San Diego Tourism Authority

Financial Statements
For the Years Ended June 30, 2019 and 2018
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Independent Auditors’ Report

To the Board of Directors
San Diego Tourism Authority
San Diego, California

We have audited the accompanying financial statements of the San Diego Tourism Authority ("Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Tourism Authority 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

As discussed in Note 1 to the financial statements, in 2019 the Organization adopted Accounting Standards Update (ASU) No. 2016-04, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Other Matters

Supplemental Information

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

San Diego, California
November 26, 2019
San Diego Tourism Authority
Statements of Financial Position

<table>
<thead>
<tr>
<th>June 30,</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$1,628,716</td>
<td>$1,453,640</td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public revenue contracts</td>
<td>9,586,463</td>
<td>7,256,272</td>
</tr>
<tr>
<td>Advertising</td>
<td>206,325</td>
<td>160,687</td>
</tr>
<tr>
<td>Events &amp; sponsorships</td>
<td>53,838</td>
<td>80,285</td>
</tr>
<tr>
<td>Service agreements</td>
<td>87,000</td>
<td>47,500</td>
</tr>
<tr>
<td>Membership dues</td>
<td>3,055</td>
<td>-</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(9,322)</td>
<td>(9,322)</td>
</tr>
<tr>
<td>Total accounts receivable, net</td>
<td>9,927,359</td>
<td>7,535,422</td>
</tr>
<tr>
<td>Deposits and prepaid expenses</td>
<td>283,528</td>
<td>219,636</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$11,839,603</td>
<td>$9,208,698</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td>80,914</td>
<td>115,622</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$11,920,517</td>
<td>$9,324,320</td>
</tr>
</tbody>
</table>

| **Liabilities and Net Assets** |           |           |
| **Liabilities** |         |           |
| **Current Liabilities** |         |           |
| Current portion of accrued pension costs | $360,000 | $300,000 |
| Current portion of capital lease obligations | 49,075 | 56,056 |
| Accounts payable | 6,266,278 | 5,208,274 |
| Accrued expenses | 1,687,867 | 1,680,599 |
| Advance payable | 3,000,000 | 2,000,000 |
| Deferred income: |       |           |
| Advertising | 157,810 | 173,133 |
| Events and sponsorships | 150,516 | 156,098 |
| Membership dues | 17,049 | 3,300 |
| Service agreements | 200,000 | - |
| **Total deferred income** | 525,375 | 332,531 |
| **Total Current Liabilities** | $11,888,595 | 9,577,460 |
| **Non-Current Liabilities** |         |           |
| Accrued pension costs, less current portion | 363,672 | 224,450 |
| Capital lease obligations, less current portion | 30,647 | 52,636 |
| **Total Non-Current Liabilities** | 394,319 | 277,086 |
| **Total Liabilities** | $12,282,914 | 9,854,546 |
| **Net Deficit Without Donor Restrictions** | (362,397) | (530,226) |
| **Total Liabilities and Net Deficit** | $11,920,517 | $9,324,320 |

The accompanying notes are an integral part of these financial statements.
## San Diego Tourism Authority

