

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

(A Puerto Rico Not-for-Profit Organization)

Financial Statements and Supplementary Information
June 30, 2019 and 2018

**CORPORACIÓN PARA LA PROMOCIÓN DE PUERTO RICO
COMO DESTINO, INC.**
(A Puerto Rico Not-for-Profit Organization)



Financial Statements
June 30, 2019 and 2018

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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 Corporación para la Promoción de Puerto Rico Como Destino, Inc., a Puerto Rico Not-for-Profit Organization, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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 Corporación para la Promoción de Puerto Rico Como Destino, Inc., as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Effect of Adopting New Accounting Standard

As discussed in Note 1, Corporación para la Promoción de Puerto Rico Como Destino, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in Exhibit I is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements 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 financial statements as a whole.

San Juan, Puerto Rico
November 18, 2019.

Stamp No. E401648 was affixed to
the original of this report.



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



STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,886,763	\$ 1,219,793
Accounts receivable	21,153	-
Prepaid expenses	513,620	41,493
	<u>12,421,536</u>	<u>1,261,286</u>
INVESTMENTS	375,473	-
PROPERTY AND EQUIPMENT, net	<u>579,978</u>	<u>127,365</u>
	<u><u>\$ 13,376,987</u></u>	<u><u>\$ 1,388,651</u></u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,409,615	\$ 493,920
Deferred revenues	41,000	827,800
Accrued expenses	960,415	49,318
Obligation under capital lease	8,142	-
Commitments to definite groups	851,520	-
	<u>6,270,692</u>	<u>1,371,038</u>
NON-CURRENT LIABILITIES:		
Obligation under capital lease	4,224	-
Commitments to definite groups	<u>1,789,667</u>	<u>-</u>
	<u>1,793,891</u>	<u>1,371,038</u>
NET ASSETS:		
Without donor restrictions:		
Board designated	1,000,000	-
Undesignated	3,400,943	17,613
	<u>4,400,943</u>	<u>17,613</u>
With donor restrictions	<u>911,461</u>	<u>-</u>
	<u>5,312,404</u>	<u>17,613</u>
	<u><u>\$ 13,376,987</u></u>	<u><u>\$ 1,388,651</u></u>

The accompanying notes are an integral part of these statements of financial position.

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



STATEMENTS OF ACTIVITIES
For the years ended June 30, 2019 and 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
REVENUES AND SUPPORT:						
Contributions from Puerto Rico Tourism Company	\$ 25,827,800	\$ -	\$ 25,827,800	\$ 1,572,200	\$ -	\$ 1,572,200
Gain on transfer of net assets from						
Puerto Rico Convention Bureau	2,223,750	1,859,716	4,083,466	-	-	-
Contributed services	146,132	-	146,132	-	-	-
Coop. advertising and events participation	247,725	-	247,725	-	-	-
Investment return	133,380	21,570	154,950	2,410	-	2,410
Net assets released from restrictions	969,825	(969,825)	-	-	-	-
	<u>29,548,612</u>	<u>911,461</u>	<u>30,460,073</u>	<u>1,574,610</u>	<u>-</u>	<u>1,574,610</u>
OPERATING EXPENSES:						
Program services:						
Marketing/Sales Promotion	22,054,693	-	22,054,693	254,143	-	254,143
Research	1,423,390	-	1,423,390	-	-	-
Local Industry/Community Engagement	717,535	-	717,535	-	-	-
Support services:						
Payroll and related benefits	-	-	-	146,629	-	146,629
Management and general	969,664	-	969,664	1,151,822	-	1,151,822
	<u>25,165,282</u>	<u>-</u>	<u>25,165,282</u>	<u>1,552,594</u>	<u>-</u>	<u>1,552,594</u>
INCREASE IN NET ASSETS BEFORE PROVISION FOR INCOME TAX	<u>4,383,330</u>	<u>911,461</u>	<u>5,294,791</u>	<u>22,016</u>	<u>-</u>	<u>22,016</u>
PROVISION FOR INCOME TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,403)</u>	<u>-</u>	<u>(4,403)</u>
INCREASE IN NET ASSETS	<u>4,383,330</u>	<u>911,461</u>	<u>5,294,791</u>	<u>17,613</u>	<u>-</u>	<u>17,613</u>
NET ASSETS, beginning of year	<u>17,613</u>	<u>-</u>	<u>17,613</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 4,400,943</u>	<u>\$ 911,461</u>	<u>\$ 5,312,404</u>	<u>\$ 17,613</u>	<u>\$ -</u>	<u>\$ 17,613</u>

The accompanying notes are an integral part of these statements.

