



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
Fiscal Year Ended June 30, 2020



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

Fiscal Year Ended June 30, 2020

Table of Contents

	<u>Pages</u>
Independent Auditors' Report	1-2
Required Supplementary Information (Unaudited):	
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	12
Notes to Basic Financial Statements	13-25
Supplementary Information:	
Allocation of Expenses	26-27



RSM Puerto Rico
PO Box 10528
San Juan, PR 00922-0528

T 787-751-6164
F 787-759-7479
www.rsm.pr

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of Corporación para la Promoción de Puerto Rico como Destino, Inc., a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Corporación para la Promoción de Puerto Rico como Destino, Inc., as of June 30, 2020, and the changes in financial position 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 3 to the accompanying basic financial statements, the COVID-19 pandemic has caused a major economic distress in Puerto Rico and travel and tourism are among the most affected economic sectors. Our opinion is not modified with respect to this matter.

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 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required 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 an opinion on the basic financial statements that collectively comprise the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s basic financial statements. The accompanying supplementary information included in pages 26 and 27 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 or themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

San Juan, Puerto Rico
March 26, 2021.

Stamp No. E444610 was affixed to
the original of this report.



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

Management Discussion & Analysis (Unaudited)

Fiscal Year Ended June 30, 2020

As management of 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, 2020. Please read the information presented in this section together with the Organization’s basic financial statements, including the notes thereto, which follow this section.

This discussion and analysis is intended to serve as an introduction to the Organization's basic financial statements, which comprise the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to basic financial statements.

Industry Highlights

It is indisputable that the world has been facing an unprecedented global health, social and economic emergency as a result of the COVID-19 pandemic. Travel and tourism is among the most affected sectors with a massive reduction of international demand amid global travel restrictions including many borders fully closed, to contain the virus. The impact of this global situation has had unprecedented repercussions in Puerto Rico. Of course, this occurs after having suffered the effects of Zika during 2016 and 2017, the devastating impact of hurricanes Irma and Maria during 2017, the massive political protests in the summer of 2019 and the seismic activity of early 2020.

To withstand this collection of devastating events, the Organization has taken decisive and resolute actions to guarantee an efficient use of funds and maximize the return of investment of marketing and sales initiatives. These actions have required adjustments of the Organization’s operational budget and staffing levels, based on the Puerto Rico Tourism Company (PRTC) limitations to comply with the funding agreement. However, looking forward, the Organization is optimistic of the future of the economic sector based on:

- Proven resilience of tourism in past crises
- Adaptation capacity: safety and hygiene protocols, value proposition of the destination, targeting travelers who are likely to demonstrate responsible consumer behavior
- Local and federal Government support to the sector
- The announcement and the roll-out of a vaccine that will gradually increase consumer confidence and contribute to ease travel restrictions.

The uncertainties that this “new normal” brings to the economic sector are mitigated by the Organization’s ability to:

- Respond to changing trends and travel dynamics by innovative use of new or enhanced marketing, sales and publicity strategies
- Expanded use of digital channels
- Expanded digital sales activations targeting travel advisors, meeting planners and travel consortia
- Promote destination competitive advantages relying on the plans designed and implemented by the Organization to promptly react when the government lifts/adjusts travel restrictions and lockdown measures.
- Receive additional federal government financial support

Financial Highlights

- To carry out its sales and promotion activities, the Organization continues to depend practically in its entirety on the assignments provided in the contract with PRTC, who have seen room tax reduced during the 2019-2020 fiscal year as a result of the COVID-19 pandemic.

