

**LLM&D, PSC**  
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San Juan, Puerto Rico  
00917-1233

# Puerto Rico Convention Center District Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements, Required Supplementary Information, and  
Supplemental Schedules

June 30, 2014

(With Independent Auditors' Report Thereon)

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

JUNE 30, 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Puerto Rico Convention Center District Authority

### **Report on the Basic Financial Statements**

We have audited the accompanying statement of net position of the Puerto Rico Convention Center District Authority (“the Authority”) (a Component Unit of the Commonwealth of Puerto Rico) as of June 30, 2014, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and notes to the basic financial statements, which collectively comprise the Authority’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 basic 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 basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Authority’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 basic 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, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2014, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in note 2 to the financial statements, effective July 1, 2013, the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 65, *Items Previously Reported As Assets and Liabilities*. Our opinion is not modified with respect to these matters.

## **Other Matters**

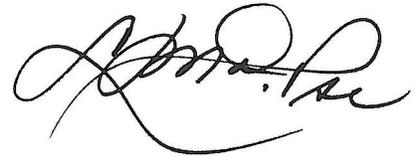
### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Authority’s basic financial statements. The supplemental schedule of net position information, the supplemental schedule of revenues, expenses and changes in net position information, and the supplemental schedule of operating loss—Puerto Rico Convention Center—(collectively referred as the supplemental schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



January 30, 2015  
San Juan, Puerto Rico

License No – 90  
Expiration Date: December 1<sup>st</sup>, 2016



**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED JUNE 30, 2014

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As management of Puerto Rico Convention Center District Authority (the "Authority"), we offer readers of the Authority's basic financial statements our discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2014. Our discussion and analysis provide an assessment of how the Authority's financial position and results of operations have improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions, or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the Authority's basic financial statements, which follow this section.

The Authority is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") and is responsible for developing, constructing, and operating the Puerto Rico Convention Center (the "Convention Center") and the Puerto Rico Convention District (the "District"). On August 3, 2004, Act No. 185 transferred the ownership interest of the Puerto Rico Coliseum José Miguel Agrelot (the "Coliseum") to the Authority to administer and supervise its operations. On May 15, 2013, the Authority acquired the project called Bahía Urbana to administer and supervise its operations.

**Financial Highlights**

- The Authority's total assets decreased by \$15.7 million in 2014 or 1.93%
- The Authority's total liabilities decreased by \$14.1 million in 2014 or 2.29%
- The Authority's net position decreased by \$1.6 million in 2014 or .80%
- Operating revenues increased by \$.7 million during 2014 or 2.72%
- Direct operating costs and expenses increased by \$.5 million during 2014 or 6.55%
- Other operating expenses increased by \$.6 million during 2014 or 1.50%
- Nonoperating revenues— net decreased by \$.3 million during 2014 or .01%

**Overview of the Financial Statements**

This annual financial report consists of three parts: the management's discussion and analysis; the basic financial statements of the Authority, including notes that explain in more detail some of the information in the basic financial statements; and other supplemental schedules.

- The basic financial statements are designed to provide readers with a broad overview of the Authority's basic finances in a manner similar to a private sector business. These basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities. Using the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which they are incurred.
- The statement of net position presents information regarding all of the Authority's assets and liabilities. The difference between the mentioned components is reported as net position. Increase and decrease in net position provide an indication of whether the Authority's financial health is improving or deteriorating.

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)

- The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net assets changed during the most recent fiscal year.
- The statement of cash flows explains the sources and uses of cash during the fiscal year classified in operating, noncapital financing, capital and related financing, and investing activities.

**Financial Analysis of the Authority**

The following summarizes the Authority's financial position as of June 30, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>Variance</u>
<b>Assets:</b>			
Current assets	\$ 54,027	\$ 61,695	\$ (7,668)
Capital assets — net	695,333	701,231	(5,898)
Other noncurrent assets	<u>47,460</u>	<u>49,600</u>	<u>(2,140)</u>
<b>Total assets</b>	<u><u>\$ 796,820</u></u>	<u><u>\$ 812,526</u></u>	<u><u>\$ (15,706)</u></u>
<b>Liabilities:</b>			
Current liabilities	\$ 39,749	\$ 39,914	\$ (165)
Noncurrent liabilities	<u>563,032</u>	<u>577,005</u>	<u>(13,973)</u>
<b>Total liabilities</b>	<u>602,781</u>	<u>616,919</u>	<u>(14,138)</u>
<b>Net position:</b>			
Invested in capital assets	111,358	108,130	3,228
Restricted for debts service and construction	58,184	48,162	10,022
Unrestricted	<u>24,497</u>	<u>39,315</u>	<u>(14,818)</u>
<b>Total net position</b>	<u>194,039</u>	<u>195,607</u>	<u>(1,568)</u>
<b>Total liabilities and net position</b>	<u><u>\$ 796,820</u></u>	<u><u>\$ 812,526</u></u>	<u><u>\$ (15,706)</u></u>

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)

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- **The Authority's total assets decreased by \$15.7 million in 2014 or 1.93%**

The Authority has remained focused on its mission of promoting economic activities by providing outstanding venues and related services to the tourist sector and the general public. The Authority, after completing the construction of the Convention Center, has been dedicated, along with overseeing the operations of the venues, to the development of the surrounding Convention Center District, which will accommodate hotels, commercial and residential facilities, and recreational areas.

The decrease in total assets is mainly due to a decrease in cash of \$6.7 million, a decrease in accounts receivable of \$3.4 million, and a decrease in capital assets of \$5.9 million. During 2014, the Authority used its cash for the development of the District Parcel and for other operational purposes. The net decrease of \$5.9 million in capital assets is directly related to its annual depreciation exceeding the capital expenditures for the year.

- **The Authority's total liabilities decreased by \$14.1 million in 2014 or 2.29%**

During the year ended June 30, 2014, the Authority decreased the principal balance due on its one lines of credit maintained with Government Development Bank for Puerto Rico ("GDB"), by \$106 thousands. In addition, the Authority non revolving lines of credit decreased by \$13.3 million mainly due to current year principal payments of \$5.9 million and interest payment of \$7.4 million. The Authority receives services and products used to reduce the deferred revenues.

- **The Authority's net position decreased by \$1.6 million in 2014 or 0.80%**

As of June 30, 2014, the Authority had \$194 million in net position. From such amount, \$111.4 million are invested in capital assets, \$58.2 million correspond to net assets restricted for debt service and construction, and \$24.5 million are unrestricted net assets. Investment in capital assets increased by approximately \$3.2 million in 2014. Restricted net assets increased by approximately \$10 million. Unrestricted net position decreased by approximately \$14.8 million in 2014. These fluctuations in net position are directly related to the Bahía Urbana development, further improvements to the Coliseum and Convention Center, repayment of principal of the Authority's bonds and lines of credit and the current results of operations.

