

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

Uniform Guidance Report
June 30, 2023

(With Independent Auditors' Report)

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

(A Component Unit of the Commonwealth of Puerto Rico)

UNIFORM GUIDANCE REPORT

June 30, 2023

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

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, 2023, 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, 2023, 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) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 GAAS, 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 the purpose 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 GAAS. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024, on our consideration of the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control over financial reporting and compliance.

San Juan, Puerto Rico
March 27, 2024.

Stamp No. E564577 was affixed to
the original of this report



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

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2023

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, 2023. 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 Fund 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

- Growing the Island’s visitor economy has been the Organization’s mission since its opening in 2018. Puerto Rico has faced many challenges in recent years, yet its tourism industry has led the economic resurgence of Puerto Rico. Through it all, the Organization has remained steadfast in its commitment to putting the transformative power of travel at work for the people of Puerto Rico, as it promotes the Island to the world and deliver growth and prosperity to its local residents and partners. Today, the industry is enjoying record performance, with increased demand, yield, brand strength, and, most notably, more people employed in the industry than ever before.
- The people of Puerto Rico are no stranger to adversity, and our local tourism industry has demonstrated an amazing ability to respond and adapt after each major crisis we’ve faced. In fact, Puerto Rico has consistently outperformed the rest of the Caribbean and much of the United States throughout the post-COVID recovery of travel and tourism. As we look to the future, Puerto Rico has a unique opportunity to solidify its stature in the global visitor economy. The Organization’s Strategic Marketing Business Plan provides a sound, strategic foundation to do just that.
- FY 2022-2023 was a record-breaking year. The lodging revenues reached \$1.7 billion, while room taxes generated in the same period were approximately \$129 million. The San Juan airport received 5.6 million in passengers through the year (8% of 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”) with the federal funds provided by the American Rescue Plan (“ARP”) Act Program. The combination of funds provided the highest operational budget the Organization has had.
- Room tax collections registered the highest amount ever, reaching approximately \$129 million for the fiscal year 2022-2023. The final balance for the fiscal year was an increase of 81% compared with the fiscal year 2020-2021. The increase in room tax collections allowed PRTC to approve and pay, for the second consecutive year, \$5 million as matching funds.
- The Organization increased its operating revenues by approximately \$3 million or 6% from the previous fiscal year, mainly driven by the matching funds received from the PRTC.
- The Organization increased by approximately \$8.7 million or 15% of its total operating expenses from the previous fiscal year. This increase was primarily concentrated on Sales, Marketing, and Promotional expenses.



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

Management Discussion & Analysis (Unaudited) Fiscal Year Ended June 30, 2023

- The Organization spent approximately 98% of the 2022-2023 fiscal year total expenditures on Marketing, Sales, Promotions, and Research activities, continuing its efficient use of funds.
- The Business Development Fund is committed in approximately 100%. The ability of the Organization to attract new groups and conventions depend heavily on the availability of incentives to compete with other destinations. The board of directors has approved \$4,700,000 from the operational fund to supplement this fund and the Organization's management are committed to seeking additional funds to increase this valuable tool.

Overview of the Financial Statements

The primary financial statements of the Organization 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. 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, 2023

Financial Analysis

Condensed financial information of governmental activities in the statement of net position as of June 30, 2023, and 2022, is as follows:

Description	June 30		Change	
	2023	2022	Amount	Percent
Assets:				
Current assets	\$ 24,517,437	\$ 29,710,514	\$ (5,193,077)	-17%
Non-current assets	509,248	118,450	390,798	330%
Capital assets, net	376,119	114,335	261,784	229%
	<u>25,402,804</u>	<u>29,943,299</u>	<u>(4,540,495)</u>	<u>-15%</u>
Liabilities:				
Current liabilities	13,423,829	10,129,006	3,294,823	33%
Non-current liabilities	1,481,792	634,353	847,439	134%
	<u>14,905,621</u>	<u>10,763,359</u>	<u>4,142,262</u>	<u>38%</u>
Net position:				
Net investment in capital assets	376,119	114,335	261,784	229%
Restricted	479,199	1,462,531	(983,332)	-67%
Unrestricted	9,641,865	17,603,074	(7,961,209)	-45%
	<u>\$ 10,497,183</u>	<u>\$ 19,179,940</u>	<u>\$ (8,682,757)</u>	<u>-45%</u>

As of June 30, 2023, the Organization's total assets consist of accounts receivable of approximately \$6.2 million and cash of approximately \$16.3 million. The decrease in total assets of approximately \$4.5 million was mainly due to a decrease in cash of \$3.8 million due to higher expenses paid by the end of the fiscal year, related to sales and marketing efforts.