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

Management Discussion & Analysis (Unaudited)

Fiscal Year Ended June 30, 2020

- Room taxes collection were impacted by the reduction in tourism activities from fiscal year 2018-2019 to 2019-2020. During the previous fiscal year room taxes collected amounted \$72.9M compared to \$55.8M, resulting a reduction of \$17.1M or 23%. This event reduced PRTC capability to comply with the contracted funds with the Organization for this fiscal year.
- The Organization reduced in \$3.3M or 13% its total expenses from the previous fiscal year. This reduction in expenses was made in response of less funds available, the impact of COVID-19 over travel and tourism and the measures taken by the Organization's management to effectively use its available cash.
- The Organization spent 93% of 2019-2020 fiscal year total expenditures in Marketing, Sales, Promotions and Research activities, continuing its efficient use of funds.
- Business Development Fund is committed in 82%. The ability of the Organization to attract new groups and conventions depends heavily of the availability of incentives to compete with other destinations. The board of directors and the Organization's management are committed to seek additional funds to increase this valuable tool.

Financial Analysis

Condensed financial information of governmental activities in the statement of net position as of June 30, 2020 and 2019, is as follows:

Description	June 30		Change	
	2020	2019	Amount	Percent
Assets:				
Current assets	\$ 13,935,246	\$ 12,421,536	\$ 1,513,710	12%
Capital assets, net	323,841	579,978	(256,137)	(44%)
Non-current assets	219,544	375,473	(155,929)	(42%)
	<u>14,478,631</u>	<u>13,376,987</u>	<u>1,101,644</u>	<u>8%</u>
Liabilities:				
Current liabilities	2,836,278	6,270,692	(3,434,414)	(55%)
Non-current liabilities	2,794,698	1,793,891	1,000,807	56%
	<u>5,630,976</u>	<u>8,064,583</u>	<u>(2,433,607)</u>	<u>(30%)</u>
Net position:				
Net investment in capital assets	319,616	567,612	(247,996)	(44%)
Restricted	547,079	911,461	(364,382)	(40%)
Unrestricted	7,980,960	3,833,331	4,147,629	108%
	<u>\$ 8,847,655</u>	<u>\$ 5,312,404</u>	<u>\$ 3,535,251</u>	<u>67%</u>

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

Management Discussion & Analysis (Unaudited)

Fiscal Year Ended June 30, 2020

The Organization's total assets as of June 30, 2020, consist substantially of accounts receivable of approximately \$5.4 million, and cash and cash equivalents of approximately \$6.9 million. The increase in total assets of approximately \$1.1 million was mainly due to (i) increase in accounts receivables by approximately \$5.3 million, (ii) increase of \$1 million in a certificate of deposit, (iii) increase in other receivables by approximately \$78 thousand, (iv) increase in prepaid expenses by approximately \$67 thousand and this was offset by (v) decrease of approximately \$5 million in cash and cash equivalents, (vi) decrease of approximately \$156 thousand in investments due to the unrealized loss recognized during June 30, 2020, and (vii) net decreased of capital assets of approximately \$256 thousand mostly driven by current year depreciation.

Total liabilities consist substantially of business development incentive agreements for future events and marketing and sales service providers of approximately \$2.4 million and \$1.7 million, respectively. Total liabilities decreased by \$2.4 million.

Condensed financial information of governmental activities in the statement of activities for the years ended June 30, 2020 and 2019, is presented below:

Description	June 30		Change	
	2020	2019	Amount	Percent
Operating revenues	\$ 25,533,393	\$ 30,305,123	\$ (4,771,730)	(16%)
Operating expenses	21,898,756	25,165,282	(3,266,526)	(13%)
Operating income	3,634,637	5,139,841	(1,505,204)	(29%)
Non-operating revenues (expenses):				
Interest income	53,939	46,757	7,182	15%
Investment income (loss)	(153,325)	108,193	(261,518)	(242%)
	(99,386)	154,950	(254,336)	(164%)
Change in net position	3,535,251	5,294,791	(1,759,540)	(33%)
Net position, beginning of year	5,312,404	17,613	5,294,791	30062%
Net position, end of year	\$ 8,847,655	\$ 5,312,404	\$ 3,535,251	67%

Total operating revenues decreased by approximately \$5 million, from approximately \$30 million during the year ended June 30, 2019 to approximately \$25 million during the year ended June 30, 2020. The decrease was mainly driven by the gain on transfer of net assets from the Puerto Rico Convention Bureau to the Organization for approximately \$4 million recognized during the year ended June 30, 2019 and deferred revenue recognition from fiscal year 2017-2018 in July 2018 of approximately \$827 thousand.

