

San Diego Tourism Authority



Financial Statements

For the Years Ended June 30, 2023
With Summarized Financial Information for 2022

San Diego Tourism Authority

Contents

Independent Auditors' Report	3-5
-------------------------------------	-----

Financial Statements

Statements of Financial Position	6
Statements of Activities	7-8
Statements of Cash Flows	9
Notes to Financial Statements	10-23

Supplementary Information

Schedule of Budget and Actual Expenditures of San Diego Tourism Marketing District Funds	25
Schedule of Budget and Actual Expenditures – Indirect Costs	26



Independent Auditors' Report

To the Audit Committee
San Diego Tourism Authority
San Diego, California

Opinion

We have audited the financial statements of **San Diego Tourism Authority** (the "Organization"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, *Leases*, effective July 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

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 Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Organization'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 Organization'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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Budget and Actual Expenditures of San Diego Tourism Marketing District Funds and Schedule of Budget and Actual Expenditures – Indirect Costs are presented for purposes of additional analysis and are 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, excluding the budget amounts, is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

San Diego, California
October 30, 2023

San Diego Tourism Authority

Statements of Financial Position

<i>June 30,</i>	2023	2022
Assets		
Current Assets		
Cash	\$ 3,080,511	\$ 3,772,970
Accounts receivable, net	9,788,049	4,923,464
Deposits and prepaid expenses	190,399	42,249
Total Current Assets	13,058,959	8,738,683
Property and equipment, net	403,309	331,881
Right-of-use asset	1,823,096	-
Pension benefit asset	357,752	-
Investments	179,963	162,617
Total Assets	\$ 15,823,079	\$ 9,233,181
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable	\$ 5,805,493	\$ 2,340,317
Accrued expenses	1,458,163	1,307,314
Advance payable	3,000,000	2,000,000
Lease liabilities - finance leases	40,614	19,115
Lease liabilities - operating leases	793,180	-
Accrued pension costs	-	48,984
Deferred income	146,067	153,067
Total Current Liabilities	11,243,517	5,868,797
Non-Current Liabilities		
Deferred compensation plan liability	179,963	162,617
Lease liabilities - finance leases, net of current portion	53,988	7,683
Lease liabilities - operating leases, net of current portion	1,569,884	-
Deferred rent	-	644,766
Total Non-Current Liabilities	1,803,835	815,066
Total Liabilities	13,047,352	6,683,863
Net Assets Without Donor Restrictions	2,775,727	2,549,318
Total Liabilities and Net Assets	\$ 15,823,079	\$ 9,233,181

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

San Diego Tourism Authority

Statements of Activities For the Years Ended June 30,

(With Summarized Comparative Financial Information for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023	2022
Revenue				
Public Revenue				
San Diego Tourism Marketing District	\$ 37,418,777	\$ -	\$ 37,418,777	\$ 25,462,611
Federal grants	294,081	-	294,081	1,258,362
Total Public Revenue	37,712,858	-	37,712,858	26,720,973
Private Revenue				
Service agreements	2,986,250	-	2,986,250	2,343,750
Membership dues	1,336,153	-	1,336,153	1,154,355
Advertising sales	999,291	-	999,291	744,016
Events	565,612	-	565,612	309,696
Commissions	84,043	-	84,043	73,774
Sponsorships	37,500	-	37,500	125,000
Miscellaneous income	11,732	-	11,732	-
Total Private Revenue	6,020,581	-	6,020,581	4,750,591
Total Revenue	43,733,439	-	43,733,439	31,471,564
Operating Expenses				
Salaries & Benefits				
Salaries	8,005,575	-	8,005,575	6,648,179
Benefits	1,001,497	-	1,001,497	998,131
Payroll taxes	535,892	-	535,892	440,379
Training & recruitment	119,820	-	119,820	97,119
Total Salaries & Benefits	9,662,784	-	9,662,784	8,183,808
Program of Work				
Advertising	25,248,993	-	25,248,993	17,306,929
Outside professional services	3,507,403	-	3,507,403	2,552,261
Promotions & events	1,894,708	-	1,894,708	754,044
Travel & entertainment	782,013	-	782,013	427,023
Tourism research	586,137	-	586,137	482,053
Dues & subscriptions	338,499	-	338,499	204,815
Publications	86,202	-	86,202	82,625
Promotional materials	33,573	-	33,573	19,900
Total Program of Work	32,477,528	-	32,477,528	21,829,650

