

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
June 30, 2024

(With Independent Auditors' Report)

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION
AND SUPPLEMENTARY INFORMATION
June 30, 2024

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Corporación para la Promoción de Puerto Rico como Destino, Inc.

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Corporación para la Promoción de Puerto Rico como Destino, Inc., as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporación para la Promoción de Puerto Rico como Destino, Inc., as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporación para la Promoción de Puerto Rico como Destino, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s basic financial statements. The accompanying schedule of allocation of expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of allocation of expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

San Juan, Puerto Rico
March 28, 2025.



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Corporación para la Promoción de Puerto Rico
como Destino, Inc. BASIC

RSM Puerto Rico



CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2024

As management of the Corporación para la Promoción de Puerto Rico Como Destino, Inc. (the “Organization”), we offer readers of these basic financial statements, our discussion and analysis of the Organization’s financial performance during the fiscal year ended on June 30, 2024. Please read the information presented in this section and the Organization’s basic financial statements, including the notes which follow this section.

This management discussion and analysis is intended to serve as an introduction to the Organization’s basic financial statements, which comprise the following components: (1) Government-Wide Financial Statements, composed of (i) statement of net position and (ii) statement of activities; (2) Governmental Funds Financial Statements, composed of (i) balance sheet, (ii) reconciliation of the balance sheet to the statement of net position, (iii) statement of revenues, expenditures and changes in fund balances, and (iv) reconciliation of the statement of revenues, expenditures and changes in fund balances to the statement of activities; and (3) notes to the basic financial statements.

Industry Highlights

- FY 2023-2024 turned out to be yet another record year for our Island’s tourism industry. Demand and yield continued to rise, positioning 2024 as the fourth consecutive record year for our industry. Amazingly, the United Nations World Tourism Organization (UNWTO) recently recognized our Island as the second fastest-growing destination in the world when comparing 2024 to pre-pandemic levels.
- While the Organization has achieved significant milestones, it remains mindful of the challenges ahead. Economic factors, including inflation and broader financial uncertainties, are influencing consumer spending. The airline industry faces conditions that may hinder its growth and profitability, while global geopolitical developments could impact consumer confidence in travel. In response, the Organization continues to operate efficiently and remains committed to accountability and continuous improvement. Strategic decision-making is guided by research and financial analysis, and investments in technology have been enhanced to optimize operations. Additionally, the Organization has expanded outreach efforts to local businesses and strengthened marketing and sales strategies to maximize results for its partners. The Organization remains agile in adapting to shifts in consumer sentiment and market conditions.
- Since its establishment in 2018, the Organization’s mission has been to drive the growth of Puerto Rico’s visitor economy. Despite external challenges, the tourism industry has played a critical role in the Island’s economic recovery. The Organization remains committed to leveraging the impact of travel to generate economic benefits for Puerto Rico by promoting the destination globally and supporting local stakeholders. The industry continues to experience record performance, with increased demand, improved yield, strengthened brand positioning, and historic employment levels within the sector.
- FY 2023-2024 was a record-breaking year. The lodging revenues reached \$1.9 billion, while room taxes generated in the same period were approximately \$143 million. The San Juan airport received approximately 6.4 million passengers throughout the year (a 14% increase compared to the prior year, which was the highest historically).

Financial Highlights

- To carry out its sales and promotion activities, the Organization combined the assignments provided in the contract with the Puerto Rico Tourism Company (“PRTC”), and one-time funding from the same agency giving the available cash generated by the high room tax revenues on the island, with the federal funds provided by the American Rescue Plan (“ARP”) Act Program. This combination of funds provided the Organization with its highest operational budget.



CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2024

- Room tax collections registered the highest amount ever, reaching approximately \$143 million for the fiscal year 2023-2024. The final balance for the fiscal year was an increase of 14% compared with the fiscal year 2022-2023. The increase in room tax collections allowed PRTC to approve and pay, for the third consecutive year, \$5 million as matching funds and a one-time funding of \$28 million.
- The Organization increased its operating revenues by approximately \$17.3 million or 30% from the previous fiscal year, mainly driven by a one-time funding received from the PRTC of \$28 million to offset the reduction in budget due to a decrease in federal funds.
- The Organization increased by approximately \$2.0 million or 3% its total operating expenses from the previous fiscal year. This increase was primarily concentrated on Marquis Events for the Puerto Rico Convention District Authority Fund and Sales, Marketing, and Promotional expenses from the Organization's core and federal funds.
- The Organization spent approximately 97% of the 2023-2024 fiscal year total expenditures on Marketing, Sales, Promotions, and Research activities, continuing its efficient use of funds.
- The Business Development Fund is fully committed. The Organization's ability to attract new groups and conventions depends heavily on the availability of incentives to compete with other destinations. The board of directors has approved \$4,600,000 from the operational fund to supplement this fund, and the Organization's management is committed to seeking additional funds to increase this valuable tool.

Overview of the Financial Statements

The organization's primary financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), as applicable to governmental entities. Accordingly, the basic financial statements include two kinds of statements that present different views of the Organization.

The first two statements are government-wide financial statements that provide short-and long-term information about the Organization's overall financial position and results of operations. These statements are presented on the accrual basis of accounting and comprise a statement of net position and a statement of activities.