Total operating expenses decreased by approximately \$3 million during the year ended June 30, 2020.

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

Management Discussion & Analysis (Unaudited)

Fiscal Year Ended June 30, 2020

Capital Assets

Capital assets as of June 30, 2020 and 2019, are composed of the following:

<u>Description</u>	<u>Balance as of June 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2020</u>
Capital assets-being depreciated				
Computer equipment	\$ 288,316	\$ 16,179	\$ -	\$ 304,495
Leasehold improvements	134,714	-	-	134,714
Furniture and fixtures	8,714	-	-	8,714
Vehicle under capital leases	29,794	-	-	29,794
Booth for trade shows	394,000	33,965	-	427,965
	855,538	50,144	-	905,682
Less: Accumulated depreciation	(275,560)	(306,281)	-	(581,841)
	<u>\$ 579,978</u>	<u>\$ (256,137)</u>	<u>\$ -</u>	<u>\$ 323,841</u>

As of June 30, 2020, capital assets additions were approximately \$50 thousand. As of June 30, 2020, capital assets amounted to approximately \$324 thousand, net of accumulated depreciation, and the depreciation expense was approximately \$306 thousand.

Currently Known Facts and Events:

- COVID-19 Pandemic- The Organization continues dealing with the impact of the COVID-19 pandemic and its effect over tourism. Our Marketing team have developed and implemented a plan to maintain the destination presence in customers' top of mind and be ready when travel restrictions be lifted. The Organization feel confident that will be well prepared to resume sales and promotional activities when permitted.
- Federal Funds- The Organization has applied for several federal grants made available to mitigate the impact of hurricane María in 2017 and COVID-19 since March 2020. These federal grants and federal assistance programs are expected to provide financial support to the recovery activities that will be promoted.

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, 2020**

ASSETS	Governmental Activities
CURRENT ASSETS:	
Cash and cash equivalents	\$ 6,926,619
Certificate of deposit	1,000,000
Prepaid expenses	580,517
Accounts receivable-	
Trade	5,340,208
Other receivables	78,310
Accrued interest receivable	9,592
	<u>13,935,246</u>
NON-CURRENT ASSETS:	
Investments	219,544
Capital assets, net	323,841
	<u>543,385</u>
	<u>14,478,631</u>
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	1,689,808
Deferred revenues	10,000
Accrued expenses	438,181
Capital lease	4,225
Commitments to definite groups	694,064
	<u>2,836,278</u>
NON-CURRENT LIABILITIES:	
Commitments to definite groups	1,970,298
Loan payable under Paycheck Protection Program	824,400
	<u>2,794,698</u>
	<u>5,630,976</u>
NET POSITION:	
Net investment in capital assets	319,616
Restricted	547,079
Unrestricted	7,980,960
	<u>\$ 8,847,655</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, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Contributions</u>	<u>Net Revenues/ (Expenses) and Changes in Net Position</u>
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 871,836	\$ 25,004,204	\$ 24,132,368
Marketing/Sales Promotion	19,602,828	529,189	(19,073,639)
Research	782,455	-	(782,455)
Local Industry/Community Engagement	641,637	-	(641,637)
	<u>\$ 21,898,756</u>	<u>\$ 25,533,393</u>	<u>3,634,637</u>
GENERAL REVENUES (LOSSES):			
Interest income			53,939
Investment loss			(153,325)
			<u>(99,386)</u>
CHANGE IN NET POSITION			3,535,251
NET POSITION – Beginning of year			<u>5,312,404</u>
NET POSITION – End of year			<u>\$ 8,847,655</u>

See accompanying notes to basic financial statements.