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

San Diego Tourism Authority

Statements of Activities For the Years Ended June 30,

(With Summarized Comparative Financial Information for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023	2022
General & Administrative				
Office and equipment rent	775,236	-	775,236	749,980
Software and equipment maintenance	327,310	-	327,310	328,662
Telecommunications	114,445	-	114,445	100,057
Depreciation & amortization	127,089	-	127,089	119,589
Outside professional services	84,449	-	84,449	109,521
Bank charges & processing fees	76,496	-	76,496	65,064
Printing & postage	47,036	-	47,036	43,973
Insurance & taxes	68,325	-	68,325	56,037
Office supplies	40,183	-	40,183	26,159
Miscellaneous expenses	50,485	-	50,485	38,462
Facility maintenance	-	-	-	549
Total General & Administrative	1,711,054	-	1,711,054	1,638,053
Total Operating Expenses	43,851,366	-	43,851,366	31,651,511
Change in Net Assets from Operating Activities	(117,927)	-	(117,927)	(179,947)
Pension Changes and Net Periodic Pension Benefit Cost	344,336	-	344,336	281,571
Change in Net Assets	226,409	-	226,409	101,624
Net Asset Without Donor Restrictions at Beginning of Year	2,549,318	-	2,549,318	2,447,694
Net Asset Without Donor Restrictions at End of Year	\$ 2,775,727	\$ -	\$ 2,775,727	\$ 2,549,318

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

San Diego Tourism Authority

Statements of Cash Flows For the Years Ended June 30,

<i>June 30,</i>	2023	2022
Cash Flows from Operating Activities		
Change in Net Assets	\$ 226,409	\$ 101,624
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation & amortization	127,089	119,589
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,864,585)	(947,297)
Deposits and prepaid expenses	(148,150)	20,118
Accounts payable	3,465,176	63,956
Accrued expenses	150,849	721,633
Accrued pension costs	(406,736)	(361,571)
Advances payable	1,000,000	-
Deferred rent	-	(75,071)
Lease liabilities - operating leases	(104,798)	-
Deferred revenue - Paycheck Protection Program Loan	-	(1,258,362)
Deferred income	(7,000)	(151,849)
Net cash from operating activities	(561,746)	(1,767,230)
Cash Flows from Investing Activities		
Purchases of property and equipment	(98,190)	(62,496)
Net cash from investing activities	(98,190)	(62,496)
Cash Flows from Financing Activities		
Principal payments on lease liabilities - finance leases	(32,523)	(29,540)
Net cash from financing activities	(32,523)	(29,540)
Net Decrease in Cash	(692,459)	(1,859,266)
Cash at Beginning of Year	3,772,970	5,632,236
Cash at End of Year	\$ 3,080,511	\$ 3,772,970
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 1,549	\$ 1,832
Non-cash Financing Activities:		
Property and equipment acquired under finance leases	\$ 100,327	\$ -
Right-of-use asset acquired in exchange for lease liabilities	\$ 2,402,830	\$ -

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

San Diego Tourism Authority

Notes to Financial Statements

1. Nature of Organization

The **San Diego Tourism Authority** (“SDTA”), formerly the San Diego Convention & Visitors Bureau, was incorporated in California in October 1954 as the San Diego Convention & Tourist Bureau, a not-for-profit mutual benefit corporation. SDTA is a community organization with the goal of developing, promoting, and maintaining the convention and visitor industry in the San Diego region. SDTA also has an office in Chicago, Illinois and employs regionally based sales professionals to promote San Diego tourism nationally.

2. Summary of Significant Accounting Policies

Liquidity and availability of financial assets

SDTA is substantially supported by revenue received from a Services Agreement with the San Diego Tourism Marketing District (“SDTMD”) as described in Note 7. Under the Agreement, SDTA is reimbursed for valid Agreement program expenditures upon submission of required documentation, including proof of payment. SDTMD reimburses SDTA within 30 days of submission of a reimbursement request. SDTMD advanced \$3.0 million to SDTA to ensure adequate funding to timely execute programs given the Agreement’s reimbursement process. The Agreement also provides for invoice payments to be issued directly from SDTMD to SDTA vendors, upon request from SDTA, for significant expenditures that may not be accommodated by the advance. SDTA can also draw upon \$350,000 from the available revolving line of credit as described in Note 5.