The remaining statements are the fund financial statements focused on individual parts of the Organization's government, thus, reporting the Organization's operations in more detail than government-wide financial statements, but uses the modified accrual basis of accounting instead. The governmental funds' statements show how promotional activities were financed in the short term and what remains for future spending.

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

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CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2024

Financial Analysis

Condensed financial information of governmental activities in the statement of net position as of June 30, 2024, and 2023, is as follows:

Description	June 30		Change	
	2024	2023	Amount	Percent
Assets:				
Current assets	\$ 31,532,877	\$ 24,517,437	\$ 7,015,440	29%
Non-current assets	457,246	509,248	(52,002)	-10%
Capital assets, net	1,085,128	376,119	709,009	189%
	<u>33,075,251</u>	<u>25,402,804</u>	<u>7,672,447</u>	<u>30%</u>
Liabilities:				
Current liabilities	13,642,547	13,423,829	218,718	2%
Non-current liabilities	2,023,648	1,481,792	541,856	37%
	<u>15,666,195</u>	<u>14,905,621</u>	<u>760,574</u>	<u>5%</u>
Net position:				
Net investment in capital assets	1,085,128	376,119	709,009	189%
Restricted	1,059,465	479,199	580,266	121%
Unrestricted	15,264,463	9,641,865	5,622,598	58%
	<u>\$ 17,409,056</u>	<u>\$ 10,497,183</u>	<u>\$ 6,911,873</u>	<u>66%</u>

As of June 30, 2024, the Organization's total assets consist of accounts receivable of approximately \$5.0 million, certificate of deposit of approximately \$16.6 million, and cash of approximately \$7.7 million. The decrease in total assets of approximately \$7.7 million was mainly due to approximately \$3.9 million cash available for group incentive commitments that are payable in the future and approximately \$3.8 million in cash related to budget underruns during the year that were allocated to the next fiscal year budget.

Total liabilities consist substantially of approximately \$2.3 million in marketing and sales service providers, commitment to definite groups of approximately \$4.2 million, accrued liabilities of approximately \$4.6 million, and deferred revenue of approximately \$4.1 million due to the American Rescue Plan funds (\$2.7 million) and the Puerto Rico Convention District Authority (\$1.4 million), funds for the portion received in both funds that are subject to use restrictions.

Total liabilities increased by approximately \$8 hundred thousand, mainly due to \$1.9 million of decrease in accrued liabilities, as the programs ran earlier in the year and invoices arrived earlier; offset by \$2.4 million of increase in deferred revenue related to the American Rescue Plan fund.



CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2024

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

Description	June 30		Change	
	2024	2023	Amount	Percent
Operating revenues	\$ 74,920,458	\$ 57,616,675	\$ 17,303,783	30%
Operating expenses	68,462,480	66,401,911	2,060,569	3%
Operating income (loss)	6,457,978	(8,785,236)	15,243,214	-174%
Non-operating revenues (expenses):				
Interest income	424,248	139,795	284,453	203%
Investment income (loss), net	31,765	(37,316)	69,081	-185%
Loss on disposal of capital asset	(2,118)	-	(2,118)	-100%
	453,895	102,479	351,416	343%
Change in net position	6,911,873	(8,682,757)	15,594,630	-180%
Net position, beginning of year	10,497,183	19,179,940	(8,682,757)	-45%
Net position, end of year	\$ 17,409,056	\$ 10,497,183	\$ 6,911,873	66%

Total operating revenues increased by approximately \$17.3 million, from approximately \$57.6 million on June 30, 2023, to approximately \$74.9 million on June 30, 2024. The increase was mainly driven by a one-time additional funding of \$28 million received from the Puerto Rico Tourism Company, offset by reduction of \$5 million received in the previous year for the recovery of the South & West region of the island due to Hurricane Fiona and offset by a \$8 million reduction in the American Rescue ARP fund. Interest income increased significantly, driven by higher interest rates and the implementation of an investment policy that maximized investment opportunities while keeping a low-risk profile.

Total operating expenses increased by approximately \$2.0 million during the year ended June 30, 2024, mainly due to the expenses for the Puerto Rico Convention District Authority fund, which increased approximately \$1.6 million from the previous year.

During the fiscal year that ended on June 30, 2024, the change in net position resulted in a net income of approximately \$6.9 million, directly related to the underrun in budget spending through the different funds.

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CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2024

Capital Assets

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

Description	Balance as of June 30, 2023	Additions	Retirements	Balance as of June 30, 2024
Capital assets-being depreciated:				
Computer equipment	\$ 428,973	\$ 296,056	\$ (54,749)	\$ 670,280
Leasehold improvements	327,128	551,566	(17,604)	861,090
Furniture and fixtures	8,714	49,285	-	57,999
Vehicle under capital leases	109,294	-	-	109,294
Booth for trade shows	427,965	-	-	427,965
Software	38,170	-	-	38,170
	1,340,244	896,907	(72,353)	2,164,798
Less: Accumulated depreciation	(964,125)	(185,780)	70,235	(1,079,670)
	<u>\$ 376,119</u>	<u>\$ 711,127</u>	<u>\$ (2,118)</u>	<u>\$ 1,085,128</u>

As of June 30, 2024, capital assets additions were approximately \$900 thousand. Capital assets amounted to approximately \$1.1 million, net of accumulated depreciation and the depreciation expense was approximately \$186 thousand.