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



BALANCE SHEET — GOVERNMENTAL FUNDS
June 30, 2020

	<u>General Fund</u>	<u>Fund for the Promotion of Puerto Rico as a Destiny</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ -	\$ 6,926,619	\$ 6,926,619
Certificate of deposit	-	1,000,000	1,000,000
Accounts receivables	118,517	5,300,001	5,418,518
Accrued interest receivable	-	9,592	9,592
Investments	-	219,544	219,544
	<u>\$ 118,517</u>	<u>\$ 13,455,756</u>	<u>\$ 13,574,273</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ -	\$ 1,689,808	\$ 1,689,808
Accrued expenses and other liabilities	10,000	438,181	448,181
Commitments to definite groups	-	694,064	694,064
	<u>\$ 10,000</u>	<u>\$ 2,822,053</u>	<u>\$ 2,832,053</u>
FUND BALANCES:			
Restricted	\$ -	\$ 547,079	\$ 547,079
Assigned	-	1,000,000	1,000,000
Unassigned	108,517	9,086,624	9,195,141
	<u>108,517</u>	<u>10,633,703</u>	<u>10,742,220</u>
	<u>\$ 118,517</u>	<u>\$ 13,455,756</u>	<u>\$ 13,574,273</u>

See accompanying notes to basic financial statements.

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



**RECONCILIATION OF BALANCE SHEET- GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION**

For the year ended June 30, 2020

FUND BALANCES OF GOVERNMENTAL FUNDS \$ 10,742,220

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ARE
DIFFERENT IN THE STATEMENT OF NET POSITION BECAUSE:**

Prepaid expenses is not considered an asset in the governmental fund financial statements such expenditure is considered an expense at the moment they occurred. 580,517

Capital assets are not capitalized in the governmental fund financial statements such expenditure is considered an expense when they were acquired and consequently no capital lease neither accumulated depreciation are recognized in the fund financial statements. 319,616

Loan payable under Payroll Protection Program is not due and payable in the current period and, therefore, is not reported in the fund financial statements. (824,400)

Commitments to definite groups are not due and payable in the current period and, therefore, are not reported in the fund financial statements. (1,970,298)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 8,847,655

See accompanying notes to basic financial statements.

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



**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES — GOVERNMENTAL FUNDS
For the year ended June 30, 2020**

	<u>General Fund</u>	<u>Fund for the Promotion of Puerto Rico as a Destiny</u>	<u>Total Governmental Funds</u>
REVENUES:			
General Government	\$ 4,204	\$ 25,000,000	\$ 25,004,204
Contributed services	208,212	-	208,212
Coop advertising and events participation	320,978	-	320,978
Interest income	-	53,939	53,939
Investment loss	-	(153,325)	(153,325)
	<u>533,394</u>	<u>24,900,614</u>	<u>25,434,008</u>
EXPENDITURES:			
General Government	-	851,310	851,310
Marketing/Sales Promotion	529,190	18,740,645	19,269,835
Research	-	779,718	779,718
Local Industry/Community Engagement	-	636,164	636,164
	<u>529,190</u>	<u>21,007,837</u>	<u>21,537,027</u>
OTHER FINANCING SOURCES:			
Proceeds from loan under Payroll Protection Program	<u>824,400</u>	<u>-</u>	<u>824,400</u>
NET CHANGES IN FUND BALANCES	828,604	3,892,777	4,721,381
FUND BALANCES – Beginning of year	<u>-</u>	<u>6,020,839</u>	<u>6,020,839</u>
FUND BALANCES – End of year	<u>\$ 828,604</u>	<u>\$ 9,913,616</u>	<u>\$ 10,742,220</u>

See 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, 2020**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS \$ 4,721,381

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ARE
DIFFERENT IN THE STATEMENT OF ACTIVITIES BECAUSE:**

Capital assets are not capitalized in the governmental fund financial statements such expenditure is considered an expense when they were acquired and consequently no depreciation expense neither capital lease payable are recognized in the fund financial statements. (247,996)

Prepaid expenses is not considered an asset in the governmental fund financial statements such expenditure is considered an expense at the moment they occurred. 66,897

Cash receipts from the loan payable under Payroll Protection Program is considered a revenue in the governmental funds. (824,400)