### Statements of Activities

For the Years Ended June 30,

<table>
<thead>
<tr>
<th></th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Diego Tourism Marketing District</td>
<td>$41,411,711</td>
<td>-</td>
<td>$41,411,711</td>
<td>$36,331,135</td>
</tr>
<tr>
<td>County of San Diego Grants</td>
<td>67,000</td>
<td>-</td>
<td>67,000</td>
<td>69,000</td>
</tr>
<tr>
<td><strong>Total Public Revenue</strong></td>
<td>41,478,711</td>
<td>-</td>
<td>41,478,711</td>
<td>36,400,135</td>
</tr>
<tr>
<td><strong>Private Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service agreements</td>
<td>2,393,000</td>
<td>200,000</td>
<td>2,593,000</td>
<td>2,401,012</td>
</tr>
<tr>
<td>Membership dues</td>
<td>1,321,658</td>
<td>-</td>
<td>1,321,658</td>
<td>1,321,763</td>
</tr>
<tr>
<td>Advertising sales</td>
<td>1,277,893</td>
<td>-</td>
<td>1,277,893</td>
<td>1,255,301</td>
</tr>
<tr>
<td>Events</td>
<td>664,336</td>
<td>-</td>
<td>664,336</td>
<td>573,118</td>
</tr>
<tr>
<td>Commissions</td>
<td>112,044</td>
<td>-</td>
<td>112,044</td>
<td>138,093</td>
</tr>
<tr>
<td>Sponsorships</td>
<td>101,000</td>
<td>-</td>
<td>101,000</td>
<td>74,261</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,078</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>200,000</td>
<td>(200,000)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Private Revenue</strong></td>
<td>6,069,931</td>
<td>-</td>
<td>6,069,931</td>
<td>5,764,626</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>47,548,642</td>
<td>-</td>
<td>47,548,642</td>
<td>42,164,761</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Salaries &amp; Benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>8,563,002</td>
<td>-</td>
<td>8,563,002</td>
<td>8,497,230</td>
</tr>
<tr>
<td>Benefits</td>
<td>1,192,186</td>
<td>-</td>
<td>1,192,186</td>
<td>1,206,261</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>601,395</td>
<td>-</td>
<td>601,395</td>
<td>578,512</td>
</tr>
<tr>
<td>Training &amp; recruitment</td>
<td>42,269</td>
<td>-</td>
<td>42,269</td>
<td>74,154</td>
</tr>
<tr>
<td><strong>Total Salaries &amp; Benefits</strong></td>
<td>10,398,852</td>
<td>-</td>
<td>10,398,852</td>
<td>10,356,157</td>
</tr>
<tr>
<td><strong>Program of Work</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>27,452,930</td>
<td>-</td>
<td>27,452,930</td>
<td>21,707,681</td>
</tr>
<tr>
<td>Outside professional services</td>
<td>3,722,803</td>
<td>-</td>
<td>3,722,803</td>
<td>3,462,002</td>
</tr>
<tr>
<td>Promotions &amp; events</td>
<td>1,649,427</td>
<td>-</td>
<td>1,649,427</td>
<td>2,476,794</td>
</tr>
<tr>
<td>Travel &amp; entertainment</td>
<td>783,663</td>
<td>-</td>
<td>783,663</td>
<td>726,022</td>
</tr>
<tr>
<td>Tourism research</td>
<td>543,619</td>
<td>-</td>
<td>543,619</td>
<td>435,882</td>
</tr>
<tr>
<td>Dues &amp; subscriptions</td>
<td>197,274</td>
<td>-</td>
<td>197,274</td>
<td>199,834</td>
</tr>
<tr>
<td>Publications</td>
<td>84,198</td>
<td>-</td>
<td>84,198</td>
<td>132,787</td>
</tr>
<tr>
<td>Promotional materials</td>
<td>67,670</td>
<td>-</td>
<td>67,670</td>
<td>64,162</td>
</tr>
<tr>
<td><strong>Total Program of Work</strong></td>
<td>34,501,584</td>
<td>-</td>
<td>34,501,584</td>
<td>29,205,164</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these financial statements.*
San Diego Tourism Authority