Currently Known Facts and Events:

Puerto Rico's tourism sector continues to lead the economic recovery from the COVID-19 pandemic, surpassing other domestic destinations and achieving record-breaking visitation and room tax revenue during the current fiscal year. The receipt of additional local and federal funds has played a key role in these results, enabling the Organization to expand into new markets, implement strategic initiatives, and address unforeseen challenges. The Organization expects to fully utilize the allocated federal funds by June 30, 2025.

The Organization's current contract with PRTC is set to expire on June 30, 2028. While the contract includes an automatic renewal clause, there is no certainty at this time that it will be extended for an additional term. This uncertainty may affect the Organization's ability to secure long-term commitments, particularly in the MICE (Meetings, Incentives, Conferences, and Exhibitions) sector, which requires advance planning and contractual assurances. The Board of Directors and management have engaged in discussions with the government administration to address this matter proactively and mitigate any potential impact on MICE sales.

On June 14, 2024, the Organization requested the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) an additional allocation of \$10,000,000 from the Promote Puerto Rico Program, Promotion of Puerto Rico as a Tourist Destination Project. The proposal presented the extension of the reach into current and new markets, further strengthening Puerto Rico's brand, and enhancing visitation during the upcoming high season 2024. The Organization established a timeline starting on July 1, 2024, and ending on December 31, 2024, to complete the marketing efforts presented in the proposal. This proposal was approved on June 19, 2024, with Resolution 2024-07. The transfer of funds for \$10,000,000 was received from the Puerto Rico Treasury Department on July 29, 2024.



CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2024

Additionally, management remains committed to identifying and securing new funding sources to sustain tourism growth, expand promotional efforts, and uphold Puerto Rico's competitive position in the global travel market.

Request for Information:

This financial report is designed to provide a general overview of the Corporación para la Promoción de Puerto Rico Como Destino, Inc. 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 Finance 500 Calle de la Tanca, Ochoa Building Suite 402B, San Juan, PR, 00901-1969.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

STATEMENT OF NET POSITION

June 30, 2024

ASSETS:

Cash	\$	7,741,609	CU-1
Certificate of deposit		16,565,000	
Accounts receivable		35,780	
Due from Puerto Rico Tourism Company		5,000,000	
Accrued Interest receivable		52,542	
Prepaid expenses		2,137,946	
Investments, at fair value		126,533	
Capital assets, net		1,085,128	
Right-to-use leased asset, net		330,713	
		<u>33,075,251</u>	

LIABILITIES:

Accounts payable		2,293,771	CU-2
Accrued liabilities		4,614,374	
Deferred revenue		4,176,910	
Liabilities due within one year-			
Commitments to definite groups		2,451,443	
Lease payable		106,049	
Liabilities due in more than one year-			
Commitments to definite groups		1,791,525	
Lease payable		232,123	
		<u>15,666,195</u>	

NET POSITION:

Net investment in capital assets		1,077,669	
Restricted		1,059,465	
Unrestricted		15,271,922	
	\$	<u>17,409,056</u>	

See accompanying notes to basic financial statements.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2024

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net Revenues/ (Expenses) and Change in Net Position
GOVERNMENTAL ACTIVITIES:			
General government	\$ 1,250,304	\$ 74,115,014	\$ 72,864,710
Marketing/Sales promotion	64,863,047	805,444	(64,057,603)
Research	1,494,892	-	(1,494,892)
Local industry/Community engagement	854,237	-	(854,237)
	<u>\$ 68,462,480</u>	<u>\$ 74,920,458</u>	<u>6,457,978</u>
GENERAL REVENUES (LOSSES):			
Interest income			424,248
Investment income, net			31,765
Loss on disposal of capital assets			(2,118)
			<u>453,895</u>
CHANGE IN NET POSITION			6,911,873
NET POSITION - Beginning of year			<u>CU-9 10,497,183</u>
NET POSITION - End of year			<u>\$ 17,409,056</u>

See accompanying notes to basic financial statements.

**CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO
COMO DESTINO, INC.**

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2024

	General Fund	Fund for the Promotion of Puerto Rico as a Destination	PRCCDA	ARP Fund	Total Governmental Funds
ASSETS:					
Cash	\$ -	\$ 1,356,912	\$ 1,968,587	\$ 4,416,110	\$ 7,741,609
Certificate of deposit	-	16,565,000	-	-	16,565,000
Accounts receivable	-	35,780	-	-	35,780
Due from Puerto Rico Tourism Company	-	5,000,000	-	-	5,000,000
Accrued Interest receivable	-	52,542	-	-	52,542
Due from other funds	-	21,502	-	-	21,502
Prepaid expenses	-	1,164,869	946,250	26,827	2,137,946
Investments, at fair value	-	126,533	-	-	126,533
	<u>\$ -</u>	<u>\$ 24,323,138</u>	<u>\$ 2,914,837</u>	<u>\$ 4,442,937</u>	<u>\$ 31,680,912</u>
LIABILITIES:					
Accounts payable	\$ -	\$ 818,808	\$ 509,003	\$ 965,959	\$ 2,293,770
Accrued expenses	-	4,433,980	9,500	170,895	4,614,375
Deferred revenues	-	50,000	1,435,184	2,691,726	4,176,910
Due to other funds	-	6,566	14,900	36	21,502
Commitments to definite groups	-	1,863,949	-	587,494	2,451,443
	<u>-</u>	<u>7,173,303</u>	<u>1,968,587</u>	<u>4,416,110</u>	<u>13,558,000</u>
FUND BALANCES:					
Nonspendable	-	1,164,869	946,250	26,827	2,137,946
Restricted	-	395	-	-	395
Committed	-	4,905,300	-	-	4,905,300
Unassigned	-	11,079,271	-	-	11,079,271
	<u>-</u>	<u>17,149,835</u>	<u>946,250</u>	<u>26,827</u>	<u>18,122,912</u>
	<u>\$ -</u>	<u>\$ 24,323,138</u>	<u>\$ 2,914,837</u>	<u>\$ 4,442,937</u>	<u>\$ 31,680,912</u>