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. (180,631)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 3,535,251

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 Fiscal Year Ended June 30, 2020

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). The purpose of Act No. 17 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 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, as amended. In addition, the Organization was granted exemption under Section 501(c)(3) of the United States Internal Revenue Code. All tax returns through the year ended June 30, 2019 have been appropriately filed by the Organization. However, based on the statute of limitation established on Section 6010.05 (a)(1) of the Puerto Rico Internal Revenue Code of 2011, as amended, the income tax returns filed by the Organization for the years ended June 30, 2018 and 2019 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, 2020, the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the accompanying 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. 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 with of the Organization, providing a unified message and branding.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS Fiscal Year Ended June 30, 2020

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

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

Following is a description of the Organization's most significant accounting policies:

Government-Wide and Fund Financial Statements

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, 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 – 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 – results when constraints placed on net position use are either externally imposed by creditors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. 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.
- Unrestricted – 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.

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. Other items not meeting the definition of program revenues are reported as general revenues.

Fund's 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 of 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 major funds.

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 – 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.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

- Restricted – 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 – amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- Assigned – amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned – amounts that are available for any purpose.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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. An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due.

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 the fund for the Promotion of Puerto Rico as a Destiny.
- Fund for the Promotion of Puerto Rico as a Destiny – This special revenue fund is used to account for proceeds from the DMS agreement.

Budgetary Accounting – The Organization is not required by the Act No. 17 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.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

Cash Equivalents – Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of three months or less. As of June 30, 2020, cash equivalents represents money market funds amounting to approximately \$9,900.

Prepaid Expenses – Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Accounts Receivable – Accounts receivable are 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. The Organization considers revenues available if they are collected within 120 days after the end of the current fiscal year.

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.

GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. 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.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

Capital Assets – Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund statement of net position. 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 fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds financial statements.

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

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

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.

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. 83 – *Certain Asset Retirement Obligations*. Statement 83 requires a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability and a corresponding deferred outflow of resources. Statement 83 is effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 84 – *Fiduciary Activities*. Statement 84 provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement 84 is effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 87 – *Leases*. Statement 87 establishes a single model for lease accounting by state and local governments, with limited exceptions (most notably for "short -term" leases with a maximum possible term of 12 months). Statement 87 is effective for reporting periods beginning after December 15, 2019.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

- GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement 88 clarifies which liabilities governments should include in their note disclosures related to debt and requires that additional essential information related to debt be disclosed in the notes to the financial statements. Statement 88 also requires a government to separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt. Statement 88 is effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement 89 is effective for reporting periods beginning after December 15, 2020.
- GASB Statement No. 90 – *Majority Equity Interests*. – An amendment of GASB Statements 14 and 61. Statement 90 clarifies the accounting and financial reporting for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. Statement 90 effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations and improving required note disclosures. Statement 91 is effective for reporting periods beginning after December 15, 2020.
- GASB Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

- GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this statement is to address accounting and financial implications that result from the replacement of an LIBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.
- GASB Statement No. 94 – *Public – Private and Public – Public Partnership and Availability Payment Arrangement*. The objective of this Statement is to improve financial reporting by addressing issues related to public – private and public – public partnership arrangements (PPP's). The requirements of this statement are effective for fiscal years beginning after June 15, 2022.
- GASB Statement No. 95 – *Postponement of the effective dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update – 2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update – 2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements of this Statement are effective immediately.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

- GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 - The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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

Fiscal Year Ended June 30, 2020

3) Uncertainties related to the tourism industry:

On March 11, 2020, the World Health Organization declared the Coronavirus disease (“COVID-19”) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth’s Secretary of the Treasury and the Executive Director of the Puerto Rico Office Management Budget (PROMB) to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Subsequent executive orders, including curfew directives and other protective measures have been issued in response to the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

Travel and tourism is among the most affected sectors with a massive reduction of international demand amid global travel restrictions including many borders fully closed, to contain the virus. The impact of this global situation has had unprecedented repercussions in Puerto Rico. This occurs after having suffered the effects of Zika during 2016 and 2017, the devastating impact of hurricanes Irma and Maria during 2017, the massive political protests in the summer of 2019 and the seismic activity of early 2020.

