reporting periods beginning after June 15, 2017.

- GASB Statement 87 – *Leases*. Statement 87 establishes a single model for lease accounting by state and local governments, with limited exceptions (most notably for "short -term" leases with a maximum possible term of 12 months). Statement 87 is effective for reporting periods beginning after December 15, 2019.

- GASB Statement 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement 88 clarifies which liabilities governments should include in their note disclosures related to debt and requires that additional essential information related to debt be disclosed in the notes to the financial statements. Statement 88 also requires a government to separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt. Statement 88 is effective for reporting periods beginning after June 15, 2018.

- GASB Statement 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period.* Statement 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement 89 is effective for reporting periods beginning after December 15, 2019.

- GASB Statement 90 – *Majority Equity Interests – An amendment of GASB Statements 14 and 61.* Statement 90 clarifies the accounting and financial reporting for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. Statement 90 effective for reporting periods beginning after December 15, 2018.

- GASB Statement 91 – *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations: and improving required note disclosures. Statement 91 is effective for reporting periods beginning after December 15, 2020.

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

(3) Accounting Pronouncements Related to Pensions

The Puerto Rico Tourism Company Slot Machines Operations' full time employees participate in a cost sharing defined benefit program, which is administered by the Employees' Retirement System of the Commonwealth of Puerto Rico, a Statutory Trust and component unit of the Commonwealth of Puerto Rico.

During the fiscal year ended June 30, 2017, the Company implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement 27* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement 68*, through which accounting for pension plans and the related disclosure requirements were modified. This implementation was not performed on Slot Machines Operations.

As provided by Act No. 221 of 1948 (Act No. 221), as amended, the net proceeds of Slots Machines Operations are fully distributed at the end of each month, consequently, the financial statements do not present net position. The implementation of GASB 68 would require a restatement to the July 1, 2016 beginning net position in order to recognize the net pension liability. The responsibility of the pension funding when an employee retires corresponds to the Puerto Rico Tourism Company and not to the Slot Machines Operations. Management concluded that the ultimate liability and funding of the pension of the employees of Slot Machines Operations pertains to the Company and no allocation is considered necessary in Slot Machines Operations.

(4) Due from Puerto Rico Tourism Company's General Fund

The amount due from the Company's general fund as of June 30, 2017, amounted to approximately $20.1 million. Such amount is related to excess cash transferred to the general fund of the Company for cash management purposes. Amounts due from the Company's general fund do not bear interest and are due on demand.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2017, was as follows:

Description	Beginning Balance	Additions	Reductions and Adjustments	Ending Balance
Furniture and equipment being depreciated	$ $994,236	$ 17,772	$ -	$ 1,012,008
Less accumulated depreciation	(962,420)	(28,726)	-	(991,146)
	$ 31,816	$ (10,954)	$ -	$ 20,862

(6) Retirement System

Defined-Benefit Pension Plan

The Retirement System is a cost-sharing multiple-employer defined-benefit pension plan sponsored by, and reported as a component unit of the Commonwealth.

The Retirement System was created under Act No. 447 (the Act), approved on May 15, 1951, as amended, and became effective on January 1, 1952. All regular appointed and temporary employees of the Slot Machines Operations hired before January 1, 2000, under 55 years of age at the date of employment became members of the Retirement System as a condition of their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits generally vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the Retirement System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Contribution requirements, which are established by law and are not actuarially determined, are as follows:

Company	9.275% of applicable payroll
Employees:	
Hired on or before March 31, 1990	5.775% of monthly gross salary for the first $550 8.275% of monthly gross salary for the excess over $550
Hired on or before April 1, 1990	8.275% of monthly gross salary

On April 4, 2013, the Governor signed into law Act No. 3 of 2013 (Act No. 3), which adopted a comprehensive reform of the Retirement System, that is funded primarily with budget appropriations from the Commonwealth's General Fund.

With the enactment of Act No. 3, and taking into account an additional annual contribution of $140 million for the next 20 years by the Commonwealth, it's expected that the cash funding shortfall of the Retirement System will be eliminated in the long term. Act No. 3, however, does not eliminate the need for the Commonwealth to make additional contributions to the Retirement System.

System 2000

On September 24, 1999, an amendment to the Act, which created the Retirement System, was enacted to provide a new benefit structure, similar to a cash balance plan, known as System 2000.

Employees participating in the Retirement System as of December 31, 1999 were allowed to stay in the defined benefit structure or transfer to System 2000. Employees joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants and employees are pooled and invested by the Retirement System, together with the assets corresponding to the defined benefit structure. There are no separate accounts for System 2000 participants. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets.

The annuity is based on a formula, which assumes that each year the participants' contribution (with a minimum of 8.275% of the participants' salary up to a maximum of 10%) will be invested as instructed by the participant in an account, which will either (1) earn a fixed rate based on the two-year constant maturity treasury notes, (2) earn a rate equal to 75% of the return of the Retirement System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Disability benefits are not granted under System 2000. The employers' contribution amounts to 9.275% of the employee's salary. System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the public sector on or after January 1, 2000.

On July 6, 2011, Act No. 116 was approved to increase the employer's contributions for each participant and the employees' contributions. Starting on July 1, 2011, the employer's contribution will be 10.275% and will increase annually by 1% until June 30, 2017. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually until reaching 20.25%. The employees' contributions will be 10.25% of monthly gross salary.