See accompanying notes to basic financial statements.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2024

FUND BALANCES OF GOVERNMENTAL FUNDS	\$ 18,122,912
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUND BECAUSE:	
Capital assets are not capitalized in the governmental funds financial statements since such expenditure is considered an expense when they were acquired. Consequently no lease payable neither accumulated depreciation are recognized in the funds financial statements.	1,085,128
Right-to-use leased asset used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds financial statements.	330,713
Long-term lease liability is not due and payable in the current period, and therefore, is not reported in the governmental funds.	(338,172)
Commitments to definite groups are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	(1,791,525)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 17,409,056</u>

See accompanying notes to basic financial statements.

**CORPORACION PARA LA PROMOCION DE PUERTO RICO
COMO DESTINO, INC.**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2024**

	General Fund	Fund for the Promotion of Puerto Rico as a Destination	PRCCDA	ARP Fund	Total Governmental Funds
REVENUES:					
Grants and contributions	\$ -	\$ 58,000,000	\$ 2,903,014	\$ 13,212,000	\$ 74,115,014
Contributed services	492,102	-	-	-	492,102
Coop advertising and events participation	313,342	-	-	-	313,342
Investment income, net	-	31,765	-	-	31,765
Interest income	-	388,211	1,381	34,655	424,247
	<u>805,444</u>	<u>58,419,976</u>	<u>2,904,395</u>	<u>13,246,655</u>	<u>75,376,470</u>
EXPENDITURES:					
General government	-	1,244,310	118	5,878	1,250,306
Marketing/Sales promotion	805,444	48,561,092	2,167,069	13,295,260	64,828,865
Research	-	1,054,231	-	440,661	1,494,892
Local industry/Community engagement	-	854,237	-	-	854,237
	<u>805,444</u>	<u>51,713,870</u>	<u>2,167,187</u>	<u>13,741,799</u>	<u>68,428,300</u>
REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)	<u>-</u>	<u>6,706,106</u>	<u>737,208</u>	<u>(495,144)</u>	<u>6,948,170</u>
NET CHANGES IN FUND BALANCES	<u>-</u>	<u>6,706,106</u>	<u>737,208</u>	<u>(495,144)</u>	<u>6,948,170</u>
FUND BALANCES - Beginning of year	<u>-</u>	<u>10,443,729</u>	<u>209,042</u>	<u>521,971</u>	<u>11,174,742</u>
FUND BALANCES - End of year	<u>\$ -</u>	<u>\$ 17,149,835</u>	<u>\$ 946,250</u>	<u>\$ 26,827</u>	<u>\$ 18,122,912</u>

See accompanying notes to basic financial statements.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the year ended June 30, 2024

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	\$ 6,948,170
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Capital assets are not capitalized in the governmental funds financial statements since such expenditure is considered an expense when they were acquired. Consequently no depreciation expense is recognized in the funds financial statements.	709,008
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Right-to-use leased asset is not capitalized in the governmental fund financial statements such expenditure is considered an expense when the agreement was made and consequently no amortization expense is recognized in the funds financial statements.	(97,401)
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Repayment of commitments to definite groups is an expenditure in the governmental funds, but the repayment reduces commitments to definite groups in the statement of net position.	(647,904)
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 6,911,873</u>
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See accompanying notes to basic financial statements.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024

1) Reporting Entity:

The Corporación para la Promoción de Puerto Rico como Destino, Inc. (the Organization), is a Destination Marketing Organization (“DMO”), created under the provisions of Act No. 17 of March 30, 2017, known as Act for the Promotion of Puerto Rico as Destination (Act No. 17-2017). The purpose of Act No. 17-2017 was to combine within the Organization the sales and marketing efforts performed by the Puerto Rico Convention Bureau (“the Bureau”) for the groups and convention segment, and those performed by the Puerto Rico Tourism Company (“PRTC”) for the leisure segment in order to unify the brand and provide consistency in the efforts to attract visitors and increase the exposure of Puerto Rico as a tourist destination worldwide.

On June 8, 2017, the Organization was incorporated as a Not-for-Profit entity under the laws of the Commonwealth of Puerto Rico and is reported as a discrete component unit of the Commonwealth of Puerto Rico (“the Commonwealth”), in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The Organization is exempt from Puerto Rico income taxes under the provisions of Section 1101(a)(2)(i) of the Puerto Rico Internal Revenue Code of 2011 (“PRIRC”), as amended. In addition, the Organization was granted an exemption under Section 501(c)(3) of the United States Internal Revenue Code. All tax returns through the year ended June 30, 2024, have been appropriately filed by the Organization. However, based on the statute of limitation established on Section 6010.05 (a)(1) of the PRIRC, the income tax returns filed by the Organization for the fiscal years ended from June 30, 2019 to June 2023 can still be audited by the Puerto Rico Treasury Department. Management evaluated the tax position taken by the Organization and concluded that as of June 30, 2024, the Organization had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the accompanying basic financial statements.