Statements of Activities
For the Years Ended June 30,

<table>
<thead>
<tr>
<th></th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General &amp; Administrative</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office and equipment rent</td>
<td>1,055,270</td>
<td>-</td>
<td>1,055,270</td>
<td>829,534</td>
</tr>
<tr>
<td>Software and equipment maintenance</td>
<td>312,825</td>
<td>-</td>
<td>312,825</td>
<td>350,221</td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>70,062</td>
<td>-</td>
<td>70,062</td>
<td>176,521</td>
</tr>
<tr>
<td>Telephone</td>
<td>135,251</td>
<td>-</td>
<td>135,251</td>
<td>132,246</td>
</tr>
<tr>
<td>Outside professional services</td>
<td>69,298</td>
<td>-</td>
<td>69,298</td>
<td>96,047</td>
</tr>
<tr>
<td>Printing &amp; postage</td>
<td>81,535</td>
<td>-</td>
<td>81,535</td>
<td>83,200</td>
</tr>
<tr>
<td>Bank charges &amp; processing fees</td>
<td>85,866</td>
<td>-</td>
<td>85,866</td>
<td>80,878</td>
</tr>
<tr>
<td>Office supplies</td>
<td>49,625</td>
<td>-</td>
<td>49,625</td>
<td>63,347</td>
</tr>
<tr>
<td>Insurance &amp; taxes</td>
<td>57,770</td>
<td>-</td>
<td>57,770</td>
<td>32,147</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>3,037</td>
<td>-</td>
<td>3,037</td>
<td>3,653</td>
</tr>
<tr>
<td>Facility maintenance</td>
<td>616</td>
<td>-</td>
<td>616</td>
<td>2,139</td>
</tr>
<tr>
<td><strong>Total General &amp; Administrative</strong></td>
<td>1,921,155</td>
<td>-</td>
<td>1,921,155</td>
<td>1,849,933</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>46,821,591</td>
<td>-</td>
<td>46,821,591</td>
<td>41,411,254</td>
</tr>
<tr>
<td>Change in Net Assets from Operating Activities</td>
<td>727,051</td>
<td>-</td>
<td>727,051</td>
<td>753,507</td>
</tr>
<tr>
<td>Pension Changes and Net Periodic Benefit (Cost)/ Income</td>
<td>(559,222)</td>
<td>-</td>
<td>(559,222)</td>
<td>191,181</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td>167,829</td>
<td>-</td>
<td>167,829</td>
<td>944,688</td>
</tr>
<tr>
<td>Net Deficit Without Donor Restrictions at Beginning of Year</td>
<td>(530,226)</td>
<td>-</td>
<td>(530,226)</td>
<td>(1,474,914)</td>
</tr>
<tr>
<td><strong>Net Deficit Without Donor Restrictions at End of Year</strong></td>
<td>$ (362,397)</td>
<td>-</td>
<td>$ (362,397)</td>
<td>$ (530,226)</td>
</tr>
</tbody>
</table>

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,

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$167,829</td>
<td>$944,688</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>70,062</td>
<td>176,521</td>
</tr>
<tr>
<td>(Increase) / decrease in operating assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>(2,391,937)</td>
<td>(84,557)</td>
</tr>
<tr>
<td>Deposits and prepaid expenses</td>
<td>(63,892)</td>
<td>42,441</td>
</tr>
<tr>
<td>Increase / (decrease) in operating liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,058,004</td>
<td>36,047</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>7,268</td>
<td>136,168</td>
</tr>
<tr>
<td>Accrued pension costs</td>
<td>199,222</td>
<td>(551,181)</td>
</tr>
<tr>
<td>Advances payable</td>
<td>1,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Deferred income</td>
<td>192,844</td>
<td>(24,285)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>$239,400</td>
<td>675,842</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Cash Flows from Investing Activities</strong></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of property and equipment</td>
<td>(1,727)</td>
<td>(8,404)</td>
</tr>
<tr>
<td><strong>Net cash from investing activities</strong></td>
<td>(1,727)</td>
<td>(8,404)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Cash Flows from Financing Activities</strong></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal payments on capitalized lease obligations</td>
<td>(62,597)</td>
<td>(67,004)</td>
</tr>
<tr>
<td><strong>Net cash from financing activities</strong></td>
<td>(62,597)</td>
<td>(67,004)</td>
</tr>
</tbody>
</table>

| **Net Increase in Cash** | 175,076 | 600,434 |
| **Cash at Beginning of Year** | $1,453,640 | 853,206 |
| **Cash at End of Year** | $1,628,716 | $1,453,640 |

### Supplemental Disclosures of Cash Flow Information:

- **Cash paid during the year for:**
  - Interest | $1,123 | $2,392 |

- **Noncash Investing Activities:**
  - Property and equipment acquired under capital leases | $33,627 | $64,338 |

The accompanying notes are an integral part of these financial statements.
1. Nature of Organization and Significant Accounting Policies

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 offices in Chicago, Illinois and Alexandria, Virginia (Washington, D.C. area) to help promote San Diego tourism in those regions.

Summary of Significant Accounting Policies
A summary of the SDTA’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

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 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 4.

The following represents the financial assets for the year ended:

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 1,628,716</td>
</tr>
<tr>
<td>Accounts receivable, net within one year</td>
<td>9,927,359</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>11,556,075</td>
</tr>
</tbody>
</table>

Less amounts available to be used within one year subject to:

| Contractual or donor restrictions     | 200,000         |
| Financial assets available for general expenditures within one year | $ 11,356,075   |
### 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.