The following represents the financial assets for the year ended:

	June 30, 2023
Financial assets	
Cash	\$ 3,080,511
Accounts receivable, net within one year	9,788,049
Financial assets available for general expenditures within one year	\$ 12,868,560

Basis of accounting

The financial statements of SDTA have been prepared on the accrual basis of accounting.

Financial statement presentation

SDTA’s financial statement presentation is in accordance with authoritative guidance for not-for-profit organizations. SDTA reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net assets without donor restrictions represent expendable funds available for operations which are not otherwise limited by donor restrictions.

San Diego Tourism Authority

Notes to Financial Statements

Financial statement presentation, cont'd

Net assets with donor restrictions consist of contributed funds, subject to specific donor-imposed restrictions, contingent upon a specific performance of a future event or a specific passage of time before SDTA may spend the funds and of irrevocable donor restrictions, requiring the assets be maintained in perpetuity. SDTA does not have net assets with donor restrictions.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30 of the prior year, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing these financial statements include the functional allocation of expenses, allowance for doubtful accounts for uncollectible amounts and accrued pension costs.

Accounts receivable

Accounts receivable arise primarily from contracts, membership dues, and advertising. Uncollectible accounts are charged to income when management determines the amounts are uncollectible. The allowance for doubtful accounts was \$8,836 at June 30, 2023 and 2022. It is the policy of management to review the outstanding accounts receivable at year end, as well as bad debt write-off experienced in the past, to establish an allowance for doubtful accounts for uncollectible amounts.

Property and equipment

Property and equipment are recorded at cost. Acquisitions of property and equipment with a cost of \$1,500 or more are capitalized. Provisions for depreciation and amortization of property and equipment are made on a straight-line basis over their estimated useful lives, principally three to ten years, or, in the case of leasehold improvements, over the lesser of the useful lives of the related assets or the lease term. Maintenance and repairs are charged to expense as incurred. When equipment is sold or retired, cost and accumulated depreciation are removed from the accounts and the resultant gain or loss, if any, is credited or charged to operations.

Donated and contributed services

Donated and contributed services are not included in the accompanying financial statements, as they do not meet the requirements for recognition as contributions.

San Diego Tourism Authority

Notes to Financial Statements

Revenue recognition

Membership dues and advertising contracts are recorded as income when earned. Amounts billed in advance are recorded as deferred income and recognized as income over the advertising contract period. Appropriations from government funding sources are recognized when earned in accordance with the contract. Revenue from SDTMD funding is recognized as services are performed and qualifying expenditures are incurred.

Grants

Grants are recognized as without donor restrictions or with donor restrictions, depending on the stipulations of the grant agreements. When a grant restriction expires, stipulated time restrictions end or purpose restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Fair value measurements

Financial Accounting Standards Board (“FASB”) issued authoritative guidance relating to fair value measurements and disclosure which establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

SDTA measures fair value at the price that would be received upon a sale of an asset in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. The guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Significant unobservable inputs for the asset or liability.

The valuation methodology SDTA uses to measure financial instruments at fair value utilize inputs derived principally from or corroborated by observable market data by correlation or other means.

SDTA attempts to utilize the best available information in measuring fair value. Refer to Note 7 for the fair value measurements of SDTA’s defined benefit plan and deferred compensation plan.

San Diego Tourism Authority

Notes to Financial Statements

Income taxes SDTA is a tax exempt organization per the Internal Revenue Code and Section 23701(e) of the Revenue and Taxation Code. Income determined to be unrelated business taxable income (“UBTI”) would be taxable. SDTA evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2023 and 2022, management believes SDTA did not have any uncertain tax positions.

At June 30, 2023, the federal statute of limitation remains open for the fiscal years 2020 through 2022. The statute of limitation for the state income tax returns remains open for the fiscal years 2020 through 2022. As of the date of this report, the fiscal year 2023 return has not been filed.