On February 28, 2018, the Organization and PRTC entered into an Agreement for Destination Marketing Services (“the DMS Agreement”), whereby the Organization assumed PRTC’s current function of marketing the Island to non-residents as a visitor destination. It establishes the obligations of the Organization and PRTC in accordance with the requirements imposed by Act No. 17-2017. Among the provisions covered by the DMS Agreement are the following: (i) mutual obligations, (ii) annual business and marketing plan, (iii) reporting and accounting, (iv) funding, and (v) key performance indicators. It has an initial term of ten (10) years.

To accomplish its objectives, the Organization established the following programs:

- *Marketing/Sales Promotion* - Refers to all the activity and investments directed to increasing awareness, improving perception, and generating demand for Puerto Rico as a destination for visitors.
- *Research* - Refers to the investment made in different tools, initiatives, and studies to help understand the market and Puerto Rico's position in it. Also, includes resources to measure results of the efforts of the Organization and overall industry performance.
- *Local Industry/Community Engagement* - Refers to efforts related to engaging the community in the collaborative effort of promoting Puerto Rico as a destination. It includes efforts to communicate the work that the Organization does and how all communities can work alongside the Organization, providing a unified message and branding.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

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NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024

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

The accounting and reporting policies of the Organization conform to U.S. GAAP, for governments as prescribed by the Governmental Accounting Standards Board ("GASB"). Following is a description of the Organization's financial statements presentation, measurement focus and basis of presentation and summary of most significant accounting policies:

Government-Wide and Fund Presentation

Government-Wide Financial Statements - The statement of net position and the statement of activities report information on all balances and activities of the Organization. Governmental activities are financed through contributions from the PRTC, federal grants and investment earnings.

The statement of net position presents the Organization's 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.
- *Restricted* - This component of net position results when constraints placed on net position use are either externally imposed by creditors, contributors, and other external sources, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use restricted resources first and the unrestricted resources when they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. All the financial activities of the Organization are reported in the accompanying basic financial statements and have been classified as governmental. All funds of the Organization are considered as major funds.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

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NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024

Fund balances for each governmental fund are displayed, when applicable, in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable* - Represents amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted* - Represents amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed* - Represents amounts that can be spent only for specific purposes determined by a formal action of the *Organization's* highest level of decision-making authority (the Board of Directors).
- *Assigned* - Represents amounts the Organization intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - Represents amounts not contained in other classifications.

Measurement Focus and Basis of Accounting

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

Governmental Fund's Financial Statements - The governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Organization considers revenues to be available if they are to be collected within 120 days after the end of the current fiscal year-end. Expenditures are recorded when the related liability is incurred.

The financial activities of the Organization that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- *General Fund* - The general fund is the general operating fund of the Organization and is used to account for all financial resources, except those to be required to be accounted for in another fund.
- *Fund for the Promotion of Puerto Rico as a Destination* - This special revenue fund is used to account for proceeds from the DMS agreement.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024

- *American Rescue Plan Fund (ARP)* - This special revenue fund is used to account for proceeds from the Coronavirus State and Local Fiscal Recovery ("CSFR") fund through an assignment with the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority, under the Promote Puerto Rico Program, which is administered by the Coronavirus Relief Fund Disbursement Oversight Committee. The focus of this program is to boost Puerto Rico's tourism industry with three high-level objectives: economic growth, brand health, and organizational excellence.
- *Puerto Rico Convention Center District Authority Sub-Award Fund* - This special revenue fund is used to account for proceeds from the sub-award agreement between the Puerto Rico Convention Center District Authority ("PRCCDA") and the Organization. The PRCCDA was granted funds from the Coronavirus State and Local Fiscal Recovery ("CSFR") fund. Since, the Organization has the experience, expertise, and knowledge about the promotion and marketing of Puerto Rico as a destination for events, exhibitions, congresses, and conventions, both parties entered into an agreement to sub-award a portion of these funds to the Organization. This special revenue fund is used to account for proceeds from the CSFR fund through an assignment of the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority, under the Promote Puerto Rico Program, which is administered by the Coronavirus Relief Fund Disbursement Oversight Committee. The focus of this program is to promote the facilities and surroundings of the PRCCDA through Marquis events and marketing activities. This agreement with PRCCDA meets the characteristics to be classified as a government-mandated nonexchange transaction with purpose restrictions.

Summary of Significant Accounting Policies

Budgetary Accounting - The Organization is not required by the Act No. 17-2017 to submit a budget for approval by the Legislature of the Commonwealth; consequently, no formal budgetary accounting procedures are followed.

Use of Estimates - The preparation of the basic financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and 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.

Prepaid Expenses - Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items.

Accounts Receivable / Due from Governmental Entities - Accounts receivable is stated net of estimated allowance for uncollectible accounts. The allowance is based on the evaluation of the risk characteristics of the receivable, including past collection experience and current economic conditions. Write-offs are recorded against the allowance when management believes that collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

Investments - Investments are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and non-participating investment contracts, carried at cost, which approximate fair value. Fair value is determined based on quoted market prices, and quotations received from independent broker/dealers or pricing services organizations.