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)

The following summarizes the Authority's changes in net position for the years ended June 30, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>Variance</u>
Operating revenues	\$ 26,194	\$ 25,500	\$ 694
Direct operating costs and expenses	(7,724)	(7,249)	(475)
Other operating expenses	(40,563)	(39,962)	(601)
Nonoperating revenues — net	<u>20,525</u>	<u>20,816</u>	<u>(291)</u>
Change in net position	<u>(1,568)</u>	<u>(895)</u>	<u>(673)</u>
Net position — beginning of year	<u>195,607</u>	<u>196,502</u>	<u>(895)</u>
Net position — end of year	<u>\$ 194,039</u>	<u>\$ 195,607</u>	<u>\$ (1,568)</u>

- **Operating revenues increased by \$ .7 million during 2014 or 2.72%**

Operating revenues are earned from rental of facilities and related support services, sale of food and beverages, suites and club seat rental, sponsorships, and ticket incentive rebates, among others. The increase in the Authority's operating revenues during the year ended June 30, 2014, is substantially related to the rental, advertising and event services in the Coliseum and are directly related to the six (6) more events performed in the Coliseum during 2014.

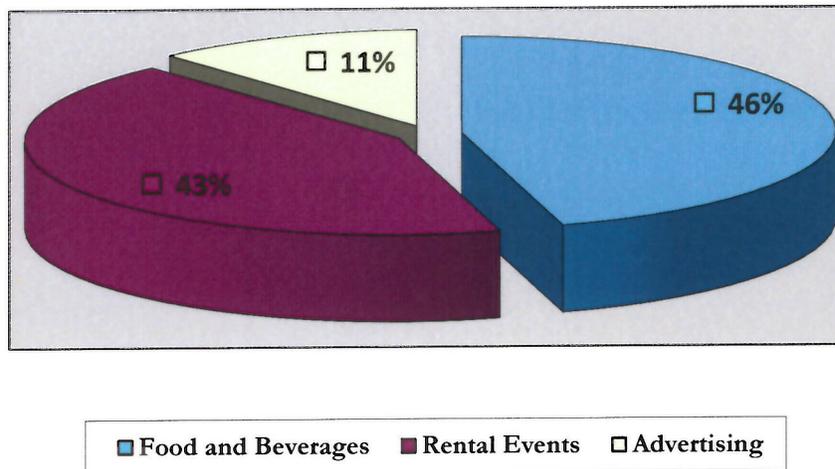
**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)

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The following graph presents the sources of the revenues generated by the Authority during the year:

**2014 Operating Revenues**



- **Direct operating costs and expenses increased by \$.5 million during 2014 or 6.55%**

During the year ended June 30, 2014, operating expenses related to cost of food, beverages and novelty, increased by approximately \$475 thousands due to six (6) more events performed in the Coliseum than prior year. Other costs, such as event set up, support and labor directly related to the events also increased for the same reason.

- **Other operating expenses increased by \$.6 million during 2014 or 1.50%**

The increase in other operating expenses of \$.6 million is mainly the result of the increase in utilities, insurances cost, while salaries, advertising and professional expenses, decreased by approximately \$1.4 million.

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)

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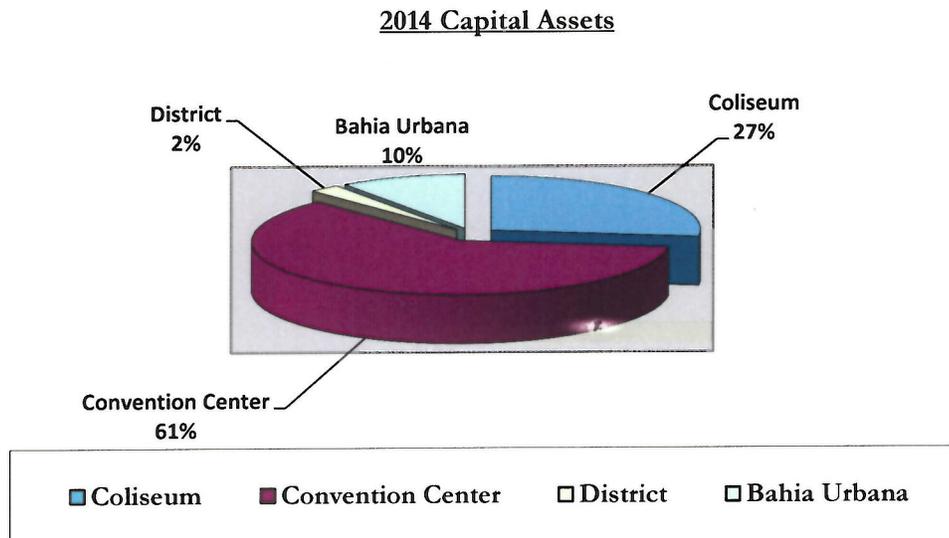
- **Non operating revenues (net of nonoperating expenses) decreased by approximately \$0.3 million during 2014 or 1.40%**

The Authority's nonoperating revenues are substantially comprised of funds allocated from the room tax law enacted by the Commonwealth of Puerto Rico and levied by the Puerto Rico Tourism Company and appropriations of the Legislature. The room tax revenues provided, among other things, for the debt service payment of the bonds issued for the financing of the Convention Center and to cover the Convention Center's administrative funds. The appropriations of the Legislature provided for the debt service payment of the line of credit used to finance the Coliseum.

The decreased of \$291 thousand is the net effects of the increased of \$1.6 million by the Commonwealth of Puerto Rico to pay the principal and interest of the Coliseum of Puerto Rico Credit Line, the decreased of approximately \$3 million in other income due to funds assigned in 2013 from the Department of Economic Development and Commerce and the Treasury Department for Bahia Urbana Projects and the increased of contributions from the PR Tourism Company (Room Tax).

### Capital Assets

The following graph segregates the capital assets among land, land improvement, and property subject to depreciation, pertaining to the Coliseum, Bahia Urbana, and the Convention Center and surrounding district, at cost before depreciation:



See Note 5 to the basic financial statements for additional information on the Authority's capital assets.

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED JUNE 30, 2014  
(Concluded)

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**Long-Term Debt**

The Authority's long-term debt consists of two lines of credit with GDB and bonds payable, which amounted to approximately \$145.4 million and \$425.3 million, respectively, as of June 30, 2014. The lines of credit were obtained for the construction of the Coliseum and the bonds were issued to finance the development of the Convention Center.

See Notes 6 and 7 to the basic financial statements for additional information on the Authority's long-term debt.

**Contacting the Authority's financial management**

This financial report is designed to provide to the general public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Convention Center District Authority at P.O. Box 19269, San Juan, Puerto Rico, 00910-1269.