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.

### 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 $9,322 at June 30, 2019 and 2018, respectively. 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.
### 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 the San Diego Tourism Marketing District (“SDTMD”) funding is recognized as services are performed and qualifying expenditures are incurred.

### 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.

### Advertising expenses

SDTA expenses advertising costs ratably over the advertising contract period. Advertising expenses were $27,452,930 and $21,707,681 for the years ended June 30, 2019 and 2018, respectively.

### 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.
San Diego Tourism Authority
Notes to Financial Statements

**Fair value measurements, cont’d**
SDTA attempts to utilize the best available information in measuring fair value. Refer to Note 6 for the fair value measurements of SDTA’s defined benefit plan.

**Income taxes**
SDTA is a not-for-profit entity and is not subject to income tax under Section 501(c)(6) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code. There are several sources of revenue, however, that are subject to unrelated business income tax. Management analyzed these revenue sources and determined SDTA had no unrelated business income tax for the years ended June 30, 2019 and 2018.

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, 2019 and 2018, management believes SDTA did not have any uncertain tax positions.

At June 30, 2019, the federal statute of limitation remains open for the 2016 through 2019 tax years. The statute of limitations for the state income tax returns remains open for the 2015 through 2019 tax years.

**Recently adopted accounting standard**
The Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. SDTA adopted this during the current year. The primary changes are a decrease in the number of net asset classes from three to two, reporting of net assets with or without donor restrictions, requiring disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requiring reporting of expenses by function and nature.

**Functional allocation of expenses**
The cost of providing various programs and other activities is summarized on a functional basis below for the years:

<table>
<thead>
<tr>
<th>June 30, 2019</th>
<th>Program Services</th>
<th>Management and General</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Benefits</td>
<td>$ 8,540,857</td>
<td>$ 1,857,995</td>
<td>$ 10,398,852</td>
</tr>
<tr>
<td>Program Expenses</td>
<td>$33,991,846</td>
<td>$ 509,738</td>
<td>$34,501,584</td>
</tr>
<tr>
<td>General and Administrative</td>
<td>$ 1,578,560</td>
<td>$ 342,595</td>
<td>$ 1,921,155</td>
</tr>
<tr>
<td>Pension Related Costs</td>
<td>$ 463,083</td>
<td>$ 96,139</td>
<td>$ 559,222</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$44,574,346</td>
<td>$ 2,806,467</td>
<td>$47,380,813</td>
</tr>
</tbody>
</table>
San Diego Tourism Authority
Notes to Financial Statements

Functional allocation of expenses, cont’d

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Benefits</td>
<td>$ 8,339,541</td>
<td>$ 2,016,615</td>
<td>$10,356,156</td>
</tr>
<tr>
<td>Program Expenses</td>
<td>28,733,593</td>
<td>471,571</td>
<td>29,205,164</td>
</tr>
<tr>
<td>General and Administrative</td>
<td>1,479,979</td>
<td>369,955</td>
<td>1,849,934</td>
</tr>
<tr>
<td>Pension Related Costs</td>
<td>(157,834)</td>
<td>(33,347)</td>
<td>(191,181)</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$ 38,395,279</td>
<td>$ 2,824,794</td>
<td>$41,220,073</td>
</tr>
</tbody>
</table>

2. Concentrations

SDTA maintains its cash in bank deposit accounts, which at times exceed federally insured deposit limits. SDTA has not experienced any losses in these deposit accounts. Management believes that SDTA is not exposed to any significant credit risk with respect to its cash.

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

See Note 7 for discussion of revenue concentrations.

3. Property and Equipment

Property and equipment was comprised of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>$ 1,631,083</td>
<td>$ 1,631,083</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>533,117</td>
<td>499,490</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>157,094</td>
<td>155,367</td>
</tr>
<tr>
<td></td>
<td>$ 2,321,294</td>
<td>2,285,940</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(2,240,380)</td>
<td>(2,170,318)</td>
</tr>
<tr>
<td></td>
<td>$ 80,914</td>
<td>$ 115,622</td>
</tr>
</tbody>
</table>

Depreciation and amortization expense was $70,062 and $176,521 for the years ended June 30, 2019 and 2018, respectively.