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NOTES TO BASIC FINANCIAL STATEMENTS
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To determine fair value measurement, a hierarchy of valuation inputs are established, based on the extent to which the inputs are observable in the marketplace. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument.

Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income (loss).

Capital Assets - Capital assets are defined by the Organization as assets with a cost of \$1,000 or more at the date of acquisition and an expected useful life of three or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are expensed.

Capital asset additions in governmental activities are recorded as expenditures in the governmental funds financial statements. Depreciation expense is recorded in the government-wide financial statements.

Estimated useful lives are as follows:

Description	Estimated Useful Life
Computer equipment	3 years
Leasehold improvements	5 years or lease term, whichever is shorter
Furniture and fixtures	5 years
Booth for trade shows	3 years
Vehicle	5 years

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Leases - The Organization follows *GASB Statement No. 87 - Leases*, that establishes a single model for lease accounting based on the foundational principle that leases are financing of the right-to-use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The Organization assesses whether a contract is or contains a lease, at inception of the contract. The Organization recognizes a right-to-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee. Lease liabilities include the net present value of fixed payments.

Lease payments are allocated between principal and interest or finance cost. The interest or finance cost is charged to the statement of activities over the lease period. Right-to-use assets are measured at cost and are comprised of the following: 1) the amount of the initial measurement of lease liability; 2) any lease payments made at or before the commencement date less any lease incentives received; 3) any initial direct costs; and 4) restoration costs.

Right-to-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The depreciation starts at the commencement date of the lease. In addition, the right-to-use asset is periodically reduced by impairment losses, if any.

As of June 30, 2024, the Organization has one active significant lease agreement for the rental of its office facilities subject to *GASB Statement No. 87*.

Deferred Revenue - Deferred revenue at the governmental fund level arises when potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Organization has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Organization has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide level arises only when the Organization receives resources before it has a legal claim to them.

Nonexchange transaction - The Sub-Award Agreement with PRCCDA is classified as a government-mandated non-exchange transaction with purpose restrictions and is accounted under the provisions of *GASB Statement No. 33 - Accounting and Financial Reporting for Nonexchange Transactions*. The recognition of revenues or expenses for funds provided in advance should be deferred. Revenue is recognized when all eligibility (marketing services) requirements have been satisfied.

Interfund Activities - The Organization has interfund transactions representing reimbursements, which consist of 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2024

Future Accounting Pronouncements - The GASB has issued the following accounting pronouncements that will have future impact on the accounting and financial practices of the Organization:

- GASB Statement No. 101- *Compensated Absences* - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 102- *Certain Risk Disclosures* - The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 103 - *Financial Reporting Model improvements*- The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement requires that the information presented in the Management's Discussion and Analysis (MD&A) be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Assets and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. In addition, requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses, and required governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements, and to present budgetary comparison information using a single method of communication-RSI. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

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NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024

GASB Statement No. 104 - *Disclosure of Certain Capital Assets*- The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, and intangible right-to-use assets recognized in accordance with Statement No. 94, should be disclosed separately by the major class of underlying assets in the capital asset note disclosures. Subscription assets recognized in accordance with Statement No. 96, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

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

3) Concentrations of Risks:

Financial instruments, which potentially subject the Organization to concentration of credit risks, consist principally of cash and investment securities. As of June 30, 2024, the Organization had its cash deposited in various financial institutions. The cash deposits, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2024, the Organization had approximately **CU-4 \$28,100,000** in cash and cash deposits in banking institutions, and from this amount, approximately \$27,400,000 exceed the FDIC guarantee limit of \$250,000.

The Organization had cash and investments with a brokerage firm as of June 30, 2024, aggregating approximately \$8,000 and \$127,000 respectively. Balances are insured up to \$500,000, with a limit of \$250,000 for cash, by the Security Investor Protection Corporation ("SIPC"). As of June 30, 2024, the Organization had no balances in excess of SIPC limits.

4) Interfund Balances:

The summary of the amounts due from/to other funds as of June 30, 2024, is as follows:

Receivable By	Payable By	Amount
Fund for the Promotion of Puerto Rico as a Destination	Business Development Fund	\$ 6,566
Fund for the Promotion of Puerto Rico as a Destination	Puerto Rico Convention Center District Authority Sub-Award Fund	14,900
Fund for the Promotion of Puerto Rico as a Destination	American Rescue Plan Fund	36
		<u>\$ 21,502</u>

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NOTES TO BASIC FINANCIAL STATEMENTS
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5) Investments:

As of June 30, 2024, investment securities at fair value and its classification within the fair value hierarchy are as follows:

Description	Classification Level	Amount
Closed end mutual funds	1	\$ 88,933
Preferred securities	2	37,600
		<u>\$ 126,533</u> CU-4

Closed end funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded.