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**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENT OF NET POSITION**

June 30, 2014

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**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 13,248,197
Accounts receivable — net	14,306,493
Prepaid expenses	1,344,504
Other assets	308,442
Restricted assets:	
Cash	636,846
Investments	<u>24,182,620</u>
 Total current assets	 <u>54,027,102</u>

**NONCURRENT ASSETS:**

Restricted assets — investments	33,364,977
Prepaid insurance	9,519,279
Long-term accounts receivable	2,452,597
Note receivable	2,123,030
Capital assets:	
Nondepreciable	289,709,749
Depreciable — net	<u>405,623,480</u>
 Total noncurrent assets	 <u>742,793,112</u>

**TOTAL**

\$ 796,820,214

(Continued)

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENT OF NET POSITION**

June 30, 2014

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**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES:**

Current liabilities payable from unrestricted assets:	
Accounts payable and accrued expenses	\$ 13,077,612
Customer deposits payable	2,130,649
Unearned revenues	<u>4,234,106</u>

Total current liabilities payable from unrestricted assets 19,442,367

Current liabilities payable from restricted assets:

Current portion of bonds payable	10,275,000
Interest payable on bonds	<u>10,031,281</u>

Total current liabilities payable form restricted assets 20,306,281

Total current liabilities 39,748,648

**NONCURRENT LIABILITIES:**

Unearned revenues	2,531,832
Borrowings under line of credit	145,441,226
Bonds payable	<u>415,059,318</u>

Total noncurrent liabilities 563,032,376

Total liabilities 602,781,024

**NET POSITION:**

Invested in capital assets	111,358,037
Restricted for debt services	53,832,390
Restricted for construction	4,352,053
Unrestricted	<u>24,496,710</u>

Total net position 194,039,190

**TOTAL LIABILITIES AND NET POSITION** \$ 796,820,214

See notes to basic financial statements.

(Concluded)

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For The Year Ended June 30, 2014

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OPERATING REVENUES:	
Food, beverage, and novelty	\$ 11,956,500
Rental and event services	11,225,271
Advertising	<u>3,012,650</u>
Total operating revenues	<u>26,194,421</u>
DIRECT OPERATING COSTS AND EXPENSES:	
Food, beverage, and novelty	4,998,058
Rental and event services	<u>2,725,631</u>
Total direct operating costs and expenses	<u>7,723,689</u>
GROSS OPERATING PROFIT	<u>18,470,732</u>
ADMINISTRATIVE EXPENSES:	
Salaries and related benefits	979,238
Professional and contract services	7,959,869
Depreciation and amortization	11,392,276
Insurance	3,247,858
Utilities	8,978,869
Advertising	2,280,337
Repairs and maintenance	3,514,463
Other — net	<u>2,210,140</u>
Total other operating expenses	<u>40,563,050</u>
OPERATING LOSS	(22,092,318)
NONOPERATING REVENUES (EXPENSES):	
Interest expense	(29,634,955)
Contributions from Puerto Rico Tourism Company	34,808,942
Contributions from Commonwealth of Puerto Rico	13,767,255
Interest income	302,771
Other income	<u>1,280,538</u>
Total nonoperating revenues — net	<u>20,524,551</u>
CHANGES IN NET POSITION	(1,567,767)
NET POSITION — Beginning of year, as restated	<u>195,606,957</u>
NET POSITION — End of year	<u>\$ 194,039,190</u>

See notes to basic financial statements.

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2014

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Collections of operating revenues	\$ 28,318,203
Payments to suppliers for operating expenses	(36,739,190)
Payments to employees	<u>(979,238)</u>
Net cash used in operating activities	<u>(9,400,225)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contributions from Puerto Rico Tourism Company	34,515,845
Contributions from Commonwealth of Puerto Rico	13,767,255
Payments of bonds payable	(9,845,000)
Advances from lines of credit	4,596,050
Payments of lines of credit	(5,928,119)
Capital expenditures	(5,494,353)
Payment of interest:	
Bonds payable	(22,459,620)
Lines of credit	<u>(7,389,135)</u>
Net cash provided by capital and related financing activities	<u>1,762,923</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Redemption of investments	(217,298)
Advances to note receivable	(405,443)
Collection of interest income	302,771
Miscellaneous income	<u>1,280,538</u>
Net cash used in investing activities	<u>960,568</u>
NET DECREASE IN CASH	(6,676,734)
CASH — Beginning of year	<u>20,561,777</u>
CASH — End of year	<u>\$ 13,885,043</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:	
Cash — unrestricted	\$ 13,248,197
Cash — restricted	<u>636,846</u>
TOTAL CASH — End of year	<u>\$ 13,885,043</u>

(Continued)

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENT OF CASH FLOWS**  
For The year Ended June 30, 2014

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

Operating loss	\$ (22,092,318)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	11,392,276
Provision for doubtful accounts	430,285
Amortization of prepaid insurance	437,626
Amortization of discounts on bonds	(903,032)
Changes in operating assets and liabilities:	
Decrease in assets:	
Accounts receivable	3,283,177
Prepaid expenses and other assets	(104,216)
(Decrease) increase in liabilities:	
Accounts payable and accrued expenses	3,076,880
Customer deposits payable	(3,331,223)
Unearned revenues	<u>(1,589,680)</u>
Total adjustments	<u>12,692,093</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (9,400,225)</u>

See notes to basic financial statements.

(Concluded)

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2014

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**1. REPORTING ENTITY**

The Puerto Rico Convention Center District Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"); created by Act No. 142 of October 4, 2001, as amended. The Authority is responsible for developing, constructing, and operating the Puerto Rico Convention Center (the "Convention Center") and the Puerto Rico Convention District (the "District"). The Authority is also responsible for the development and operations of the Jose Miguel Agrelot Coliseum (the "Coliseum") and Bahía Urbana.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to governmental entities. The Authority follows Governmental Accounting Standard Board ("GASB") pronouncements under the hierarchy established by GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements.

The activities of the Authority are accounted for as an enterprise fund. Accordingly, the Authority follows the accrual basis of accounting. Revenues are recognized when earned, regardless of when they are received, and expenses are recognized when incurred, regardless of when they are paid.

Effective July 1, 2013, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues) or viceversa. This Statement also requires the write-off of any existing deferred debt issuance costs at the time of adoption against beginning net position, and prospectively, any new debt issue costs on bonds or debt issuance immediate expensing.