Total employee contributions to Retirement System, including System 2000, during the year June 30, 2017, amounted to approximately $584,500. The Slot Machines Operation's contributions for the years ended June 31, 2017, 2016 and 2015, amounted to approximately $907,400, $876,800 and $824,500 respectively, equal to required annual contributions.

With the purpose of solving the Additional Benefit Program and the Retirement System, beginning fiscal year 2013-2014 and each subsequent fiscal year. The Retirement System will receive a contribution equal to two thousand ($2,000) at July 1 of each year for each retiree who began Public Service on or before December 31, 1999.

On April 4, 2013, the Commonwealth enacted Act No. 3 to amend the Act and restructure the Retirement System. The main amendments under Act No. 3, include the freezing of benefit accruals of all participants under the defined benefit structure of the Retirement System, an increase in the retirement age of all participants, and an increase in the mandatory employee contributions to 10% of their monthly gross salary, among others. The provisions of Act No. 3 are effective on July 1, 2013.

Hybrid Program of Defined Contribution

This program was created under Section 15 of Act No.3 which consists in establishing an account with the individual contributions of each participant of the System that becomes part of the program.

To qualify for this program, participants must be employed during or after July 1, 2013. Every participant will have to contribute ten percent (10%) of their remuneration to their account during employment.

Participants of the system that at June 30, 2013 were covered by the Coordination Plan with the Social Security benefits will contribute:

Effective as of July 1, 2013	7% of monthly gross salary for the first $550 10% of the monthly gross salary for the excess over $550
Effective as of July 1, 2014	8.5% of monthly gross salary for the first $550 10% of the monthly gross salary for the excess over $550
Effective as of July 1, 2015	10% of the total retribution

(7) Voluntary Retirement Programs

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirements or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Company. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 19 years of credited service in The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System) and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the Company will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the retirement system.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the retirement system or who have at least 30 years of credited service in the retirement system and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from a one-month to six-month salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the retirement system and the age for retirement or have the age for retirement, the Company will make the employee and the employer contributions to the retirement system for a five-year period. Additionally, eligible employees that choose to participate in the early retirement benefit program or choose the economic incentive and have less than 15 years of credited service in the retirement system are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Company.

Since the responsibility of the pension funding when an employee retires corresponds to the Company, and no funds of Slot Machines Operation will be used for that purposes, the related expense and liability is recognized in the Company.

On December 8, 2015, Act No. 211-2015 was approved to create a voluntary retirement program. The Act establishes that employees who have been working for the Commonwealth of Puerto Rico and enrolled in the Retirement System before April 1, 1990 with at least 20 years of service may be eligible to participate in the program. Those who participate in the program would receive a compensation equal to sixty percent (60%) of the employee's average compensation as of December 31, 2015; the payment of unused vacation and sick leave; the payment of employer contributions on account of Social Security and Medicare; and the payment of the participant's healthcare plan during the first two years of the program. This program also provides for the employer to continue making both individual and employee contributions to the Retirement System. As of June 30, 2017, no-employees have elected to participate in this voluntary retirement program.

(8) Distributions from Slot Machines Operations

Pursuant to Act No. 24 approved on June 26, 1997, the percentage of distributions of Slot Machines Operations for fiscal years commencing after 2001 is computed as follows:

Description	Casino Concessionaries	Governmental Entities
Base Income	34%	66%
Excess over base income	60%	40%

The governmental entities' participation in the operating income is as follows:

Description	Percentage
Commonwealth	15.15%
University of Puerto Rico	45.45%
Puerto Rico Tourism Company's General Fund	39.40%

(9) Subsequent events

Act No. 106 of 2017

On June 27, 2017, the Treasury Department of Puerto Rico issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go (PayGo)" mechanism for all of the Commonwealth's Retirement Systems. With the start of the fiscal 2017, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The PayGo charge must be submitted before the 15 of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase. In addition to the PayGo mechanism being established, the Commonwealth is also working on a reform of the Retirement Systems, in which its active participants would deposit their individual contributions in a new Defined Contribution Plan that will be managed by a private entity. This reform became law on August 23, 2017 with the enactment of Act 106-2017, Act to Guarantee the Payments to Our Pensioners and Establish a new Plan for Defined Contributions for Public Servants. This law creates the legal framework so that the government can guarantee payments to pensioners through the PayGo scheme. With this system, the government makes pension payments from the general fund, according to the money available. Approximately $2 billion was allocated for these purposes in the fiscal year 2018 budget. This law also creates a Defined Contribution Plan, similar to a 401 (k) plan, which guarantees the contributions of public servants, for in the future, benefits will not be paid by the retirement systems.

Hurricane María

On September 7 and 20, 2017, the Hurricanes Irma and María made landfall in Puerto Rico, respectively, causing island-wide damage, flooding and significant destruction of the infrastructure and the power grid.

Act No. 81 of 2019

On July 29, 2019, the Governor of the Commonwealth of Puerto Rico signed into law Act No. 81, whereby it authorizes the creation of the Games Commission of the Government of Puerto Rico. This Act transfers the "Juegos de Azar" division of the Company to this new entity and the process of distribution of the net proceeds will be managed by the Puerto Rico Treasury Department.

Management has evaluated subsequent events through January 16, 2020, the date on which financial statements were available to be issued.