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



STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2019 and 2018

	June 30, 2019				
	Program Services			Support Services	
	Marketing/Sales Promotion	Research	Local Industry/ Community/ Engagement	Management and general	Total
Advertising	\$ 8,891,900	\$ -	\$ -	\$ -	\$ 8,891,900
Booth and promotional material	231,174	-	-	-	231,174
Commitments to definite groups	972,725	-	-	-	972,725
Depreciation and amortization	234,610	3,360	7,361	29,604	274,935
Digital content development	434,668	-	-	-	434,668
Employee benefits and payroll taxes	957,818	21,325	63,481	218,740	1,261,364
Facilities rental	106,668	175	8,070	32,456	147,369
Familiarization tours	346,177	-	-	-	346,177
Local industry/community events	-	-	282,987	-	282,987
Insurance	35,504	879	1,926	7,746	46,055
Other expenses	125,293	1,468	3,218	13,270	143,249
Professional services	444,826	11,016	24,130	97,044	577,016
Public relations	2,525,022	-	94,635	-	2,619,657
Recruitment	19,153	195	12,767	1,525	33,640
Research projects and tools	-	1,299,961	-	-	1,299,961
Salaries	2,547,737	78,961	196,966	481,378	3,305,042
Sales and marketing consultants	477,351	-	-	-	477,351
Sales and marketing events	474,734	-	-	-	474,734
Site inspections	126,633	-	-	-	126,633
Software licenses	133,160	2,141	4,689	18,859	158,849
Strategic advisory board	143,780	-	-	-	143,780
Supplies and miscellaneous equipment	59,103	97	4,472	17,984	81,656
Telephone/internet	103,363	2,560	5,607	22,550	134,080
Trade shows	1,355,537	-	-	-	1,355,537
Training	141,651	1,160	3,006	11,537	157,354
Travel	242,708	-	-	-	242,708
Utilities and office maintenance	55,773	92	4,220	16,971	77,056
Website development and management	867,625	-	-	-	867,625
	<u>\$ 22,054,693</u>	<u>\$ 1,423,390</u>	<u>\$ 717,535</u>	<u>\$ 969,664</u>	<u>\$ 25,165,282</u>

Continues...

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



STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2019 and 2018

Continued...

	June 30, 2018			
	Program Services	Support Services		Total
	Marketing/sales promotion	Management and general	Payroll and related benefits	
Advertising	\$ 57,900	\$ -	\$ -	\$ 57,900
Board of directors and committees meetings	-	21,330	-	21,330
Depreciation and amortization	-	625	-	625
Digital content development	14,884	-	-	14,884
Insurance	-	1,625	-	1,625
Local industry/community events	12,431	-	-	12,431
Marketing research	47,100	-	-	47,100
Miscellaneous equipment and supplies	-	38,557	-	38,557
Miscellaneous	-	328	-	328
Professional services	-	728,681	-	728,681
Promotional material	564	-	-	564
Public relations	88,839	-	-	88,839
Recruitment	-	278,326	-	278,326
Relocation	-	16,855	-	16,855
Repair and maintenance	-	5,817	-	5,817
Salaries and benefits	-	-	146,629	146,629
Sales and marketing events	2,444	-	-	2,444
Software licenses	-	7,651	-	7,651
Telephone	-	1,360	-	1,360
Trade shows	5,868	-	-	5,868
Training	-	7,401	-	7,401
Travel	-	43,266	-	43,266
Website development and management	24,113	-	-	24,113
	<u>\$ 254,143</u>	<u>\$ 1,151,822</u>	<u>\$ 146,629</u>	<u>\$ 1,552,594</u>

The accompanying notes are an integral part of these statements.