As a result of the implementation of GASB No. 65 the Authority charged-off its existing unamortized debt issue costs of approximately \$3.1 million against its beginning net position as follows:

Net position, beginning of year	\$ 198,726,139
Effect of adoption of GASB Statement No. 65	<u>(3,119,182)</u>
Net position, beginning of year, as restated	<u><u>\$ 195,606,957</u></u>

The Authority's bonds have never been refunded. As a result, there have been no refunding gains or losses, and consequently, no related deferred inflows or outflows of resources exists that would require a separate presentation in the statement of net position as of June 30, 2014.

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2014

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Following is a description of the more significant accounting policies followed by the Authority:

*Basis of Presentation*— The Authority’s basic financial statements conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, as amended, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The statement of net position presents the Authority’s assets and liabilities, with the difference reported as net position. Net position is reported in three categories as follows:

- *Invested in Capital Assets*— This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets. Rather, the portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted*— This component of net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted*— This component of net position consists of net position that do not meet the definition of “invested in capital assets, net of related debt” or “restricted”. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified.

*Accounting Estimates*— The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

*Allowance for Doubtful Accounts*— The allowance for doubtful accounts receivable is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

*Capital Assets*— Capital assets consist of construction costs related to the development of the Convention Center and other improvements on the adjacent District, the Coliseum, and office furniture and equipment. Construction costs include project development costs, design and architecture, environmental studies and site improvements, capitalized interest, insurance, construction costs received in transfers, and other capitalized costs. Capital assets, other than construction costs or land, are defined

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by the Authority as assets which, have a cost of \$1,000 or more at the date of acquisition and have an expected useful life of two or more years. Such assets are recorded at cost.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the building (50 years), vehicles (five years), and furniture and equipment (ranging from 3 to 10 years). The capital assets under construction are depreciated once they are placed in operations. At the time capital assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from books and the resulting gain or loss, if any, is credited or charged to operations. Expenditures for repairs and maintenance, which do not extend the useful lives of the assets, are charged to operations in the years incurred.

Land received as transfer from other governmental entities within the same financial reporting entity is accounted for under the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB Statement No. 48 states that these type of transfers need to be recorded at the carrying value of the transferor.

*Accounting for the Impairment of Capital Assets* — The Authority accounts for asset impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

The Authority evaluated its capital assets as required by GASB Statement No. 42, and no impairment was identified during the year ended June 30, 2014.

*Compensated Absences* — The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed. For sick leave, in the event of employee resignation for any reason other than disciplinary, an employee is reimbursed for accumulated sick days up to the maximum allowed.

*Bonds Payable* — Bonds payable are presented net of the applicable debt premium. Debt premium is deferred and amortized as a component of interest expense over the life of the debt using systematic and rational methods that approximates the interest method.

*Operating Revenues and Expenses* — Enterprise fund reporting distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing the services that correspond to the Authority's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Operating revenues and

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operating expenses consist of activities related to the Convention Center, the Coliseum and Bahía Urbana.

*Statement of Cash Flows* — The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. The provisions of GASB Statement No. 9 require that the direct method be used to present the cash inflows and outflows of the Authority.

*Risk Management* — The Authority purchases commercial insurance to cover for casualty, theft, tort claims, and other losses through the Treasury Department negotiated under a blanket agreement and then charged to the Authority. 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.

*Nonexchange Transactions* — GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of the GASB Statement No. 33, the provider and the recipient should recognize the nonexchange transaction as an expense and revenue when all eligibility requirements are satisfied. The Authority accounts for contributions from other governmental entities under the provisions of GASB Statement No. 33.

*Restricted Assets and Liabilities from Restricted Assets* — Restricted assets represent the amounts deposited by the Authority to provide for the amortization of bonds payable and related interest costs and cash available in the related construction fund.

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2014:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. This Statement, among other requirements, will bring the effect of Statement 67, *Financial Reporting for Pension Plans—an amendment of GASB No. 25* into the accounting records of the individual agencies, public corporations and municipalities, whose employees participate in the Retirement Systems. The Authority, as well as the other component units of the Commonwealth and the municipalities, are considered “cost-sharing” employers of the Retirement Systems; therefore, a government participating in the Retirement Systems, such as the Authority, would report the resulting Net Pension Liability from Statement 67 as follows:
  - ✓ Based on the Authority’s proportion of the collective net pension liability of all the governments participating
  - ✓ The proportion should be consistent with the method used to assess contributions (percentage of payroll).

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The impact of the effects of this Statement on the Authority's basic financial statements is not expected to be significant as the Authority currently has no employees participating in Retirement Systems. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfer of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty to pay agents or trustees. This Statement is not expected to have any impact on the Authority as the Authority has no financial guarantees outstanding at June 30, 2013. This Statement is effective for financial statements for periods beginning after June 15, 2013.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflow of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68.

### 3. CASH AND INVESTMENTS

**Cash**— The Authority is authorized to deposit funds in 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 an amount not less than 100% of the amounts in excess of federal insurance coverage. GDB is exempt from the collateral requirements established by the Commonwealth.

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Based on these provisions, deposits either insured or collateralized are not considered to be subject to custodial risk, which is the risk that in the event of a bank's failure, the Authority's deposits may not be returned to it. As of June 30, 2014, the Authority had approximately \$5,121,000 of deposits subject to custodial risk.

As of June 30, 2014, the Authority has interest-bearing demand deposits as follows:

<u>Financial Institution</u>	<u>Carrying Amount</u>	<u>Interest</u>	<u>Depository Bank Balance</u>	<u>Uninsured or Uncollateralized</u>
GDB	\$ 5,121,243	0.1% - 1.00%	\$ 5,121,387	\$ 5,121,387
Nongovernment banks	<u>8,763,800</u>	.05% - .15%	<u>9,280,964</u>	<u>-</u>
	<u>\$ 13,885,043</u>		<u>\$ 14,402,351</u>	<u>\$ 5,121,387</u>

As of June 30, 2014, the Authority's cash-on-hand amounted to approximately \$147,000.

Reconciliation to the statement of net assets as of June 30, 2014, is as follows:

Current assets — cash:	
Unrestricted	\$ 13,248,197
Restricted	<u>636,846</u>
Total current assets — cash	13,885,043
Noncurrent assets — cash — restricted	<u>-</u>
	<u>\$ 13,885,043</u>

**Investments** — Certain proceeds from the bonds issued on March 15, 2006 (see Note 7) were set aside for the repayment of the bonds, for capitalized interest, construction, and were classified as restricted assets in the accompanying statement of net position. Separate trust accounts were opened with the Bank of New York ("BNY" or the "Trustee"), under a trust agreement (the "Trust Agreement"), and Citigroup Financial ("CITG"), the latter, under an investment agreement (the "Investment Agreement"). The use of such balances is limited by applicable bonds covenants.