Functional allocation of expenses The cost of providing various programs and other activities is summarized on a functional basis below for the year ended June 30, 2023 (with comparative summarized financial information for the year ended June 30, 2022):

	June 30, 2023			June 30, 2022
	Program Services	Management and General	Total Expenses	Total Expenses
Salaries, taxes, and benefits	\$ 7,446,875	\$ 2,215,909	\$ 9,662,784	\$ 8,183,808
Program expenses				
Advertising	25,248,993	-	25,248,993	17,306,929
Outside professional services	3,254,411	252,992	3,507,403	2,552,261
Tourism research	586,137	-	586,137	482,053
Dues & subscriptions	330,135	8,364	338,499	204,815
Promotions & events	1,844,421	50,287	1,894,708	754,044
Other expenses	797,645	104,143	901,788	529,548
Total	32,061,742	415,786	32,477,528	21,829,650
General and administrative				
Office and equipment rent	597,143	178,093	775,236	749,980
Software and equipment maintenance	252,118	75,192	327,310	328,662
Depreciation & amortization	97,893	29,196	127,089	119,589
Telecommunications	88,154	26,291	114,445	100,057
Other expenses	282,670	84,304	366,974	339,765
Total	1,317,978	393,076	1,711,054	1,638,053
Pension related benefit cost	(269,129)	(75,207)	(344,336)	(281,571)
Total Expenses	\$ 40,557,466	\$ 2,949,564	\$ 43,507,030	\$ 31,369,940

San Diego Tourism Authority

Notes to Financial Statements

Advertising expenses SDTA expenses advertising costs ratably over the advertising contract period. Advertising expenses were \$25,248,993 and \$17,306,929 for the years ended June 30, 2023 and 2022, respectively.

Recently issued accounting pronouncements In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842), which requires an entity to recognize lease assets and lease liabilities on the statement of financial position for leases with terms of more than 12 months and to disclose key information about leasing arrangements. SDTA adopted this ASU on July 1, 2022 and the weighted-average remaining lease term for the operating leases was 4.08 years and the weighted-average discount rate for the operating leases was 2.86%. As of adoption date, SDTA recognized a right-of-use asset for operating leases of \$2,402,830 and lease liability of \$3,047,596.

3. Concentrations SDTA maintains cash balances with financial institutions and the account balances at the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor. At various times during the year, bank account balances may have been in excess of federally insured limits. SDTA has not experienced losses in such accounts.

All receivables are unsecured and, thus, subject to credit risk.

See Note 8 for revenue concentration related to funding from The San Diego Tourism Marketing District..

4. Balance Sheet Details

Accounts receivable

Accounts receivable consisted of the following at June 30:

	2023	2022
Public revenue contracts	\$ 9,096,265	\$ 4,744,301
Federal grants	294,081	-
Advertising customers	259,142	135,858
Service agreements	75,000	-
Events & sponsorships	32,256	40,500
Membership dues	26,373	11,641
Other customers	13,768	-
	9,796,885	4,932,300
Allowance for doubtful collections	(8,836)	(8,836)
	\$ 9,788,049	\$ 4,923,464

San Diego Tourism Authority

Notes to Financial Statements

4. Balance Sheet Details, Cont'd

Property and equipment

Property and equipment consisted of the following at June 30:

	2023	2022
Leasehold improvements	\$ 414,126	\$ 414,126
Computer equipment	339,338	186,500
Furniture and fixtures	181,990	181,990
Automobiles	44,909	44,909
	980,363	827,525
Accumulated depreciation and amortization	(577,054)	(495,644)
	\$ 403,309	\$ 331,881

Depreciation and amortization expense was \$127,089 and \$119,589 for the years ended June 30, 2023 and 2022, respectively.

Deferred income

Deferred income consisted of the following at June 30:

	2023	2022
Advertising	\$ 62,158	\$ 38,248
Events and sponsorships	42,750	99,710
Membership dues	41,159	15,109
	\$ 146,067	\$ 153,067

5. Debt

Line of Credit

SDTA has a revolving line of credit with Bank of America for \$350,000. Interest is payable monthly at a rate equal to the Bank's prime rate plus 0.50%. The line of credit expires on April 30, 2024.

There were no drawdowns on the line of credit during the years ended June 30, 2023 and 2022.