4. Debt

SDTA has a revolving line of credit with Bank of America for $350,000. Interest is payable monthly at a rate equal to the LIBOR daily floating rate plus 2.5%. The line of credit expires on January 31, 2020.

There were no drawdowns on the line of credit during the year ended June 30, 2019.

5. Capital Leases

SDTA periodically enters into capital leases, which are reported as assets and lease obligations in the accompanying financial statements. Property and equipment under capital leases include computer and telecommunication equipment, which totaled $463,009 and $429,381 at June 30, 2019 and 2018, respectively.
5. Capital Leases, Cont’d

Depreciation expense related to these capitalized leases was $62,263 and $81,377 for the years ended June 30, 2019 and 2018, respectively.

The following is a schedule of future minimum lease payments under capital leases together with the present value of the lease payments as of June 30, 2019:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
</tr>
<tr>
<td></td>
<td>$ 49,224</td>
</tr>
<tr>
<td></td>
<td>2021</td>
</tr>
<tr>
<td></td>
<td>$ 25,392</td>
</tr>
<tr>
<td></td>
<td>2022</td>
</tr>
<tr>
<td></td>
<td>$ 5,255</td>
</tr>
<tr>
<td>Total minimum lease payments</td>
<td>$ 79,871</td>
</tr>
<tr>
<td>Amount representing interest</td>
<td>(149)</td>
</tr>
<tr>
<td>Present value of minimum lease payments</td>
<td>$ 79,722</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(49,075)</td>
</tr>
<tr>
<td>Long-term portion</td>
<td>$ 30,647</td>
</tr>
</tbody>
</table>

6. 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 as of and for the years ended June 30, 2019 and 2018 are as follows:

<table>
<thead>
<tr>
<th>Change in benefit obligation:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected benefit obligation at beginning of year</td>
<td>$ 6,226,048</td>
<td>$ 6,745,195</td>
</tr>
<tr>
<td>Interest cost</td>
<td>$ 260,551</td>
<td>$ 282,710</td>
</tr>
<tr>
<td>Disbursements</td>
<td>(592,296)</td>
<td>(602,913)</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>471,577</td>
<td>(198,944)</td>
</tr>
<tr>
<td>Projected benefit obligation at end of year</td>
<td>$ 6,365,880</td>
<td>$ 6,226,048</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in plan assets:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$ 5,701,598</td>
<td>$ 5,669,564</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>360,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(592,296)</td>
<td>(602,913)</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>172,906</td>
<td>274,947</td>
</tr>
<tr>
<td>Fair value of plan assets at year end</td>
<td>$ 5,642,208</td>
<td>$ 5,701,598</td>
</tr>
</tbody>
</table>
Defined benefit plan, cont’d

Amounts recognized in the balance sheet consist of:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion</td>
<td>(360,000)</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Noncurrent portion</td>
<td>(363,672)</td>
<td>(224,450)</td>
</tr>
<tr>
<td>Funded Status</td>
<td>(723,672)</td>
<td>(524,450)</td>
</tr>
</tbody>
</table>

The accumulated benefit obligation for the plan was $6,365,880 and $6,226,048 at June 30, 2019 and 2018, respectively.

For the years ended June 30, 2019 and 2018, the actuarially computed net periodic benefit cost includes the following components:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost</td>
<td>260,551</td>
<td>282,710</td>
</tr>
<tr>
<td>Amortization of loss</td>
<td>638,370</td>
<td>77,281</td>
</tr>
<tr>
<td>Settlement cost</td>
<td>-</td>
<td>166,648</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(339,699)</td>
<td>(328,920)</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>559,222</td>
<td>197,719</td>
</tr>
</tbody>
</table>

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions at June 30, 2019 and 2018, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (gain) loss</td>
<td>$ -</td>
<td>(243,929)</td>
</tr>
<tr>
<td>Amortization of net loss</td>
<td>-</td>
<td>(144,971)</td>
</tr>
<tr>
<td>Total recognized in net assets without donor restrictions</td>
<td>-</td>
<td>(388,900)</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>559,222</td>
<td>197,719</td>
</tr>
<tr>
<td>Total recognized in net periodic benefit cost/ (income) and net assets without donor restrictions</td>
<td>$ 559,222</td>
<td>(191,181)</td>
</tr>
</tbody>
</table>