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



STATEMENTS OF CASH FLOWS

For the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,294,791	\$ 17,613
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	274,935	625
Unrealized gain on investments	(97,566)	-
Loss on disposition of property and equipment	28,965	-
Gain on transfer of net assets	(4,083,466)	-
Changes in operating assets and liabilities-		
Decrease (increase) in assets:		
Accounts receivable	4,650	-
Prepaid expenses	(243,111)	(41,493)
Increase (decrease) in liabilities-		
Accounts payable	3,915,695	493,920
Deferred revenues	(790,800)	827,800
Accrued expenses	911,097	49,318
Commitments to definite groups	287,934	-
Net cash provided by operating activities	<u>5,503,124</u>	<u>1,347,783</u>
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Acquisition of property and equipment	<u>(726,718)</u>	<u>(127,990)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received on Asset Transfer Agreement	5,897,492	-
Payment to principal of obligation under capital lease	<u>(6,928)</u>	<u>-</u>
Net cash provided by financing activities	<u>5,890,564</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,666,970	1,219,793
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,219,793</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 11,886,763</u>	<u>\$ 1,219,793</u>

The accompanying notes are an integral part of these statements.

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



NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

1) Organization and summary of significant accounting policies:

- A) Organization – The Corporación para la Promoción de Puerto Rico como Destino, Inc., 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 Corporación para la Promoción de Puerto Rico como Destino, Inc. was incorporated as a Not-for-Profit entity under the laws of the Commonwealth of Puerto Rico.

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.

On June 29, 2018, the Organization and the Bureau entered into an Asset Transfer Agreement, (the AT Agreement) whereby, the Bureau agreed to transfer its assets, as defined in the AT Agreement, in consideration of the assumption of certain liabilities by the Organization, and the condition that the Organization will continue to provide the marketing services previously performed by the Bureau. The effective date of the Agreement was determined as of July 1, 2018, when the Organization assumed its marketing responsibilities and the Bureau ceased to do so.

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.
- B) Summary of significant accounting policies – The accounting policies used by the Organization conform to predominant industry practices and follow accounting principles generally accepted in the United States of America (U.S. GAAP). The following summarizes the most significant accounting policies:

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



NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

Basis of presentation – Not-for-profit organizations are required to present a statement of financial position, a statement of activities, a statement of functional expenses and a statement of cash flows. In addition, resources are classified for accounting and reporting purposes into two categories of net assets in accordance with external donor-imposed restrictions:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
- Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds will be maintained in perpetuity.

Donor restricted contributions are reported as increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

As of June 30, 2019 and 2018, the Organization's net assets are classified as net assets with donor restrictions and net assets without donor restrictions.

Accounting estimates – The preparation of financial statements in conformity U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses recognized during the reporting period.

Cash and cash equivalents – Consist of cash in banks and money market funds.

Allowance for doubtful accounts – The Organization provides an allowance for doubtful accounts based on the evaluation of amounts that are estimated as likely to become unrealizable. The estimate is based on the historical collection experience and review of the current status of receivable amounts. It is reasonably possible that such estimate could change.

Unconditional promises – Unconditional promises to give that are expected to be collected or paid are recorded at net realizable value and/or at the present value of their estimated future payments. Conditional promises to give are not included as support revenue or as expense until conditions are substantially met. As of June 30, 2019 and 2018, the Organization had no conditional promises to pay.

Investments – Investments are reported at cost, if purchased or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investments return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

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



**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Property and equipment – Is stated at cost, or if donated, at the fair value at date of receipt. In the case of vehicle under capital lease, it is stated at the present value of the net minimum lease payments. Maintenance, repairs and minor improvements are expensed when incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, 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 under capital lease	Lease term

At the time property and equipment is sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the books and the resulting gain or loss, if any, is credited or charged to operations. Property and equipment is capitalized if it has a cost of \$1,000 or more.

Revenue recognition – Contributions received are considered to be available for use unless specifically restricted by the donor. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded at fair value, which is net of estimated uncollectible amounts.

The Organization recognize contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recognized when received. Conditional promises to give are recognized as contribution revenue and receivables when the condition on which they depend are substantially met or explicitly waived by the donor, that is, when the conditional promise becomes unconditional.

Contributed services, assets and in-kind contributions – Contributed goods or services are recognized if services received: (a) create or enhance nonfinancial assets, (b) require specialized skills, and (c) are provided by individuals possessing those skills. The Organization recognizes the fair value of goods or services as both revenue and expense in the period received and used. Contributed services and supplies are recognized at the fair value of such items.