Paycheck Protection Program loan

SDTA received Paycheck Protection Program (PPP) loans of \$3,191,080 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right-of-return in the form of an obligation to be repaid if a barrier to entitlement is not met. SDTA recognized \$1,258,362 as grant revenue for the year ended June 30, 2022 as qualified expenses occurred during the year. Forgiveness of the PPP loan was granted by the Small Business Administration to SDTA in June 2022.

San Diego Tourism Authority

Notes to Financial Statements

6. Finance Leases SDTA periodically enters into finance leases, which are reported as assets, property and equipment, and lease obligations in the accompanying financial statements.

Property and equipment under finance leases include computer and telecommunication equipment, which totaled \$193,085 and \$138,437 as of June 30, 2023 and 2022, respectively. Depreciation expense related to these property and equipment, under finance lease, was \$30,172 and \$29,677 for the years ended June 30, 2023 and 2022, respectively.

Future minimum lease payments under finance leases together with the present value of the lease payments are as follows:

<i>Year Ending June 30,</i>			
2024	\$	42,479	
2025		34,571	
2026		20,571	
Total minimum lease payments		97,621	
Amount representing interest		(3,019)	
Present value of minimum lease payments		94,602	
Less current portion		(40,614)	
Long-term portion		\$ 53,988	

As of June 30, 2023, the weighted-average remaining lease term for SDTA's finance leases was 2.45 years. As of June 30, 2023, the weighted-average discount rate for SDTA's operating leases was 2.84%.

7. Employee Benefit Plans

Defined benefit plan

SDTA has a non-contributory defined benefit plan covering substantially all of its employees who completed one year of service by June 30, 2005. The plan is frozen, and employees hired after June 30, 2005 are not eligible. The change in plan assets and the related change in benefit obligation are as follows for the years ended June 30:

Change in benefit obligation:		2023		2022
Projected benefit obligation at beginning of year	\$	4,862,233	\$	6,301,321
Interest cost		212,411		160,052
Disbursements		(258,237)		(240,997)
Lump sum benefits paid		(100,532)		(283,661)
Actuarial gain		(272,297)		(1,074,482)
Projected benefit obligation at end of year	\$	4,443,578	\$	4,862,233

San Diego Tourism Authority

Notes to Financial Statements

<i>Defined benefit plan, cont'd</i>	Change in plan assets:		2023	2022
Fair value of plan assets at beginning of year			\$ 4,813,249	\$ 5,890,766
Employer contributions			62,400	80,000
Periodic benefits paid			(258,237)	(240,997)
Lump sum benefits paid			(100,532)	(283,661)
Actual return on plan assets			284,450	(632,859)
Fair value of plan assets at year end			\$ 4,801,330	\$ 4,813,249

Amounts recognized in the statement of financial position consist of:

Liabilities				
Current portion			\$ -	\$ (48,984)
Funded Status			\$ -	\$ (48,984)
Assets				
Noncurrent portion			\$ 357,752	\$ -
Funded Status			\$ 357,752	\$ -

The accumulated benefit obligation for the plan was \$4,443,578 and \$4,862,233 at June 30, 2023 and 2022, respectively.

The actuarially computed net periodic benefit cost includes the following components for the years ended June 30:

	2023	2022
Interest cost	\$ 212,411	\$ 160,052
Recognition of net gain	(391,107)	(136,683)
Expected return on plan assets	(165,640)	(304,940)
Net periodic benefit income	\$ (344,336)	\$ (281,571)

The plan's assumptions used to determine the net periodic benefit cost and the benefit obligation for the years ended June 30:

	2023	2022
Discount rate for net periodic pension cost	4.50%	2.75%
Expected long term return on plan assets	5.00%	7.00%
Discount rate for benefit obligation	5.25%	4.50%

San Diego Tourism Authority

Notes to Financial Statements

Defined benefit plan, cont'd

The Plan's expected future benefit payments at June 30, 2023, were as follows:

<i>Years Ending June 30,</i>	
2024	\$ 256,855
2025	292,051
2026	617,836
2027	500,785
2028	249,422
2029-2033	\$ 1,972,956

The basis used to determine the plan's overall expected long-term rate of return on assets has been the historical return of the investment portfolio.

The plan's assets by category were as follows as of June 30:

Investment Class – Percentage of Assets	2023	2022
Debt	33%	49%
Equity	51%	47%
Other	16%	4%
	100%	100%

The investment allocation of the assets in the non-contributory defined benefit plan shall be determined by the Finance Committee of SDTA.