**Investment Policy** — The Trust Agreement between the Authority and BNY, and the Investment Agreement between the Authority and CITG, both dated March 24, 2006, provide general and specific guidance for the allowed investment alternatives and provide collateralization requirements based on the specified credit rating by nationally recognized credit agencies. The objective of these provisions is to maximize the yield, while having adequate liquidity to pay the obligation as they become due.

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The Authority permits BNY and CITG to purchase and/or acquire the following investments:

- Governmental obligations
- General state obligation bonds rated within the three highest credit categories
- Collateralized banker's acceptance or certificates of deposits
- Obligations of the Commonwealth or any state of the United States of America, their agencies, municipalities, or instrumentalities rated within the three highest credit categories
- Shares of stock in corporations with the highest rating category, as defined
- Commercial paper rated P-1 or A-1 of U.S. banking institutions
- Money market accounts, with the highest credit categories

The description, credit rating, and balance of investments as of June 30, 2014 are shown in the table below:

<b>Description</b>	<b>Rating</b>	<b>Amount</b>
Money market fund (J.P. Morgan 100% U.S. Treasury Securities Money Market Fund)	AAAm	\$ 53,671,660
Money market fund (Dreyfuss Cash Management — Investor Shares)	AAAm	3,875,937
		<u>\$ 57,547,597</u>

Reconciliation to the statement of net position as of June 30, 2014, is as follows:

Restricted investments — current	\$ 24,182,620
Restricted investments — noncurrent	33,364,977
	<u>\$ 57,547,597</u>

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**4. ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2014, consists of:

<u>Description</u>	<u>Current</u>	<u>Long Term</u>	<u>Total</u>
Trade receivables	\$ 6,334,055	\$ -	\$ 6,334,055
Due from Puerto Rico Tourism Company	4,471,070	-	4,471,070
Deferred receivable:			
Billable	3,877,504	2,452,597	6,330,101
Nonmonetary consideration	<u>583,507</u>	<u>                    </u>	<u>583,507</u>
	15,266,136	2,452,597	17,718,733
Less allowance for bad debts	<u>(959,643)</u>	<u>-</u>	<u>(959,643)</u>
Accounts receivable — net	<u>\$ 14,306,493</u>	<u>\$ 2,452,597</u>	<u>\$ 16,759,090</u>

Trade receivables comprise amounts due on event services, food, beverages, rental, and advertising billed to promoters, facility members, sponsors, and the general public. Due from Puerto Rico Tourism Company represents the amount of contributions to be received from hotel room taxes collected by Puerto Rico Tourism Company (see notes 7 and 9).

The Authority enters in long-term multiservice agreements for advertising and corporate sponsorship, which provides, among others, deferred billing arrangements and nonmonetary consideration related to the sponsor's trade or business. The agreements can extend from one to five years and include a blend of advertising space and assignment of exclusive use of luxury corporate suites in the facilities, with event attendance, as defined. The revenues associated with the long-term agreements are deferred and recognized using the straight-line method over the term of the agreement. The nonmonetary consideration is measured at fair value based on the current rates applicable to the Authority.

Deferred billing and nonmonetary consideration under these agreements are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Billable</u>	<u>Non-monetary</u> <u>Consideration</u>	<u>Total</u>
2015	\$ 3,877,504	\$ 583,507	\$ 4,461,011
2016	1,779,382	-	1,779,382
2017	543,215	-	543,215
2018	<u>130,000</u>	<u>-</u>	<u>130,000</u>
	<u>\$ 6,330,101</u>	<u>\$ 583,507</u>	<u>\$ 6,913,608</u>

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During the year ended June 30, 2014, the Authority received services and products used to reduce the unearned nonmonetary consideration for approximately \$200,000.

As of June 30, 2014, the unearned revenues related to the long-term agreements were as follows:

<u>Description</u>	<u>Current</u>	<u>Noncurrent</u>
Unearned revenues	<u>\$ 4,234,106</u>	<u>\$ 2,531,832</u>

The unearned revenues will be earned in the following years:

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 4,234,106
2016	1,894,499
2017	507,333
2018	<u>130,000</u>
	<u>\$ 6,765,938</u>

**5. NOTE RECEIVABLE**

On January 21, 2011, the Authority and CCHPR Hospitality LLC (the "Borrower") entered into a Subordinated Credit Agreement for the construction of Texas de Brazil and China Club restaurants at the Sheraton Hotel. Through this agreement, the Authority agreed to grant a non-revolving term loan in an aggregate principal amount not to exceed \$2,500,000 to the Borrower. This agreement shall be payable in full on or before January 21, 2019. The outstanding and unpaid principal amount of each advance under the non-revolving term loan shall accrue interest monthly in arrears, from the date of each such advance until paid in full at a rate of 8% per annum. As of June 30, 2014, the outstanding principal of the note receivable amounted to \$1,355,738.

On April 8, 2014, the Authority and the Ports Authority entered into a loan agreement mainly for the remodeling of Dock #3. The loan is for a maximum amount of \$5,000,000 to be disbursed in installments (drawings) upon presentation by the Ports Authority of the corresponding certifications. The loan is due in two years with an interest rate of 5% to be paid monthly. It is collateralized by a property located in Yabucoa valued at \$10,503,000. There are no covenants related to this loan. As of June 30, 2014, the outstanding amount of the loan amounted to \$767,292.

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**6. CAPITAL ASSETS**

Capital assets consist mainly of the cost incurred in the development of the Convention Center District, which will entail 113 acres of land positioned near the center of the San Juan metropolitan area, the Coliseum of Puerto Rico and Bahía Urbana. The board of directors adopted a master plan that calls for developments of the Convention Center and surrounding infrastructure, residential and office buildings, hotels and casinos, a complex for retail and entertainment, restaurants and walkways, and others. The development strategy is a combined effort from public and private investment, but ownership of the land will substantially remain with the Authority.

Capital asset activity for the year ended June 30, 2014, is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 172,432,997	\$ 4,490,000	\$ -	\$ 176,922,997
Land improvements	109,288,493	-	-	109,288,493
Construction in progress	<u>2,924,876</u>	<u>573,383</u>	<u>-</u>	<u>3,498,259</u>
Total capital assets not being depreciated	<u>284,646,366</u>	<u>5,063,383</u>	<u>-</u>	<u>289,709,749</u>
Capital assets being depreciated:				
Building	474,231,839	-	-	474,231,839
Improvements — other than land	13,482,219	423,930	-	13,906,149
Furniture and fixture	22,172,859	7,040	-	22,179,899
Equipment	253,714	-	-	253,714
Vehicles	<u>59,537</u>	<u>-</u>	<u>-</u>	<u>59,537</u>
Total capital assets being depreciated	510,200,168	430,970	-	510,631,138
Less accumulated amortization and depreciation	<u>(93,615,382)</u>	<u>(11,392,276)</u>	<u>-</u>	<u>(105,007,658)</u>
Capital assets being depreciated — net	<u>416,584,786</u>	<u>(10,961,306)</u>	<u>-</u>	<u>405,623,480</u>
Capital assets — net	<u>\$ 701,231,152</u>	<u>\$ (5,897,923)</u>	<u>\$ -</u>	<u>\$ 695,333,229</u>

**Ground Lease** — On August 31, 2005, the Authority, as lessor, entered into a development ground lease agreement with a third party as a lessee. The agreement involved the construction of a hotel with a minimum of 500 guest rooms, a casino, meeting facilities, and business and fitness center, among others. The original term of the lease is for eighty-five years and the minimum rent is \$100 thousands per year to be adjusted every year in proportion to the average CPI escalation. The additional rent is ten percent, multiplied by the Adjusted Net Operating Income of such year in excess of the minimum rate of return (Hurdle Rate).