Investment return – Investment income or loss (including realized and unrealized gains and losses on investments, interests, and dividends) is included in the statement of activities as increases or decreases in net assets without donor restriction unless the income or loss is restricted by donor or law.

Operational expenditures – Operational expenditures related to the promotional activities of the Organization are detailed in the accompanying statements of activities and functional expenses. Those expenses that are not directly related to the promotional activities of the Organization are accounted for as management and general.

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



NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

Advertising costs – The Organization follows the policy of charging the costs of all advertising campaigns and promotions as they are incurred. Advertising costs for the years ended June 30, 2019 and 2018 amounted to approximately \$8,892,000 and \$58,000.

Income tax – 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 requested the federal tax exemption pursuant to Section 501(c)(3) of the United States Internal Revenue Code.

U.S. GAAP requires the Organization's management to evaluate tax positions taken and recognize a tax liability or asset if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination of taxing authorities. Management evaluated the tax positions taken by the Organization and concluded that as of June 30, 2019, the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

All tax returns through the year ended June 30, 2018, 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 year ended June 30, 2018 can still be audited by the Puerto Rico Treasury Department.

Functional allocation of expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited using standard industry allocation methodology. Total amount allocated for the year ended June 30, 2019 was approximately \$5.3 million.

Since the year ended June 30, 2018 was a startup year, payroll or administrative expenses were not allocated into program expenses.

Fair value measurements – Fair value is 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. Market or observable inputs are the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market input.

The valuation techniques are based upon observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Significant inputs to the valuation model that are unobservable.

The Organization maintains policies and procedures to value financial instruments using the best and most relevant data available.

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



NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

Adoption of new accounting standard – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). This ASU simplifies and improves how a Not-for-Profit Organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The Organization has adjusted the presentation in the accompanying financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent accounting standard – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This new accounting standard requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is evaluating the impact that this standard will have, if any, on the Organization's financial statements.

2) **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, 2019 and 2018, the Organization had deposits of approximately \$12,198,000 and \$1,383,000, respectively, in a financial institution. The amount by which these deposits exceeded the Federal Deposit Insurance Corporation (FDIC) guarantee of \$250,000 in 2019 and 2018 were approximately \$11,948,000 and \$1,133,000, respectively.

The Organization had cash and investments with a brokerage firm as of June 30, 2019, aggregating approximately \$7,000 and \$375,000, respectively. Balances are insured up to \$500,000, with a limit of \$250,000 for cash, by the Security Investor Protection Corporation (SIPC). As of June 30, 2019, the Organization had no balances in excess of SIPC limits.

As it is customary for DMO's, revenues of the Organization are concentrated on room tax support received from PRTC under the provisions of Act No. 17. During the years ended June 30, 2019 and 2018, room tax support amounted to approximately 85% and 100% of total revenues, respectively.

3) **Asset Transfer Agreement:**

As described in Note 1, on June 29, 2018, the Organization and the Bureau entered into an Asset Transfer Agreement, (the Agreement) whereby, the Bureau agreed to transfer its assets, in consideration of the assumption of certain liabilities, by the Organization, and the condition that the Organization will continue to provide the marketing services previously performed by the Bureau. The effective date of the Agreement was determined as of July 1, 2018, when the Organization assumed its marketing responsibilities and the Bureau ceased to do so.

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



**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

The net assets of the Bureau were adjusted to their estimated fair values as of the date of the transfer, which are summarized as follows:

Description	Amount
Assets:	
Current assets	\$ 6,152,312
Property and equipment	29,794
Investment	277,907
	<u>6,460,013</u>
Liabilities:	
Accrued incentive funds	(2,345,757)
Accounts payable	(30,790)
	<u>(2,376,547)</u>
Gain on transfer of net assets	<u>\$ 4,083,466</u>

4) Liquidity and availability:

As of June 30, 2019, the Organization has approximately \$11,900,000 of financial assets available to meet cash needs for expenditures within one year of the statement of financial position date, consisting of cash of approximately \$11,887,000 and accounts receivable of \$21,000. From this amount, \$3,545,000 are subject to contractual restrictions from the business development fund agreement and \$1,000,000 were board designated, as further explained in Notes 8 and 11, respectively, that make them unavailable for general expenditures. The Organization has a goal to maintain financial assets, which consist of cash and accounts receivable, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$4,200,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As of June 30, 2018, those financial assets were cash amounting to approximately \$1,220,000. Total amount was available for general expenditures.