For the year ended June 30, 2024, net investment gain related to investment securities consist of the following:

Description	Amount
Interests and dividends	\$ 2,352
Net change in fair value of investment	31,765
	<u>\$ 34,117</u>

6) Capital Assets:

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

Description	Beginning balance, at cost	Additions	Retirements	Ending balance, at cost	Accumulated depreciation	Net ending balance
Capital assets-being depreciated:						
Computer equipment	\$ 428,973	CU-5 \$ 296,056	CU-5 \$ (54,749)	CU-5 \$ 670,280	CU-5 \$ (349,046)	\$ 321,234
Leasehold improvements	327,128	551,566	(17,604)	861,090	(221,318)	639,772
Furniture and fixtures	8,714	49,285	-	57,999	(15,754)	42,245
Vehicle	109,294	-	-	109,294	(56,044)	53,250
Booth for trade shows	427,965	-	-	427,965	(427,965)	-
Software	38,170	-	-	38,170	(9,543)	28,627
	<u>\$ 1,340,244</u>	<u>\$ 896,907</u>	<u>\$ (72,353)</u>	<u>\$ 2,164,798</u>	<u>\$ (1,079,670)</u>	<u>\$ 1,085,128</u>

For the year ended June 30, 2024, depreciation expense amounted to approximately \$185,000.

**CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2024

7) Deferred Revenue:

Deferred revenue as of June 30, 2024, are composed of the following:

Description	Amount
Amount related to sub-award agreement with PRCCDA	\$ 1,435,184
Amount related to American Rescue Plan Fund	2,691,726
Amount related to the Fund for the Promotion of Puerto Rico as a Destination	50,000
	<u>\$ 4,176,910</u>

8) Contributed Services:

Contributed services represent promotional, advertising, and related specialized donated services provided by hospitality industry members as part of certain promotional activities. For the year ended June 30, 2024, contributed services were approximately \$283,000.

9) Employee Benefit Plans:

The Organization has two (2) defined contribution plans (the Plans), which cover substantially all of its employees in Puerto Rico that have completed six (6) months of service. Under the provisions of these Plans, employees may elect to contribute up to 10% of their annual salary. The Organization matches up to 50% of the amount contributed by the employees. The employer's contribution to these Plans for the year ended June 30, 2024, amounted to approximately \$121,000, and is included within employee benefits in the accompanying basic financial statements.

10) Business Development Fund:

As part of the Asset Transfer Agreement with the Puerto Rico Convention Bureau, Inc., the Organization acquired a contract with the Puerto Rico Tourism Company, for the purpose of providing financial support to potential groups considering Puerto Rico for their event or convention. The Agreement was effective on September 25, 2013, and expires on the date that all funds held in the Business development fund have been disbursed in accordance with the terms of the Agreement. Funds received under this Agreement are initially recorded as restricted, since the Agreement imposes certain restrictions over the use of the funds. Once the commitments from the prospect groups and conventions are obtained, those restrictions are considered met. For the year ended June 30, 2024, there was approximately \$395 restricted from contributions received under this Agreement that were still uncommitted.

11) Contingency Fund:

During the year ended on June 30, 2019, the Board of Directors approved the establishment of a contingency fund to provide additional funding to target specific future industry needs or recover from any potential future disasters or emergencies. This contingency fund was established for an initial amount of \$1,000,000, with a target amount equivalent to three (3) months of operations in a ten-years (10) period.

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NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024

The establishment of a contingency fund is a standard to become an accredited DMO as required by Act No. 17-2017, section 3(q). Effective on June 30, 2021, the Board of Directors approved the increase to the contingency fund to the amount of \$4,200,000. As of June 30, 2024, the balance of the contingency fund is \$4,905,000 since there is an annual evaluation to ensure it still has enough balance to cover the referenced three (3) months of operations.

12) Leases:

The Organization follows GASB Statement No. 87 - *Leases* (GASB No. 87) to account for its lease transactions. This statement requires the recognition of certain leased assets and liabilities for leases that were previously classified as operating leases and recognizes an inflow or outflow of resources based on the payment provisions of the contract. The lessee is required to recognize a lease liability and an intangible right-to-use leased asset.

The lease consists of the rental of two office spaces, with a term of five years (60 months). Lease commencement date was July 1st, 2022, through June 30, 2027. It is classified as an operating lease under the provisions of GASB No. 87. The lease possesses a renewal option for five years after the completion of the initial term. However, since Discover Puerto Rico is an entity established by law with a ten-year contract and said period will expire before the renewal term completion, there is no commitment or expectation at this moment to make any rental commitment past the initial term. The lease agreement calls for monthly rental payments of \$10,200 without change in the initial lease term. During the year ended June 30, 2024, lease expense related to this agreement amounted to approximately \$120,000. The lease qualifies as other than a short-term lease under GASB No. 87 and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception using a discount rate of 6%. Measurement of the liability excluded any variable payments that are based on the use of the asset. Variable lease payments, if any, are recognized as expense in the period incurred.