On October 22, 2012, the Authority, as a lessor, entered into another development ground lease agreement with District Hotel Co., LLC, as a lessee. This agreement involves the construction of a minimum of 126 room hotel under the Hyatt House brand at Parcel D of the Authority. The lease agreement has a fifty years term which shall expire on the fiftieth anniversary of the commencement of

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operations (October 2014) and could be extended for two terms of ten additional years. The lessee will pay rent during the first year prior to commencement of operations in the amount of \$50 thousands, then after commencement of operations, the first year rent will be \$50 thousands, during the second year \$75 thousands, during the third year \$100 thousands, during the fourth year \$125 thousands, during the fifth year through the ninth year \$150 thousands and from the tenth year and every five years thereafter the minimum rent shall increase 15% or the CPI over the previous five years, and the additional rent of two percent of gross receipts beginning with the commencement of operations.

**Construction in Progress** — The Authority has been designated by the Commonwealth as the governmental entity in charge of the development of the Bahía Urbana project (the “Project”). The Authority has invested approximately \$32.1 million in the development of the Project as of June 30, 2013. Bahía Urbana project was completed May 15, 2013, and as a result all Construction in Progress has being capitalized as of June 30, 2013.

On July 15, 2012, the Authority entered into a development Agreement with Lighthouse Group, LLC for the development of a mixed-use urban project named the “Trocadero Diverplex Complex”. This agreement includes the development and operation of a food, beverage, entertainment venue, and the construction of a hotel in the final phase. The amount in construction in progress related to Trocadero as of June 30, 2014 is \$99,016.

The Authority has also been making improvements to the Coliseum. As of June 30, 2014 construction in progress related to Coliseum amounted to \$3,399,243.

**7. BORROWINGS UNDER LINES OF CREDIT**

As of June 30, 2014, the Authority had two interim nonrevolving lines of credit with GDB that were used for the construction of the Coliseum. The maximum credit limit on these facilities amounted to \$157,847,302. The nonrevolving lines of credit mature on June 30, 2027 and bear interest at a fixed rate of 7%. As of June 30, 2014, the accrued interest on the lines of credit amounted to \$2,967,066 and has been included as part of accounts payable and accrued expenses in the accompanying statement of net position.

On June 29, 2012, the Authority entered into a new nonrevolving line of credit with GDB mainly to fund certain improvements to the Coliseum. The maximum credit limit on this facility amounted to \$10,000,000 and matures on December 31, 2014. This line of credit will bear interest at the highest of 150 basis points over the prime rate or 6%. During 2014, the Authority withdrew \$106,050 from this line of credit.

On October 1, 2013, the Authority entered into a line of credit with GDB for payments to expropriate the structure existing in Parcel C. The maximum credit limit on this facility amounted to \$6,675,000 and matures on September 30, 2014. This line of credit will bear interest at 6% and will be paid with the sale of Parcel C or any other income generated from the Parcel. During 2014, the Authority withdrew \$4,490,000 from this line of credit. The accrued interest on this line of credit amounted to \$201,302 and has been included as part of accounts payable and accrued expenses in the accompanying statement of net position.

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The activity of the lines of credit for the year ended June 30, 2014, is as follows:

Description	Beginning Balance <u>2013</u>	Additions/ Transfer <u>Borrowings</u>	Payments <u>Repayments</u>	Ending Balance <u>2014</u>
Borrowings under lines of credit — Coliseum	\$ 146,773,295	\$ 106,050	\$ (5,928,119)	\$ 140,951,226
Borrowings under line of credit — Parcel C	-	4,490,000	-	4,490,000
	<u>\$ 146,773,295</u>	<u>\$ 4,596,050</u>	<u>\$ (5,928,119)</u>	<u>\$ 145,441,226</u>

**8. BONDS PAYABLE**

On March 15, 2006, the Authority authorized the issuance of bonds amounting to \$468,800,000 to refinance any outstanding loans, or fund any construction project associated with the Convention Center. The revenue bonds are direct obligations of the Authority and are secured by a pledge of a specific percentage of the hotel room tax levied by PRTC to be received by the Authority until all bonds payments have been paid in full. These bonds were issued with a maturity of 20 years for serial bonds and 30 years for the term bonds, with different amounts of principal maturing each year. Certain bonds may be subject to optional redemption, with the first possible date of redemption being July 1, 2016. Interest on the bonds is payable semiannually on January 1 and July 1, and is calculated based on a 360-days year.

Serial bonds maturing through 2025, with interest rates ranging from 4% to 5%	\$ 199,310,000
Term bonds maturing through 2036, with interest rates ranging from 4-1/2% to 5%	<u>219,495,000</u>
Total bonds outstanding	418,805,000
Add bonds premiums — net	<u>6,529,318</u>
Total bonds payable	<u>\$ 425,334,318</u>

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Revenue bonds' debt service annual requirements to maturity (excluding discounts and premiums) are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>
2015	\$ 10,275,000	\$ 19,805,688
2016	10,790,000	19,279,063
2017	11,325,000	18,782,813
2018	11,780,000	18,261,813
2019	12,370,000	17,658,063
2020–2024	71,665,000	78,257,050
2025–2029	91,130,000	58,288,844
2030–2034	116,080,000	32,828,563
2035–2036	<u>83,390,000</u>	<u>5,738,625</u>
	<u>\$ 418,805,000</u>	<u>\$ 268,900,522</u>

The activity of bonds payable for the year ended June 30, 2014, is as follows:

<b>Description</b>	<b>2013</b>	<b>Issuances</b>	<b>Payments/ Amortization</b>	<b>2014</b>	<b>Current Portion</b>
Serial Bonds	\$ 209,155,000	\$ -	\$ (9,845,000)	\$ 199,310,000	\$ (10,275,000)
Term Bonds	<u>219,495,000</u>	-	-	<u>219,495,000</u>	-
Total bonds outstanding	<u>428,650,000</u>	-	<u>(9,845,000)</u>	<u>418,805,000</u>	<u>(10,275,000)</u>
Premium/(Discount)	<u>7,432,350</u>	-	<u>(903,032)</u>	<u>6,529,318</u>	-
Total bonds-Component Units	<u>\$ 436,082,350</u>	<u>\$ -</u>	<u>\$ (10,748,032)</u>	<u>\$ 425,334,318</u>	<u>\$ (10,275,000)</u>

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### 9. CONTRIBUTIONS FROM PUERTO RICO TOURISM COMPANY

On March 12, 2008, the Legislature of the Commonwealth enacted Act No. 23, which transferred the responsibility of imposing, collecting, and administering the hotel room tax to the Puerto Rico Tourism Company. Act No. 23 also redefined the formula for distributing the hotel room taxes collected.