5) Accounts receivable:

As of June 30, 2019 and 2018, accounts receivable consist of the following:

Description	2019	2018
Coop advertising and events participation	\$ 15,983	\$ -
Other	5,170	-
	<u>\$ 21,153</u>	<u>\$ -</u>

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



**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

6) Investment securities:

As of June 30, 2019 and 2018, investment securities at fair value and its classification within the fair value hierarchy are as follows:

Description	Classification Level	2019	2018
Closed end funds	1	\$ 281,713	\$ -
Preferred securities	2	93,760	-
		<u>\$ 375,473</u>	<u>\$ -</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.

Net investment return during the years ended June 30, 2019 and 2018, consists of the following:

Description	2019	2018
Interests and dividends	\$ 57,384	\$ 2,410
Unrealized gains	97,566	-
	<u>\$ 154,950</u>	<u>\$ 2,410</u>

7) Property and equipment:

As of June 30, 2019 and 2018, property and equipment consist of the following:

Description	2019	2018
Computer equipment	\$ 288,316	\$ 19,116
Leasehold improvements	134,714	107,430
Furniture and fixtures	8,714	1,444
Vehicle under capital lease	29,794	-
Booth for trade shows	394,000	-
	<u>855,538</u>	<u>127,990</u>
Less: Accumulated depreciation and amortization, including \$29,794, of vehicle under capital lease	<u>(275,560)</u>	<u>(625)</u>
	<u>\$ 579,978</u>	<u>\$ 127,365</u>

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



NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

8) **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 with donor restrictions, since the Agreement imposes certain restrictions over the use of the funds. Once the commitments from the prospect groups and conventions are obtained, those net assets with donor restrictions are considered met. For the year ended June 30, 2019, there was approximately \$911,000 of contributions received under this Agreement that were still uncommitted.

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, 2019, contributed services were approximately \$146,000.

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, 2019 amounted to approximately \$67,000, and is included within employee benefits in the statement of activities.

11) **Board-Designated 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. The 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).

12) **Commitments:**

A) Operating lease – The Organization is committed under an operating lease agreement covering the main location offices in Puerto Rico expiring on June 30, 2022. The lease agreement calls for monthly rental payments of \$8,010. During the year ended June 30, 2019, rental expense related to this agreement amounted to approximately \$96,000.

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



**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Future minimum payments for the years subsequent to June 30, 2019, are as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2020	\$ 96,120
2021	96,120
2022	96,120
	<u>\$ 288,360</u>

- 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 on December 2020.

Future minimum lease payment requirements for the years subsequent to June 30, 2019, are as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2020	\$ 8,566
2021	4,283
	12,849
Less: amount representing interest	<u>(483)</u>
	12,366
Current portion	<u>(8,142)</u>
Non-current portion	<u>\$ 4,224</u>

- C) Commitments to definite groups – As of June 30, 2019, the Organization had certain commitments to pay sponsorship for group activities, conferences and conventions to be celebrated in Puerto Rico, as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2020	\$ 851,520
2021	607,661
2022	724,675
2023	436,595
2024	13,240
	<u>\$ 2,633,691</u>

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



**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

13) Supplemental information to the statements of cash flows:

A) Non-cash investing and financing transactions – During the years ended June 30, 2019 and 2018, non-cash investing and financing transactions are as follows:

Description	2019	2018
Retirement of property and equipment		
Cost	\$ 28,965	\$ -
Accumulated depreciation	\$ -	\$ -
Loss on disposition	\$ (28,965)	\$ -
Transactions related to the net assets transfer		
Investments	\$ 277,907	\$ -
Property and equipment	\$ 29,794	\$ -
Obligation under capital lease	\$ 19,294	\$ -
Gain on transfer of net assets	\$ 4,083,466	\$ -

B) Other cash flows transactions – During the year ended June 30, 2019, total interest paid by the Organization amounted to \$1,638. During the year ended June 30, 2018, total income tax paid by the Organization amounted to \$4,400.

14) Subsequent events:

On September 18, 2019, the Organization received from the United States Internal Revenue Service (IRS), a notice of receipt regarding the Organization's application for exemption from federal income tax. As of date of financial statement issuance, no further communication has been received by the IRS.