As a result of this lease, the Organization has recorded a right-to-use asset with a net book value of approximately \$338,172. The future principal and interest lease payments as of June 30, 2024, are as follows:

Years ending June 30,	Principal	Interest	Total Payment
2025	\$ 106,049	\$ 16,791	\$ 122,840
2026	112,590	10,250	122,840
2027	119,533	3,306	122,839
	<u>\$ 338,172</u>	<u>\$ 30,347</u>	<u>\$ 368,519</u>

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2024

13) Commitments:

As of June 30, 2024, commitments are as follows:

- *Commitments to definite groups* - As of June 30, 2024, the Organization had certain commitments to pay sponsorship for group activities, conferences, and conventions to be celebrated in Puerto Rico, as follows:

Years ending June 30,	Amount
2025	\$ 2,451,443
2026	1,191,245
2027	404,195
2028	172,005
	<u>24,080</u>
	4,242,968
Less: current portion	<u>(2,451,443)</u>
	<u>\$ 1,791,525</u>

- *Coronavirus State and Local Fiscal Recovery (CSFR) Subrecipient agreement* - On December 1, 2021, the Organization entered into a CSFR Transfer Agreement with the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority under the Promote Puerto Rico Program, which is administered by the Coronavirus Relief Fund Disbursement Oversight Committee.

The Organization is subject to the eligibility and compliance requirements included in the Federal Program. The funds are appropriated under the American Rescue Plan Act, Public Law 117-2 Section 9901. On December 1, 2021, the Organization received an assignment of \$50,000,000 of federal funds in connection with this Subrecipient Agreement. The funds' disbursements are made quarterly, based on a distribution plan presented by the Organization. During the fiscal year ended June 30, 2024, related revenues, and expenditures of the CRF amounted to approximately \$13,240,000 and \$13,481,000, respectively.

- *PPCCDA Sub-Award* - On October 10, 2022, and December 5, 2022, the Organization entered into two Sub-award Agreements with PRCCDA. These agreements were to promote the facilities of the Puerto Rico Convention Center and its surrounding properties through the execution of Marquis Events and Marketing Efforts. The amount assigned for these purposes was \$3,500,000 and \$2,000,000, respectively. The Organization must use the funds exclusively for activities discussed and approved by the PRCCDA and cannot exceed the approved amounts. During the fiscal year ended June 30, 2024, related revenues and expenditures of these agreements amounted to approximately \$2,900,000 and \$2,160,000, respectively.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024

14) Uncertainties:

Puerto Rico tourism is leading the recovery of the COVID-19 pandemic among the domestic destinations and receiving breaking records of visits and room tax revenues during the current year. Access to additional local and federal funds played a key role in these results and provided the support needed to reach new markets, implement new strategies, and address the impact of these unexpected scenarios. The federal funds are expected to be used by the Organization by June 30, 2025. Management is committed to finding new sources of funding that will allow the Organization to keep the momentum for Puerto Rico tourism, continue promoting in new markets, and expanding the reach domestically and internationally, in a way that allows the island to remain competitive among the other destinations.

The Organization's current contract with PRTC is set to expire on June 30, 2028. While the contract includes an automatic renewal clause, there is no certainty at this time that it will be extended for an additional term. This uncertainty may affect the Organization's ability to secure long-term commitments, particularly in the MICE (Meetings, Incentives, Conferences, and Exhibitions) sector, which requires advance planning and contractual assurances. The Board of Directors and management have engaged in discussions with the government administration to address this matter proactively and mitigate any potential impact on MICE sales.

15) Subsequent Events:

Subsequent events were evaluated through March 28, 2025, to determine if any such events should either be recognized or disclosed in the 2024 basic financial statements. The subsequent event disclosed below is related to the Organization's operations.

On June 14, 2024, the Organization requested the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) an additional allocation of \$10,000,000 from the Promote Puerto Rico Program, Promotion of Puerto Rico as a Tourist Destination Project. The proposal presented the extension of the reach into current and new markets, further strengthening Puerto Rico's brand, and enhancing visitation during the upcoming high season 2024. The Organization established a timeline starting on July 1, 2024, and ending on December 31, 2024, to complete the marketing efforts presented in the proposal. This proposal was approved on June 19, 2024, with Resolution 2024-07. The transfer of funds for \$10,000,000 was received from the Puerto Rico Treasury Department on July 29, 2024.

CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO COMO DESTINO, INC.

SUPPLEMENTARY INFORMATION - SCHEDULE OF ALLOCATION OF EXPENSES For the year ended June 30, 2024

Description	Amount
Salaries and related expenses	\$ 7,421,488
Marketing and sales promotion: *	
Strategic advisory board	146,892
Commitments to definite groups	3,413,064
Tradeshows expenses	1,841,661
Site inspections and FAMs	1,085,144
Sales and marketing consultants	617,385
Sales and marketing events	3,754,220
Local community/industry events	412,495
Advertising	33,318,765
Webpage	512,977
Public relations and press FAMs	3,283,407
International sales, PR and advertising	3,494,875
Booth and promotional material	204,038
Digital content development	1,949,820
Research	1,213,178
Sales and marketing training	77,561
Strategic alliances	2,799,167
Promotional Partnerships	1,004,999
Other sales and marketing expenses	582,582
Total marketing and sales promotion	59,712,230
Management and general: **	
Facilities rental	67,224
Utilities and office maintenance	91,646
Equipment rental and maintenance	4,508
Supplies and misc. office furniture/equip.	26,082
Training/onboarding expenses	68,732
Legal and consulting fees	184,017
Audit, accounting and payroll fees	41,891
Telephone/internet/licenses expense	216,006
Depreciation expense	183,782
Insurance	90,499
Lease Expense	120,354
Other	234,021
Total management and general	1,328,762
Total expenses	\$ 68,462,480

* Excluding salaries, related expenses and overhead

** Excluding salaries and related expenses

See accompanying independent auditors' report.