Based on the provisions of Act No. 23, the Puerto Rico Tourism Company must contribute to the Authority specific amounts and percentages from the collection of the hotel room taxes for the following purposes:

- To provide the funding for the debt service related to Authority's bonds payable described in note 7.
- To cover the operating deficit of the Convention Center, if any, in excess of \$2.5 million for a period of 10 years, PRTC will contribute five percent of collections of the hotel room taxes.
- To cover the operating deficit, if any, of the Convention Center up to \$2.5 million during the first 10 years of the Convention Center's operations. This will expire in 2015, although future legislation may extend this period.

During the year ended June 30, 2014, the Authority's revenues related to the contribution from Puerto Rico Tourism Company related to the collection of hotel room taxes amounted to approximately \$34,808,942. This contribution has been included as part of nonoperating revenues in the accompanying statement of revenues, expenses, and changes in net assets.

### 10. DEFINED CONTRIBUTION PLAN

During the fiscal year ended June 30, 2004, the Authority approved and established the Puerto Rico Convention Center Retirement Money Purchase Plan (the "Plan"), a contributory deferred money purchase plan covering all the employees of the Authority, with benefits for the employees effective January 1, 2003. All employees become vested, once they entered into the Plan, in accordance with the eligibility requirements. The Authority acts as the Plan administrator and, subject to certain limitations, can amend the Plan. Contributions to the Plan have been determined to be equivalent to 9% of the employees' normal annual salary, as defined. Total contributions made by the Authority for the year ended June 30, 2014, amounted to approximately \$58,000.

### 11. COMMITMENTS

**Consulting and Management** — As of June 30, 2014, the Authority had entered into various consulting services and management agreements with third parties for the management of the operations of the Convention Center, Coliseum and Bahía Urbana. The agreements covered the daily operations that include scheduling of activities, pricing of rental and advertising, and food and beverages, among others. The contracts have several provisions that, at the option of the Authority, could extend the management period.

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2014

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**Litigation** — On January 18, 2011, the Authority received notice of demand for arbitration in a supplier's claim for payment for alleged delays and additional work performed at the Authority's premises between 2004 and 2005. The supplier is claiming approximately \$7,200,000 for this matter. The case is currently undergoing the mandatory remediation procedure. However, at this stage, no material progress toward a settlement can be asserted.

The Authority is also involved in various labor-related claims and legal actions.

Management of the Authority, with the advice of their legal counsel, understands that the ultimate disposition of these matters will not have a material adverse effect on the Authority's financial positions and/or results of operations.

**12. SUBSEQUENT EVENTS**

As of our report date, two of the Authority's lines of credit matured. These lines of credit have not been renewed, their outstanding balance still pending and the Authority is paying interest on a montly basis.

For the year ended June 30, 2014, subsequent events were evaluated through January 30, 2015, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements.

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**SUPPLEMENTAL SCHEDULES**

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)

**SCHEDULE OF NET POSITION INFORMATION**

June 30, 2014

	Convention Center District Authority	Convention Center	Coliseum	Bahía Urbana	Total
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash	\$ 6,500,194	\$ 2,056,009	\$ 4,649,651	\$ 42,343	\$ 13,248,197
Accounts receivable — net	3,667,560	5,317,916	4,819,383	501,634	14,306,493
Prepaid expenses	108,462	436,934	783,175	15,933	1,344,504
Other assets	-	131,485	152,165	24,792	308,442
Restricted assets:					
Cash	-	-	-	636,846	636,846
Investments	-	24,182,620	-	-	24,182,620
Total current assets	<u>10,276,216</u>	<u>32,124,964</u>	<u>10,404,374</u>	<u>1,221,548</u>	<u>54,027,102</u>
<b>NONCURRENT ASSETS:</b>					
Restricted assets — investments	-	33,364,977	-	-	33,364,977
Prepaid insurance	-	9,519,279	-	-	9,519,279
Long-term accounts receivable	-	328,750	1,850,097	273,750	2,452,597
Note receivable	2,123,030	-	-	-	2,123,030
Capital assets:					
Nondepreciable:					
Land	4,490,000	115,710,572	28,556,461	28,165,964	176,922,997
Land improvements	-	101,666,019	-	7,622,474	109,288,493
Construction in progress	99,016	-	3,399,243	-	3,498,259
Depreciable:					
Building	-	244,207,564	197,879,524	32,136,887	474,223,975
Improvements — other than land	13,482,219	431,794	-	-	13,914,013
Furniture and fixtures	385,134	8,565,340	13,087,832	141,593	22,179,899
Equipment	253,714	-	-	-	253,714
Vehicles	43,790	-	15,747	-	59,537
Accumulated depreciation	<u>(2,423,563)</u>	<u>(49,467,314)</u>	<u>(52,369,741)</u>	<u>(747,040)</u>	<u>(105,007,658)</u>
Total noncurrent assets	<u>18,453,340</u>	<u>464,326,981</u>	<u>192,419,163</u>	<u>67,593,628</u>	<u>742,793,112</u>
<b>TOTAL</b>	<u>\$ 28,729,556</u>	<u>\$ 496,451,945</u>	<u>\$ 202,823,537</u>	<u>\$ 68,815,176</u>	<u>\$ 796,820,214</u>
<b>LIABILITIES AND NET POSITION</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 3,800,374	\$ 2,970,840	\$ 5,197,631	\$ 1,108,767	\$ 13,077,612
Customer deposits payable	83,302	672,947	1,360,587	13,813	2,130,649
Unearned revenues	-	328,690	3,509,376	396,040	4,234,106
Current liabilities payable from restricted assets:					
Current portion of bonds payable	-	10,275,000	-	-	10,275,000
Interest payable on bonds	-	10,031,281	-	-	10,031,281
Total current liabilities	<u>3,883,676</u>	<u>24,278,758</u>	<u>10,067,594</u>	<u>1,518,620</u>	<u>39,748,648</u>
<b>NONCURRENT LIABILITIES:</b>					
Unearned revenues	-	332,916	1,926,416	272,500	2,531,832
Borrowings under line of credit	4,490,000	-	140,951,226	-	145,441,226
Bonds payable	-	415,059,318	-	-	415,059,318
Total noncurrent liabilities	<u>4,490,000</u>	<u>415,392,234</u>	<u>142,877,642</u>	<u>272,500</u>	<u>563,032,376</u>
Total liabilities	<u>8,373,676</u>	<u>439,670,992</u>	<u>152,945,236</u>	<u>1,791,120</u>	<u>602,781,024</u>
<b>NET POSITION:</b>					
Invested in capital assets	11,840,310	(17,419,993)	49,617,842	67,319,878	111,358,037
Restricted for debt service	-	53,195,544	-	636,846	53,832,390
Restricted for construction	-	4,352,053	-	-	4,352,053
Unrestricted	<u>8,515,570</u>	<u>16,653,349</u>	<u>260,459</u>	<u>(932,668)</u>	<u>24,496,710</u>
Total net position	<u>20,355,880</u>	<u>56,780,953</u>	<u>49,878,301</u>	<u>67,024,056</u>	<u>194,039,190</u>
<b>TOTAL</b>	<u>\$ 28,729,556</u>	<u>\$ 496,451,945</u>	<u>\$ 202,823,537</u>	<u>\$ 68,815,176</u>	<u>\$ 796,820,214</u>