The plan's assets include cash and investments. At June 30, 2023 and 2022, cash balances held were \$88,251 and \$173,737, respectively. The description of the valuation methodologies used for the plan's investments measured at fair value, are as follows.

Closed end funds and Exchange traded products: Valued based on the net asset value of units held by the plan at the respective year end.

Mutual funds: Value based on quoted prices that are observable for the asset.

Money market funds: Valued based on the net asset value of units held by the plan at the respective year end.

There have been no changes in the methodologies used at June 30, 2023 and 2022.

San Diego Tourism Authority

Notes to Financial Statements

Defined benefit plan, cont'd

The table below sets forth by level, within the fair value hierarchy, the plan's investments at fair value as of:

	June 30, 2023		
	Level 2	Level 3	Total
Closed end funds and exchange traded products	\$ 1,272,073	\$ -	\$ 1,272,073
Mutual funds	2,736,790	-	2,736,790
Money market funds	704,216	-	704,216
Total investments	\$ 4,713,079	\$ -	\$ 4,713,079

	June 30, 2022		
	Level 2	Level 3	Total
Closed end funds and exchange traded products	\$ 1,168,243	\$ -	\$ 1,168,243
Mutual funds	3,471,269	-	3,471,269
Total investments	\$ 4,639,512	\$ -	\$ 4,639,512

SDTA does not expect to contribute any funds to the plan for the year ending June 30, 2024.

SDTA expects that pension plan funding contributions will increase over the medium and long term, with changes in general economic and capital market conditions. Changes in the discount rate and investment returns can have a significant effect on the funded status of the pension plans and net assets. These discount rates or investment returns cannot be predicted with certainty and, therefore, SDTA cannot determine whether adjustments to net assets for minimum pension liability in subsequent years will be significant.

401(k) plan

SDTA is the sponsor of a savings and retirement plan covering substantially all of its employees. Under the provisions of this plan, SDTA has no funding obligation, but may make discretionary contributions from time to time.

SDTA contributed \$252,665 and \$214,970 to the plan for the years ended June 30, 2023 and 2022, respectively.

Deferred compensation plan

SDTA has a 457 Top Hat Plan ("457 Plan"), effective August 1, 2020, that permits a select group of management and highly compensated employees the opportunity to defer a percentage of their cash compensation.

The 457 Plan is funded by salary deferral contributions from participants with no employer contributions and or employer matching contributions. In accordance with authoritative guidance, SDTA has established and maintains a deferred compensation plan liability.

San Diego Tourism Authority

Notes to Financial Statements

Deferred compensation plan, cont'd

The 457 Plan is funded by salary deferral contributions from participants with no employer contributions and or employer matching contributions. In accordance with authoritative guidance, SDTA has established and maintains a deferred compensation plan liability.

Participant deferrals are invested in various securities and are included in non-current assets as investments.

The 457 Plan’s assets include cash and investments. At June 30, 2023 and 2022, cash balances held were \$2,159 and \$4,159, respectively. The table below sets forth by level, within the fair value hierarchy, the 457 Plan’s investments at fair value as of:

June 30, 2023			
	Level 2	Level 3	Total
Mutual funds	\$ 177,804	\$ -	\$ 177,804
June 30, 2022			
	Level 2	Level 3	Total
Mutual funds	\$ 158,458	\$ -	\$ 158,458

8. Economic Dependency

The San Diego Tourism Marketing District (“SDTMD”), modeled after a traditional business improvement district, is the governing body for the City’s Tourism Marketing District (“TMD”), which was established in 2007 by the San Diego City Council to generate increased tourism marketing funds to promote San Diego as a premier meetings and leisure travel destination.

The SDTMD district management plan does not provide guaranteed minimum base funding to SDTMD contractors. Per the plan, all SDTMD funding is allocated to contractors through a competitive application process.

SDTA received \$37,418,777 and \$25,462,611 in total SDTMD funding for the years ended June 30, 2023 and 2022, respectively. SDTMD funding constituted approximately 86% and 81% of total revenues in 2023 and 2022, respectively.

SDTA reported a cash advance liability from SDTMD of \$3,000,000 and \$2,000,000 as of June 30, 2023 and 2022, respectively, for on-going programs. Repayments occur in subsequent year.