Total liabilities consist substantially of approximately \$2.2 million in marketing and sales service providers (approximately \$1.1 million for ARP Fund, and approximately \$1.1 million for the Fund of Promotion of Puerto Rico as a Destiny), business development incentive agreements for future events of approximately \$2.9 million, accrued expenses of approximately \$6.5 million, and deferred revenue of approximately \$1.8 million due to the Puerto Rico Convention District Authority funds for the portion received that are subject to use restrictions.

Total liabilities increased by approximately \$4.1 million, mainly due to \$1.8 million decrease in invoices due to service providers by the end of the year offset by an increase of approximately \$3 million in accrued expenses, and an increase of approximately \$1 million in group incentives commitments for future events.



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

Management Discussion & Analysis (Unaudited)
Fiscal Year Ended June 30, 2023

Condensed financial information of governmental activities in the statement of activities for the years ended June 30, 2023, and 2022 is presented below:

Description	June 30		Change	
	2023	2022	Amount	Percent
Operating revenues	\$57,616,675	\$54,326,814	\$ 3,289,861	6%
Operating expenses	66,401,911	57,740,867	8,661,044	15%
Operating income	(8,785,236)	(3,414,053)	(5,371,183)	157%
Non-operating revenues (expenses):				
Interest income	139,795	74,815	64,980	87%
Investment loss	(37,316)	(12,676)	(24,640)	194%
Gain on extinguishment of debt	-	824,400	(824,400)	-100%
	102,479	886,539	(784,060)	-88%
Change in net position	(8,682,757)	(2,527,514)	(6,155,243)	244%
Net position, beginning of year	19,179,940	21,707,454	(2,527,514)	-12%
Net position, end of year	\$10,497,183	\$19,179,940	\$ (8,682,757)	-45%

Total operating revenues increased by approximately \$3.3 million, from approximately \$54.3 million on June 30, 2022, to about \$57.6 million on June 30, 2023. The increase was mainly driven by a one-time additional funding of \$5 million received for the recovery of the South & West region of the island due to Hurricane Fiona, offset by a reduction of \$1.2 million in contributed services.

Total operating expenses increased by approximately \$8.7 million during the year ended June 30, 2023, due to \$5 million in expenses related to the South & West recovery campaign referenced above and a higher budget that included additional expenses related to new initiatives funded by federal funds and a portion of the supplemental budget added from prior periods.

During the fiscal year that ended on June 30, 2023, the change in net position finalized in a net loss of approximately \$8.7 million, directly related to the spending of the budget portion that covered expenses with reserves from prior years.

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

Management Discussion & Analysis (Unaudited)
Fiscal Year Ended June 30, 2023

Capital Assets

Capital assets activity for the fiscal year ended June 30, 2023, is as follows:

Description	Balance as of June 30, 2022	Additions	Retirements	Balance as of June 30, 2023
Capital assets-being depreciated:				
Computer equipment	\$ 391,311	\$ 45,895	\$ (8,233)	\$ 428,973
Leasehold improvements	134,714	192,414	-	327,128
Furniture and fixtures	8,714	-	-	8,714
Vehicle under capital leases	64,294	45,000	-	109,294
Booth for trade shows	427,965	-	-	427,965
Software	-	38,170	-	38,170
	<u>1,026,998</u>	<u>321,479</u>	<u>(8,233)</u>	<u>1,340,244</u>
Less: Accumulated depreciation	<u>(912,663)</u>	<u>(59,695)</u>	<u>8,233</u>	<u>(964,125)</u>
	<u>\$ 114,335</u>	<u>\$ 261,784</u>	<u>\$ -</u>	<u>\$ 376,119</u>

As of June 30, 2023, capital assets additions were approximately \$322 thousand. As of June 30, 2023, capital assets amounted to approximately \$376 thousand, net of accumulated depreciation and the depreciation expense was approximately \$60 thousand.

Currently Known Facts and Events:

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 December 31, 2024. 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.