On October 24, 2019, the Organization entered into a subrecipient agreement with the Puerto Rico Department of Housing for the management of Community Development Block Grant for Disaster Recovery (CDBG-DR) funds assigned to Puerto Rico for the recovery of damages caused by hurricanes Irma and María. Under the subrecipient agreement the Organization will receive \$8 million of the \$25 million approved for the Tourism and Business Marketing action plan. The performance period of the agreement ends on February 7, 2021. The funds will be on a reimbursement basis.

Management evaluated subsequent events through November 18, 2019, the date on which the financial statements were available to be issued, and concluded that no additional disclosures were required.

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

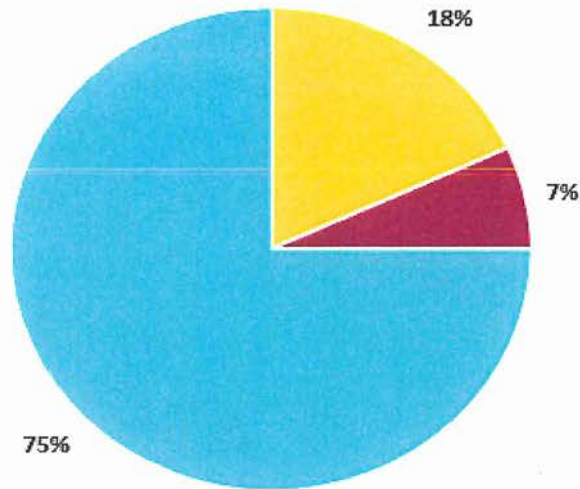


SUPPLEMENTAL INFORMATION - ALLOCATION OF EXPENSES
For the year ended June 30, 2019

Exhibit I

	Operational Funds	Incentive Fund	Consolidated
EXPENSES			
Salaries and related expenses	\$ 4,566,407	\$ -	\$ 4,566,407
Marketing and sales promotion:			
Advertising	8,891,900	-	8,891,900
Booth and promotional material	231,174	-	231,174
Booth depreciation	98,912	-	98,912
Commitments to definite groups	2,900	969,825	972,725
Digital content development	434,668	-	434,668
Local community/industry events	282,987	-	282,987
Other sales and marketing	165,986	-	165,986
Public relations	2,619,657	-	2,619,657
Research	1,299,961	-	1,299,961
Sales and marketing consultants	477,351	-	477,351
Sales and marketing events	474,734	-	474,734
Sales and marketing training	78,286	-	78,286
Site inspections	472,811	-	472,811
Strategic advisory board	143,780	-	143,780
Tradeshaw	1,355,537	-	1,355,537
Website development and management	867,625	-	867,625
Total Marketing and sales promotion	17,898,269	969,825	18,868,094
Management and general:			
Audit/accounting/payroll fees	61,093	-	61,093
Depreciation expense	176,023	-	176,023
Equipment rental and maintenance	10,640	-	10,640
Facilities rental	147,370	-	147,370
Insurance	46,055	-	46,055
Legal and consulting fees	515,922	-	515,922
Recruitment	33,641	-	33,641
Supplies and Misc. office furniture/equip.	81,655	-	81,655
Telephone/internet/licenses	246,212	-	246,212
Training/onboarding	79,068	-	79,068
Utilities and office maintenance	77,055	-	77,055
Other	255,721	326	256,047
Total Management and general	1,730,455	326	1,730,781
Total Expenses	\$ 24,195,131	\$ 970,151	\$ 25,165,282

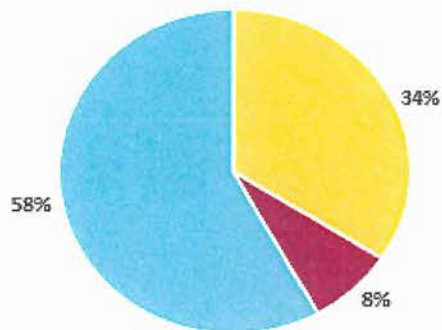
Allocation of Expenses
FY 2018-2019



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

Industry Benchmarks
based on Destinations International 2017 Organizational and Financial Profile Study

DMOs \$20M-\$30M budget



ALL DMOs