San Diego Tourism Authority

Notes to Financial Statements

9. Contingencies SDTA may be subject to claims and legal proceedings that arise in the ordinary course of business. SDTA does have one such pending claim and legal proceeding. SDTA accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. As of June 30, 2023 and 2022, no accruals have been made related to contingencies.

SDTA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; job-related illnesses or injuries to employees; and natural disasters. SDTA purchases commercial insurance to cover the risk of loss for property, business liabilities, and medical payments.

10. Commitments

Contracts

SDTA executed a sales and marketing services contract agreement with San Diego Convention Center Corporation (“SDCCC”). This contract shall be in effect for an initial term of five years, commencing July 1, 2022, and terminating June 30, 2027. Under the contract SDTA is responsible for marketing, advertising, and promoting SDCCC for conventions, trade shows, and conferences. The purpose of these activities is maximizing hotel room night generation and producing economic benefit for the region and maximizing operation revenue for SDCCC.

For the performance of these services, SDCCC is required to pay SDTA \$220,833 monthly or \$2,650,000 annually, with increases of at least 3% per year during the term of the contract.

Operating leases

SDTA leases office space and equipment under operating leases.

Effective July 1, 2022, SDTA adopted the new lease accounting guidance in ASC 842, *Leases*, using a modified retrospective transition approach to all its leases existing at the date of initial application, which is the effective date of adoption. Consequently, financial information and disclosures required under the new lease accounting guidance has not been updated for periods before July 1, 2022. SDTA has elected the package of practical expedients permitted in ASC 842. Accordingly, SDTA accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC 842, (b) whether classification of the operating leases would be different in accordance with ASC 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of June 30, 2022) would have met the definition of initial direct costs in ASC 842 at lease commencement.

San Diego Tourism Authority

Notes to Financial Statements

Operating leases, cont'd As a result of the adoption of the new lease accounting guidance, on July 1, 2022, SDTA recognized (a) a lease liability of \$3,047,596, which represents the present value of the remaining lease payments of \$3,159,333, discounted using representative risk free rates, and (b) a ROU asset of approximately \$2,402,830, which represents the lease liability of approximately \$3,047,596 adjusted for unamortized deferred rent of \$644,766.

Right-of-use assets represent SDTA's right to use an underlying asset for the lease term and lease liabilities represent SDTA's obligation to make lease payments arising from the lease.

Right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. SDTA uses the risk-free rate based on the information available at commencement date in determining the present value of lease payments. SDTA's lease terms may include options to extend or terminate the lease when it is reasonably certain that SDTA will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

In addition to rent payments, certain of SDTA's lease agreements contain payments for common area maintenance and usage charges that are not fixed. SDTA accounts for these costs as variable payments and does not include such costs as a lease component.

SDTA has also elected the practical expedient of not recognizing a right-of-use asset or lease liability for short-term leases, which are leases with a term of twelve months or less. Lease payments on short-term leases are expensed as incurred.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

<i>Year Ending June 30,</i>	
2024	\$ 793,180
2025	773,255
2026	776,278
2027	130,330
Total minimum lease payments	2,473,043
Amount representing interest	(109,979)
Present value of minimum lease payments	2,363,064
Less current portion	(793,180)
Long-term portion	\$ 1,569,884

San Diego Tourism Authority

Notes to Financial Statements

Operating leases, cont'd

As of June 30, 2023, the weighted-average remaining lease term for SDTA's operating leases was 3.09 years. As of June 30, 2023, the weighted-average discount rate for SDTA's operating leases was 2.86%. Amortization of SDTA's operating lease right-of-use assets was approximately \$579,734 during the year ended June 30, 2023. SDTA's total operating lease expense was approximately \$775,236 and \$749,980 for the years ended June 30, 2023 and 2022, respectively.

Prior to adoption of ASC 842, *Leases*, SDTA's rent expense was recognized on a straight-line basis over the term of the leases. SDTA's lease agreements did contain rent escalation provisions or other incentives or concessions. The difference between rent expense and amounts paid was recorded as deferred rent.

11. Subsequent Events

SDTA has evaluated subsequent events through October 30, 2023, which is the date the financial statements were available to be issued.