The Organization has taken decisive and resolute actions to guarantee an efficient use of funds and maximize the return of investment of marketing and sales initiatives. These actions have required adjustments of the Organization’s operational budget and staffing levels, based on the Puerto Rico Tourism Company limitations to comply with the funding agreement. However, looking forward, the Organization is optimistic of the future of the economic sector based on:

- Proven resilience of tourism in past crises
- Adaptation capacity: safety and hygiene protocols, value proposition of the destination, targeting travelers who are likely to demonstrate responsible consumer behavior
- Local and federal Government support to the sector
- The announcement and the roll-out of a vaccine that will gradually increase consumer confidence and contribute to ease travel restrictions.

The uncertainties that results from this situation and its impact to the economic sector are mitigated by the Organization’s ability to:

- Respond to changing trends that results from this situation and its impact and travel dynamics by innovative use of new or enhanced marketing, sales and publicity strategies
- Expanded use of digital channels
- Expanded digital sales activations targeting travel advisors, meeting planners and travel consortia
- Promote destination competitive advantages relying on the plans designed and implemented by the Organization to promptly react when the government lifts/adjusts travel restrictions and lockdown measures.
- Receive additional federal government financial support



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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

In addition, to develop the sales and promotion activities, the Organization continues to depend practically in its entirety on the assignments provided in the contract with PRTC, who have seen room tax reduced during the 2019- 2020 to develop the fiscal year as a result of the COVID-19 pandemic. Room taxes collections were impacted by the reduction in tourism activities from fiscal year 2018-2019 to 2019-2020. During the previous fiscal year room taxes collected amounted to approximately \$72.9 million compared to approximately \$55.8 million, resulting a reduction of approximately \$17.1 million or 23%. This event reduced PRTC capability to comply with the contracted funds with the Organization for this fiscal year.

4) Custodial credit risk:

The Organization is authorized to deposit funds in financial institutions approved by the Commonwealth. Commonwealth’s regulations require domestic commercial banks to maintain collateral securities pledged for the security of public deposits in excess of federal insurance coverage. Deposits, either insured or collateralized, are not considered to be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to the transaction, the Organization may not be able to recover the value of the investment or collateral securities that are in possession of an outside party. As of June 30, 2020, the Organization is not subject to custodial credit risk.

5) Accounts receivable:

As of June 30, 2020, accounts receivable consist of the following:

Description	Amount
Puerto Rico Tourism Company	\$ 5,300,000
Coop advertising and event	40,208
	<u>\$ 5,340,208</u>

6) Investments:

As of June 30, 2020 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	\$ 161,384
Preferred securities	2	58,160
		<u>\$ 219,544</u>

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2020

Net investment loss during the year ended June 30, 2020, consist of the following:

Description	Amount
Interests and dividends	\$ 2,604
Unrealized loss	(155,929)
	<u>\$ (153,325)</u>

7) Capital assets:

Capital assets activity for the year ended June 30, 2020, is as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets-being depreciated				
Computer equipment	\$ 288,316	\$ 16,179	\$ -	\$ 304,495
Leasehold improvements	134,714	-	-	134,714
Furniture and fixtures	8,714	-	-	8,714
Vehicle under capital leases	29,794	-	-	29,794
Booth for trade shows	394,000	33,965	-	427,965
	855,538	50,144	-	905,682
Less: Accumulated depreciation	(275,560)	(306,281)	-	(581,841)
	<u>\$ 579,978</u>	<u>\$ (256,137)</u>	<u>\$ -</u>	<u>\$ 323,841</u>

For the year ended June 30, 2020, depreciation expense amounted approximately \$306,000.

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, 2020, contributed services were approximately \$208,000.