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION INFORMATION**

For The Year Ended June 30, 2014

	Convention Center District Authority	Convention Center	Coliseum	Bahía Urbana	Total
<b>OPERATING REVENUES:</b>					
Food, beverage, and novelty	\$ -	\$ 7,486,197	\$ 3,512,078	\$ 958,225	\$ 11,956,500
Rental and event services	-	3,217,094	7,996,209	11,968	11,225,271
Advertising	-	239,660	2,386,000	386,990	3,012,650
	<u>-</u>	<u>10,942,951</u>	<u>13,894,287</u>	<u>1,357,183</u>	<u>26,194,421</u>
<b>DIRECT OPERATING COSTS AND EXPENSES:</b>					
Food, beverage, and novelty	-	3,178,493	1,439,186	380,379	4,998,058
Rental and event services	-	760,344	1,509,702	455,585	2,725,631
	<u>-</u>	<u>3,938,837</u>	<u>2,948,888</u>	<u>835,964</u>	<u>7,723,689</u>
<b>GROSS OPERATING PROFIT</b>	<u>-</u>	<u>7,004,114</u>	<u>10,945,399</u>	<u>521,219</u>	<u>18,470,732</u>
<b>OTHER OPERATING EXPENSES:</b>					
Salaries and related benefits	979,238	-	-	-	979,238
Professional and contract services	925,981	3,369,021	2,804,227	860,640	7,959,869
Depreciation and amortization	309,707	5,701,408	4,726,625	654,536	11,392,276
Insurance	340,006	1,618,911	1,306,059	(17,118)	3,247,858
Utilities	2,834,295	2,538,620	3,482,150	123,804	8,978,869
Advertising	24,275	1,584,847	633,601	37,614	2,280,337
Repairs and maintenance	448,541	1,572,900	1,233,581	259,441	3,514,463
Other	377,628	898,623	857,609	76,280	2,210,140
Allocation of administrative expenses	(1,087,262)	505,874	581,388	-	-
	<u>5,152,409</u>	<u>17,790,204</u>	<u>15,625,240</u>	<u>1,995,197</u>	<u>40,563,050</u>
<b>OPERATING LOSS</b>	<u>(5,152,409)</u>	<u>(10,786,090)</u>	<u>(4,679,841)</u>	<u>(1,473,978)</u>	<u>(22,092,318)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Interest expense	(201,302)	(19,159,530)	(10,274,123)	-	(29,634,955)
Contributions from Puerto Rico Tourism Company	-	34,808,942	-	-	34,808,942
Contribution from Commonwealth of Puerto Rico	13,767,255	-	-	-	13,767,255
Interest income	287,558	11,311	1,558	2,344	302,771
Other income	1,272,565	7,973	-	-	1,280,538
	<u>15,126,076</u>	<u>15,668,696</u>	<u>(10,272,565)</u>	<u>2,344</u>	<u>20,524,551</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	9,973,667	4,882,606	(14,952,406)	(1,471,634)	(1,567,767)
<b>TRANSFERS IN (OUT)</b>	<u>(13,940,938)</u>	<u>1,105,305</u>	<u>13,198,501</u>	<u>(362,868)</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	(3,967,271)	5,987,911	(1,753,905)	(1,834,502)	(1,567,767)
<b>NET POSITION — Beginning of year</b>	<u>24,323,151</u>	<u>50,793,042</u>	<u>51,632,206</u>	<u>68,858,558</u>	<u>195,606,957</u>
<b>NET POSITION — End of year</b>	<u>\$ 20,355,880</u>	<u>\$ 56,780,953</u>	<u>\$ 49,878,301</u>	<u>\$ 67,024,056</u>	<u>\$ 194,039,190</u>

**PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

**SCHEDULE OF OPERATING LOSS - PUERTO RICO CONVENTION CENTER**

FOR THE YEAR ENDED JUNE 30, 2014

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OPERATING REVENUES:	
Food, beverage, and novelty	\$ 7,486,197
Rental and event services	3,217,094
Advertising	<u>239,660</u>
Total operating revenues	<u>10,942,951</u>
DIRECT OPERATING COSTS AND EXPENSES:	
Food, beverage, and novelty	3,178,493
Rental and event services	<u>760,344</u>
Total direct operating costs and expenses	<u>3,938,837</u>
GROSS OPERATING PROFIT	<u>7,004,114</u>
OTHER OPERATING EXPENSES:	
Professional and contract services	3,262,247
Utilities and insurance, (excluding incentive fee)	4,157,531
Advertising	1,584,847
Repairs and maintenance	1,572,900
Other	898,623
Allocation of administrative expenses	<u>505,874</u>
Total other operating expenses	<u>11,982,022</u>
OTHER NONOPERATING INCOME:	
Interest income	11,311
Other income	<u>7,973</u>
	<u>19,284</u>
LOSS	<u>\$ (4,958,624)</u>
<b>RECONCILIATION OPERATING LOSS TO INCOME (LOSS) BEFORE TRANSFERS</b>	
LOSS	\$ (4,958,624)
ADJUSTMENTS TO RECONCILE TO INCOME (LOSS) BEFORE TRANSFERS	
Depreciation Expense	(5,701,408)
Incentive Fee	(106,774)
Interest expense	(19,159,530)
Contributions from Puerto Rico Tourism Company	<u>34,808,942</u>
Total adjustments	<u>9,841,230</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>\$ 4,882,606</u>