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, 2023

	<u>Governmental Activities</u>
ASSETS:	
Cash	\$ 16,287,495
Certificate of deposit	1,000,000
Accounts receivable-	
Trade	84,250
Due from governmental entities	6,108,124
Other receivables	2,199
Prepaid expenses	1,035,369
Investments	81,134
Capital assets, net	376,119
Right-to-use leased assets, net	428,114
	<u>25,402,804</u>
LIABILITIES:	
Accounts payable	2,202,418
Accrued expenses	6,483,095
Deferred revenues	1,758,291
Commitments to definite groups	2,880,137
Lease payable	99,888
Obligations due in more than one year-	
Commitments to definite groups	1,143,620
Lease payable	338,172
	<u>14,905,621</u>
NET POSITION:	
Net investment in capital assets	376,119
Restricted	479,199
Unrestricted	9,641,865
	<u>\$ 10,497,183</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, 2023

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net Revenues/ (Expenses) and Change in Net Position
GOVERNMENTAL ACTIVITIES:			
General government	\$ 1,197,984	\$ 56,988,923	\$ 55,790,939
Marketing/Sales promotion	62,674,562	627,752	(62,046,810)
Research	1,623,723	-	(1,623,723)
Local industry/Community engagement	905,642	-	(905,642)
	<u>\$ 66,401,911</u>	<u>\$ 57,616,675</u>	<u>(8,785,236)</u>
GENERAL REVENUES (LOSSES):			
Interest income			139,795
Net investment loss			(37,316)
			<u>102,479</u>
CHANGE IN NET POSITION			<u>(8,682,757)</u>
NET POSITION - Beginning of year			<u>19,179,940</u>
NET POSITION - End of year			<u>\$ 10,497,183</u>

See accompanying notes to basic financial statements.

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

**BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2023**

	General Fund	Fund for the Promotion of Puerto Rico as a Destination	PRCCDA	ARP Fund	Total Governmental Funds
ASSETS:					
Cash	\$ -	\$ 10,978,369	\$ 1,779,416	\$ 3,529,710	\$ 16,287,495
Certificate of deposit	-	1,000,000	-	-	1,000,000
Accounts receivable	-	86,449	-	-	86,449
Due from governmental entities	-	5,008,725	-	1,099,399	6,108,124
Due from other funds	-	47,904	-	96,243	144,147
Prepaid expenses	-	564,865	209,042	261,462	1,035,369
Investments	-	81,134	-	-	81,134
	<u>\$ -</u>	<u>\$ 17,767,446</u>	<u>\$ 1,988,458</u>	<u>\$ 4,986,814</u>	<u>\$ 24,742,718</u>
LIABILITIES:					
Accounts payable	\$ -	\$ 1,090,626	\$ 23,675	\$ 1,088,117	\$ 2,202,418
Accrued expenses	-	4,702,742	26,450	1,753,903	6,483,095
Deferred revenues	-	29,000	1,729,291	-	1,758,291
Due to other funds	-	96,243	-	47,904	144,147
Leases	-	99,888	-	-	99,888
Commitments to definite groups	-	1,305,218	-	1,574,919	2,880,137
	<u>-</u>	<u>7,323,717</u>	<u>1,779,416</u>	<u>4,464,843</u>	<u>13,567,976</u>
FUND BALANCES:					
Nonspendable	-	564,865	209,042	261,462	1,035,369
Restricted	-	8,695	-	-	8,695
Committed	-	4,175,000	-	-	4,175,000
Unassigned	-	5,695,169	-	260,509	5,955,678
	<u>-</u>	<u>10,443,729</u>	<u>209,042</u>	<u>521,971</u>	<u>11,174,742</u>
	<u>\$ -</u>	<u>\$ 17,767,446</u>	<u>\$ 1,988,458</u>	<u>\$ 4,986,814</u>	<u>\$ 24,742,718</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, 2023

FUND BALANCES OF GOVERNMENTAL FUNDS	\$ 11,174,742
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 fund financial statements such expenditure is considered an expense when they were acquired and consequently no lease payable neither accumulated depreciation are recognized in the fund financial statements.	376,119
Right-to-use leased assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	428,114
Long-term lease liability is not due and payable in the current period, and therefore, is not reported in the governmental fund.	(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.	<u>(1,143,620)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 10,497,183</u></u>