Supplementary Information

San Diego Tourism Authority

Schedule of Budget and Actual Expenditures of San Diego Tourism Marketing District Funds For the Year Ended June 30, 2023

Direct Expenses	TMD Activities						Total Costs
	TMD Funds			Non-TMD Funds	Total TMD Activities	Non-TMD Activities	
	Budget	Actual	Variance				
Advertising	\$ 22,785,000	\$ 22,773,367	\$ (11,633)	\$ 497,718	\$ 23,271,085	\$ -	\$ 23,271,085
Advertising Agency Fees	2,250,000	2,203,125	(46,875)	101,875	2,305,000	-	2,305,000
Dues/Subscriptions	321,966	306,231	(15,735)	23,904	330,135	-	330,135
Events Registration Fees	242,816	194,042	(48,774)	53,845	247,887	3,685	251,572
Lead Generation Services	260,811	92,078	(168,733)	34,457	126,535	-	126,535
Marketing Materials/Promo Items	1,960	292	(1,668)	26,390	26,682	25,458	52,140
Outside Contractors	2,891,769	2,538,687	(353,082)	156,318	2,695,005	171,017	2,866,022
Personnel Benefits	866,708	757,644	(109,064)	278,448	1,036,092	133,880	1,169,972
Personnel Salaries and Wages	4,317,482	4,392,700	75,218	1,382,466	5,775,166	466,593	6,241,759
Rentals - remote office	22,727	13,875	(8,852)	25,912	39,787	-	39,787
Research	543,803	576,650	32,847	9,487	586,137	-	586,137
Sales Commissions	-	-	-	-	-	35,142	35,142
Special Event Production	70,159	36,187	(33,972)	462,844	499,031	161,972	661,003
Sponsorships	1,054,150	701,469	(352,681)	184,967	886,436	47,162	933,598
Travel	120,591	118,366	(2,225)	527,524	645,890	32,628	678,518
Allocation of Indirect Costs	2,714,064	2,714,064	-	1,545,606	4,259,670	43,291	4,302,961
	\$ 38,464,006	\$ 37,418,777	\$ (1,045,229)	\$ 5,311,761	\$ 42,730,538	\$ 1,120,828	\$ 43,851,366

The Funding Allocation Budget represents total funds allocated to SDTA by the San Diego Tourism Marketing District (SDTMD) for programs and services based upon the SDTMD projected assessment collections available for distribution to contractors and expected return on investment of allocated funding.

San Diego Tourism Authority

Schedule of Budget and Actual Expenditures - Indirect Costs For the Year Ended June 30, 2023

Indirect Costs	Total Organization		
	Budget	Actual	Variance
Personnel Salaries & Wages - Admin	\$ 1,602,665	\$ 1,794,337	\$ 191,672
Personnel Benefits - Admin	298,721	301,752	3,031
Recruitment	10,000	8,119	(1,881)
Employee Morale and Training	51,500	111,701	60,201
Subtotal - Personnel Costs	1,962,886	2,215,909	253,023
Outside services	231,500	252,992	21,492
Travel	35,000	104,143	69,143
Sponsorships and Events	23,200	50,287	27,087
Dues / Subscriptions / Memberships	7,450	8,364	914
Subtotal - Indirect Program Costs	297,150	415,786	118,636
IT Support Services	229,260	228,341	(919)
Facility Rental	679,669	635,700	(43,969)
Insurance	82,190	62,238	(19,952)
Office Supplies	53,033	40,183	(12,850)
Telephone	122,216	114,445	(7,771)
Interest Expense	885	1,549	664
Tangible Property	9,500	10,421	921
Depreciation	111,875	127,089	15,214
Repairs and Maintenance	832	-	(832)
Licenses and Fees	75,086	181,553	106,467
Professional Services	91,400	84,449	(6,951)
Board Meetings	9,000	21,013	12,013
Parking	106,020	80,764	(25,256)
Equipment Rent	54,981	95,298	40,317
Postage	9,875	10,511	636
Donations	10,000	17,500	7,500
Subtotal - General and Administrative	1,645,822	1,711,054	65,232
Less: Remote Sales Office Rent (Direct Exp)	(40,908)	(39,787)	1,121
Total Indirect Costs	\$ 3,864,950	\$ 4,302,962	\$ 438,012