9) Loan payable under Paycheck Protection Program:

On June 5, 2020, the Organization applied for and was approved a \$824,400 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 pandemic and administered by the Small Business Administration. The loan accrues interest at 1% and will be payable on each payment date. The principal amount of the loan shall be payable in eighteen (18) consecutive monthly installments commencing on December 8, 2020, which it is sixth (6) month after the disbursement date. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has ten (10) months after the last day of the loan forgiveness covered period to apply for the loan forgiveness and it will not be required to make any payments until the forgiveness amount is remitted to the lender by Small Business Administration. The Organization submitted the loan forgiveness but still waiting by the lender's response. The loan is uncollateralized and is fully guaranteed by the Federal government.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

10) Employee benefit plans:

The Organization has two defined contribution plans, which cover substantially all of its employees in Puerto Rico and United States offices 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, 2020 amounted to approximately \$89,000, and is included within employee benefits in the accompanying financial statements.

11) 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, 2020, there was approximately \$547,000 of contributions received under this Agreement that were still uncommitted.

12) 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. The establishment of a contingency fund is a standard to become an accredited DMO as required by Act No. 17, section 3(q).

13) Commitments:

As of June 30, 2020, commitments are as follows:

A) Operating lease – The Organization is committed under an operating lease agreement covering the main location offices expiring on June 30, 2022. The lease agreement calls for monthly rental payments of \$8,010. During the year ended June 30, 2020, rental expense related to this agreement amounted to approximately \$96,000.

Future minimum payments for the years subsequent to June 30, 2020, are as follows:

Years ending June 30,	Amount
2021	\$ 96,120
2022	96,120
	\$ 192,240

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2020

- B) Capital lease – The Organization is committed under a capital lease agreement covering a vehicle, which calls for monthly payments of approximately \$714, including interest of 4.95%, expiring in December 2020. Future minimum lease payment requirements for the year subsequent to June 30, 2020 is \$4,283, which \$4,225 relates to principal and \$58 to interest.
- C) Commitments to definite groups – As of June 30, 2020, 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
2021	\$ 694,064
2022	1,323,081
2023	544,315
2024	84,590
Thereafter	18,312
	<u>\$ 2,664,362</u>

14) Subrecipient agreement with the Puerto Rico Department of Housing:

On October 24, 2019, the Organization entered into a subrecipient agreement with the Puerto Rico Department of Housing (PRDH). PRDH was granted a federal award of \$25 million under the Tourism and Business Marketing Program (the Program) with the United States Housing and Urban Department (HUD). Total amount granted to the Organization were \$8 million. The focus of this program is to undertake promotion activities outside the Island in order to attract visitors and businesses, to bring external capital that can contribute to Puerto Rico’s economy, encourage external investments, promote economic development, and create new jobs. The performance period of this agreement was sixteen (16) months from the date of its execution, ending in February 7, 2021. However, in response to the COVID-19 pandemic, on January 6, 2021, HUD provided a one-year extension of the previously established expiration deadline. For the period ended June 30, 2020, no funds were received.

15) Subsequent events:

On December 8, 2020, the Organization entered into a Coronavirus Relief Fund (CRF) Transfer Agreement with the Puerto Rico Treasury Department and the Puerto Rico Fiscal Agency and Financial Advisory Authority, under the Strategic Tourism Project 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 Program. The funds are appropriated under Division A, Title V of the Coronavirus Aid Relief, and Economic Security (CARES) Act. On December 16, 2020, the Organization received approximately \$16 million in connection with this Transfer Agreement.

On January 22, 2021, the Organization applied for and was approved a second loan of \$824,400 under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 pandemic and administered by the Small Business Administration. The loan accrues interest at 1% and will be payable on each payment date. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

Management evaluated subsequent events through March 26, 2021, the date on which the financial statements were available to be issued.