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, 2023**

	General Fund	Fund for the Promotion of Puerto Rico as a Destination	PRCCDA	ARP Fund	Total Governmental Funds
REVENUES:					
Grants and contributions	\$ -	\$ 35,000,000	\$ 797,919	\$ 21,191,004	\$ 56,988,923
Contributed services	399,660	-	-	-	399,660
Coop advertising and events participation	228,092	-	-	-	228,092
Interest income	-	114,380	3,177	22,238	139,795
	<u>627,752</u>	<u>35,114,380</u>	<u>801,096</u>	<u>21,213,242</u>	<u>57,756,470</u>
EXPENDITURES:					
General government	-	1,173,773	14	24,197	1,197,984
Marketing/Sales promotion	627,752	40,388,526	592,040	20,908,703	62,517,021
Research	-	970,328	-	653,395	1,623,723
Local industry/Community engagement	-	905,642	-	-	905,642
Net investment loss	-	37,316	-	-	37,316
	<u>627,752</u>	<u>43,475,585</u>	<u>592,054</u>	<u>21,586,295</u>	<u>66,281,686</u>
REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)	-	(8,361,205)	209,042	(373,053)	(8,525,216)
NET CHANGES IN FUND BALANCES	-	(8,361,205)	209,042	(373,053)	(8,525,216)
FUND BALANCES - Beginning of year	-	18,804,934	-	895,024	19,699,958
FUND BALANCES - End of year	<u>\$ -</u>	<u>\$ 10,443,729</u>	<u>\$ 209,042</u>	<u>\$ 521,971</u>	<u>\$ 11,174,742</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, 2023

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS \$ (8,525,216)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT 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 lease payable are recognized in the fund financial statements.	261,784
Right-to-use leased assets are not capitalized in the governmental fund financial statements such expenditure is considered an expense when the agreement was made and consequently no amortization expense neither lease payable are recognized in the fund financial statements.	428,114
Adjustments of lease payable is an expenditure in the governmental funds, but the repayment reduces the lease liability in the statement of net position.	(338,172)
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.	(509,267)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (8,682,757)

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, 2023

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, 2022, 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, 2018 to June 2022 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, 2023, 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.

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NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2023

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.

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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.

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NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2023

- *American Rescue Plan Fund* - 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. 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.

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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 fund 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 less
Furniture and fixtures	5 years
Booth for trade shows	3 years
Vehicle	5 years

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Leases - The Organization adopted the *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, 2023, the Organization has one active significant lease agreement for the rental of its office facilities subject to this statement.

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 - As previously described, 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, 2023

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. 99- *Omnibus 2022* - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- GASB Statement No. 100- *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62* - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- 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.

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, 2023, 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, 2023, the Organization had approximately \$19,435,000 in cash and cash deposits in banking institutions. As of June 30, 2023, the Organization had cash deposits of approximately \$18,685,000 and that exceed the FDIC guarantee limit of \$250,000.

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The Organization had cash and investments with a brokerage firm as of June 30, 2023, aggregating approximately \$17,000 and \$81,100, 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, 2023, the Organization had no balances in excess of SIPC limits.

4) Due from Governmental Entities:

As of June 30, 2023, due from governmental entities consist of the following:

Description	Amount
Puerto Rico Tourism Company	\$ 5,000,000
Puerto Rico Department of Treasury	1,108,124
	<u>\$ 6,108,124</u>

5) Interfund Balances:

The summary of the amounts due from/to other funds as of June 30, 2023, is as follows:

Receivable By	Payable By	Amount
Fund for the Promotion of Puerto Rico as a Destination	American Rescue Plan Fund	\$ 47,904
American Rescue Plan Fund	Fund for the Promotion of Puerto Rico as a Destination	96,243
		<u>\$ 144,147</u>

6) Investments:

As of June 30, 2023, 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	\$ 62,734
Preferred securities	2	18,400
		<u>\$ 81,134</u>

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.

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For the year ended June 30, 2023, net investment loss related to investment securities consist of the following:

Description	Amount
Interests and dividends	\$ 2,777
Unrealized loss on investments	<u>(37,316)</u>
	<u>\$ (34,539)</u>

7) Capital Assets:

Capital assets activity for the year ended June 30, 2023, 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	\$ 391,311	\$ 45,895	\$ (8,233)	\$ 428,973	\$ (352,894)	\$ 76,079
Leasehold improvements	134,714	192,414	-	327,128	(134,714)	192,414
Furniture and fixtures	8,714	-	-	8,714	(8,599)	115
Vehicle	64,294	45,000	-	109,294	(38,044)	71,250
Booth for trade shows	427,965	-	-	427,965	(427,965)	-
Software	-	38,170	-	38,170	(1,909)	36,261
	<u>\$ 1,026,998</u>	<u>\$ 321,479</u>	<u>\$ (8,233)</u>	<u>\$ 1,340,244</u>	<u>\$ (964,125)</u>	<u>\$ 376,119</u>

For the year ended June 30, 2023, depreciation expense amounted to approximately \$60,000.

8) Deferred Revenues:

Deferred revenues as of June 30, 2023, is composed of the following:

Description	Amount
Amount related to sub-award agreement with PRCCDA	\$ 1,729,291
Amount related to the Fund for the Promotion of Puerto Rico as a Destination	<u>29,000</u>
	<u>\$ 1,758,291</u>

9) 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, 2023, contributed services were approximately \$180,000.

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10) 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, 2023 amounted to approximately \$106,000, and is included within employee benefits in the accompanying basic 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, 2023, there was approximately \$8,700 restricted from 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. 17-2017, 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.

13) Leases:

During the year ended June 30, 2023, the Organization implemented GASB Statement No. 87 - *Leases* (GASB No. 87). This one 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.

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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 and there is no change during the lease initial term. During the year ended June 30, 2023, rental expense related to this agreement amounted to approximately \$120,300. The lease qualifies as other than 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 the lease, the Organization has recorded a right-to-use asset with a net book value of approximately \$428,100. The future principal and interest lease payments as of June 30, 2023, are as follows:

Years ending June 30,	Principal	Interest	Total Payment
2024	\$ 89,638	\$ 10,250	\$ 99,888
2025	89,258	16,791	106,049
2026	89,637	22,952	112,589
2027	90,779	28,755	119,534
	<u>\$ 359,312</u>	<u>\$ 78,748</u>	<u>\$ 438,060</u>

14) Commitments:

As of June 30, 2023, commitments are as follows:

- *Commitments to definite groups* - As of June 30, 2023, 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
2024	\$ 2,880,137
2025	689,885
2026	236,350
2027	154,685
2028	62,700
	<u>\$ 4,023,757</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.

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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, 2023, related revenues, and expenditures of the CRF amounted to approximately \$21,200,000 and \$21,730,000, respectively (including approximately \$260,500 of commitments due in more than one year).

- *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, 2023, related revenues and expenditures of these agreements amounted to approximately \$798,000 and \$592,000, respectively.

15) Uncertainty:

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 December 31, 2024. 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.

16) Subsequent Events:

Management evaluated subsequent events through March 27, 2024, the date on which the financial statements were available to be issued.

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

SUPPLEMENTARY INFORMATION - SCHEDULE OF ALLOCATION OF EXPENSES For year ended June 30, 2023

Description	Amount
Salaries and related expenses	\$ 6,977,673
Marketing and sales promotion: *	
Strategic advisory board	130,961
Commitments to definite groups	2,999,854
Tradeshaw expenses	1,737,132
Site inspections and FAMs	978,593
Sales and marketing consultants	505,016
Sales and marketing events	4,414,590
Local community/industry events	274,070
Advertising	31,108,238
Webpage	426,087
Public relations and press FAMs	4,207,135
International sales, PR and advertising	3,260,368
Booth and promotional material	125,005
Digital content development	1,538,338
Research	1,410,242
Sales and marketing training	115,463
Strategic alliances	3,128,492
Promotional Partnerships	1,039,999
Other sales and marketing expenses	575,131
Total marketing and sales promotion	57,974,714
Management and general: **	
Facilities rental	69,501
Utilities and office maintenance	81,053
Equipment rental and maintenance	7,619
Supplies and misc. office furniture/equip.	19,781
Recruitment expenses	1,610
Training/onboarding expenses	56,465
Legal and consulting fees	187,644
Audit, accounting and payroll fees	56,146
Telephone/internet/licenses expense	169,316
Depreciation expense	59,694
Insurance	90,380
Lease Expense	120,354
Other	529,961
Total management and general	1,449,524
Total expenses	\$ 66,401,911

* Excluding salaries, related expenses and overhead

** Excluding salaries and related expenses

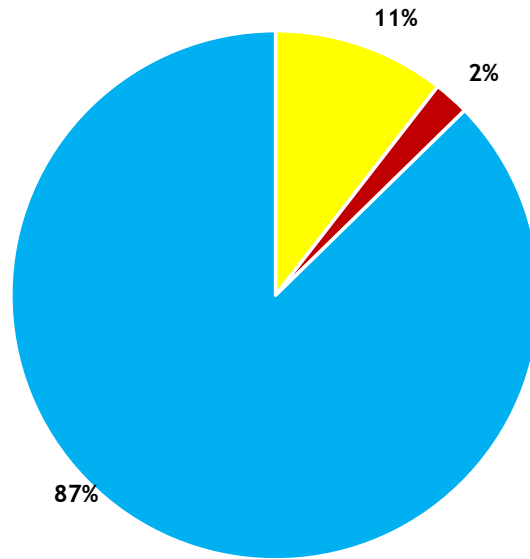
See accompanying independent auditors' report.