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



**SUPPLEMENTAL INFORMATION - ALLOCATION OF EXPENSES
For the year ended June 30, 2020**

	Operational funds	Business development fund	Consolidated
EXPENSES			
Salaries and related expenses	\$ 4,894,926	\$ -	\$ 4,894,926
Marketing and sales promotion:			
Strategic advisory board	147,593	-	147,593
Commitments to definite groups	227,000	388,497	615,497
Tradeshaw expenses	1,233,348	-	1,233,348
Site inspections & FAMs	357,171	-	357,171
Sales & marketing consultants	387,026	-	387,026
Sales & marketing events	902,656	-	902,656
Local community/industry events	177,247	-	177,247
Advertising	6,253,404	-	6,253,404
Webpage	392,416	-	392,416
Public relations & press FAMs	2,384,988	-	2,384,988
International sales, PR & adv	1,605,249	-	1,605,249
Booth and promotional material	144,148	-	144,148
Digital content development	170,641	-	170,641
Booth depreciation	142,655	-	142,655
Research	588,689	-	588,689
Sales & marketing training	100,310	-	100,310
Other sales & marketing expenses	212,991	-	212,991
Total marketing and sales promotion	<u>15,427,532</u>	<u>388,497</u>	<u>15,816,029</u>
Management and general:			
Facilities rental	158,606	-	158,606
Utilities and office maintenance	70,443	-	70,443
Equipment rental and maintenance	10,833	-	10,833
Supplies and misc. office furniture/equip.	33,478	-	33,478
Recruitment expenses	45,741	-	45,741
Training/onboarding expenses	65,856	-	65,856
Legal & consulting fees	206,258	-	206,258
Audit, accounting and payroll fees	41,243	-	41,243
Telephone/internet/licenses expense	198,700	-	198,700
Depreciation expense	163,626	-	163,626
Insurance	67,537	-	67,537
Other	125,075	405	125,480
Total management and general	<u>1,187,396</u>	<u>405</u>	<u>1,187,801</u>
Total expenses	<u>\$ 21,509,854</u>	<u>\$ 388,902</u>	<u>\$ 21,898,756</u>

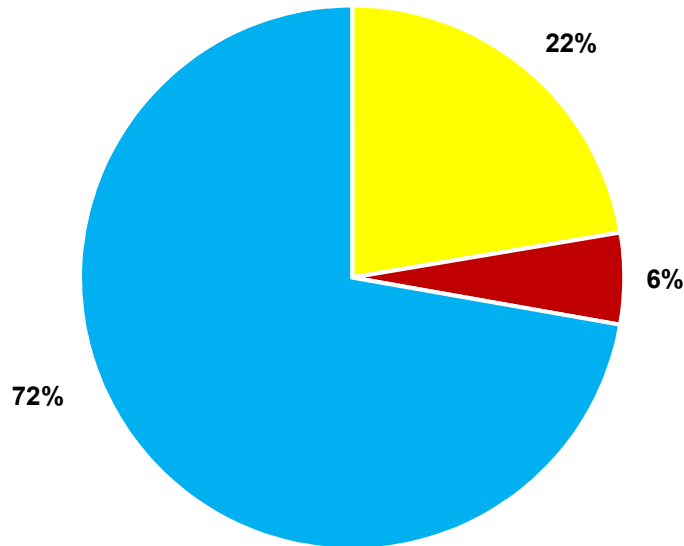
**CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO
COMO DESTINO, INC.**



SUPPLEMENTAL INFORMATION - ALLOCATION OF EXPENSES
For the year ended June 30, 2020

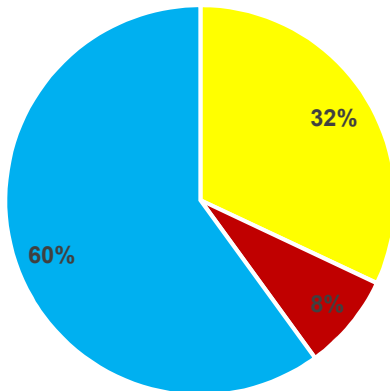
Exhibit I

**Allocation of Expenses
FY 2019-2020**



- Payroll & Related Expenses
- General & Administrative Expenses
- Promotional Expenses

**DMOs
\$20M-\$30M budget**



**DMOs
All budget ranges**