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

SUPPLEMENTARY INFORMATION - SCHEDULE OF ALLOCATION OF EXPENSES
For the Fiscal Year Ended June 30, 2023

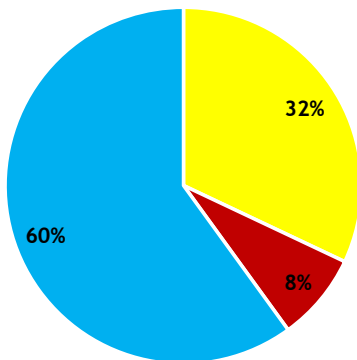
Exhibit I

**Allocation of Expenses
FY 2022-2023**

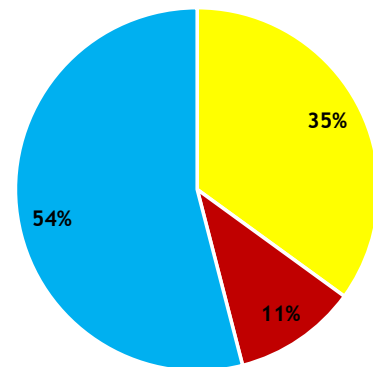


■ Payroll & Related Expenses ■ General & Administrative Expenses ■ Promotional Expenses

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



**DMOs
All budget ranges**



See accompanying independent auditors' report.

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

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of the Treasury:			
Pass-Through from Puerto Rico Department of the Treasury Coronavirus State and Local Fiscal Recovery Funds	21.027	Resolution 2021-142	\$ 21,756,880
Pass-Through from Puerto Rico Convention Center District Authority Coronavirus State and Local Fiscal Recovery Funds	21.027	PRCCDA 2023-00046	<u>592,054</u>
Total Expenditures of Federal Awards			<u>\$ 22,348,934</u>

The accompanying notes are an integral part of this Schedule of Expenditures of Federal Awards.

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

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2023

1) Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Corporación para la Promoción de Puerto Rico como Destino, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position and changes in net position of the Organization.

2) Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

3) Assistance Listing Number:

The Assistance Listing Numbers (AL) (formerly Catalog of Federal Domestic Assistance (CFDA) numbers) are the publicly available listings of Federal assistance programs. The first two digits identify the federal department or agency that administers the program, and the last three numbers are assigned by numerical sequence.

4) Program Costs:

The amounts shown as current year federal expenses represent only the federal grant portion of the program costs.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities and each major fund of the 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, 2023, 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, and have issued our report thereon dated March 27, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, 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, we do not express an opinion on the effectiveness of Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
March 27, 2024.

Stamp No. E564578 was affixed to
the original of this report.



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Corporación para la Promoción de Puerto Rico como Destino, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporación para la Promoción de Puerto Rico como Destino, Inc.'s major federal programs for the year ended June 30, 2023. Corporación para la Promoción de Puerto Rico como Destino, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Corporación para la Promoción de Puerto Rico como Destino, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Corporación para la Promoción de Puerto Rico como Destino, Inc. and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Corporación para la Promoción de Puerto Rico como Destino, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Corporación para la Promoción de Puerto Rico como Destino, Inc.'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Corporación para la Promoción de Puerto Rico como Destino, Inc.'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Corporación para la Promoción de Puerto Rico como Destino, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Corporación para la Promoción de Puerto Rico como Destino, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Corporación para la Promoción de Puerto Rico como Destino, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico
March 27, 2024.

Stamp No. E564579 was affixed to
the original of this report.



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

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS June 30, 2023

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditors' report issued on compliance for major federal programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?

yes no

Identification of major federal programs

Name of Federal Programs or Cluster:

Assistance Listing Numbers:

Coronavirus State and Local Fiscal Recovery Funds

21.027

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

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

(A Component Unit of the Commonwealth of Puerto Rico)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023**

SECTION II - FINANCIAL STATEMENTS FINDINGS

There were no financial statements findings to report for the year ended June 30, 2023.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no federal awards findings to report for the year ended June 30, 2023.