The plan’s assumptions used to determine the net periodic benefit cost and the benefit obligation for the years ended June 30, 2019 and 2018, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate for net periodic pension cost</td>
<td>4.25%</td>
<td>4.25%</td>
</tr>
<tr>
<td>Discount rate for benefit obligation</td>
<td>3.75%</td>
<td>4.25%</td>
</tr>
<tr>
<td>Expected long term return on plan assets</td>
<td>7.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
The Plan’s expected future benefit payments at June 30, 2019, were as follows:

<table>
<thead>
<tr>
<th>Years Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$228,435</td>
</tr>
<tr>
<td>2021</td>
<td>237,605</td>
</tr>
<tr>
<td>2022</td>
<td>419,716</td>
</tr>
<tr>
<td>2023</td>
<td>320,601</td>
</tr>
<tr>
<td>2024</td>
<td>319,351</td>
</tr>
<tr>
<td>2025-2029</td>
<td>$2,503,595</td>
</tr>
</tbody>
</table>

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.

As of June 30, 2019 and 2018, the plan’s assets by category were as follows:

<table>
<thead>
<tr>
<th>Investment Class – Percentage of Assets</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>46%</td>
<td>45%</td>
</tr>
<tr>
<td>Equity</td>
<td>51%</td>
<td>52%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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

Following is a description of the valuation methodologies used for the plan’s investments measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018:

*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.

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

<table>
<thead>
<tr>
<th>June 30, 2019</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed end funds and exchange traded products</td>
<td>$1,808,404</td>
<td>$</td>
<td>$1,808,404</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>3,833,804</td>
<td>-</td>
<td>3,833,804</td>
</tr>
<tr>
<td>Total investments</td>
<td>$5,642,208</td>
<td>$</td>
<td>$5,642,208</td>
</tr>
</tbody>
</table>
Defined benefit plan, cont’d

<table>
<thead>
<tr>
<th></th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed end funds and</td>
<td>$ 1,778,263</td>
<td>$ -</td>
<td>$ 1,778,263</td>
</tr>
<tr>
<td>exchange traded products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual funds</td>
<td>3,923,335</td>
<td>-</td>
<td>3,923,335</td>
</tr>
<tr>
<td>Total investments</td>
<td>$ 5,701,598</td>
<td>$ -</td>
<td>$ 5,701,598</td>
</tr>
</tbody>
</table>

SDTA expects to contribute approximately $360,000 to the plan for the year ending June 30, 2020.

SDTA recognizes periodic pension cost in accordance with the Financial Accounting Standards Board’s authoritative guidance relating to Compensation-Retirement Benefits.

Due to the recent decline in general economic and capital market conditions, SDTA expects that pension plan funding contributions will increase over the medium and long term. 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, 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 $283,471 and $228,014 into the plan for the years ended June 30, 2019 and 2018, respectively.

7. Economic Dependency

SDTA signed a five-year service agreement effective April 1, 2008 with the San Diego Tourism Promotion Corporation (“SDTPC”). During 2010, SDTPC changed its name to the San Diego Tourism Marketing District (“SDTMD”). The 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 premiere meetings and leisure travel destination.

Prior to April 2013, and per SDTMD’s service agreement with the City, SDTA was guaranteed minimum base funding of 50% of SDTMD’s total annual collections. SDTA was also eligible to apply annually for incremental funding over and above its base funding for unique marketing initiatives or events that brought added promotional value to the destination.
During November 2012, the TMD, which was initially established for a period of five years, was renewed for a period of 39.5 years by the San Diego City Council. A new five year service agreement, effective April 1, 2013, was established between the City and SDTMD. The new agreement does not provide guaranteed minimum base funding to SDTMD contractors. Per the new agreement, all SDTMD funding is allocated to contractors through a competitive application process.

In August 2014, the City began holding a portion of collected TMD assessments in reserve pursuant to the First Amendment to the Operating Agreement between the City and SDTMD. The agreement allowed the City to reserve assessments collected from lodging businesses that did not execute a waiver and indemnification agreement defending and holding the City harmless and waiving any right to reimbursement or relief from assessment funds due to a legal challenge then pending against the TMD assessment collected during the 39.5 year period. The agreement provided for the release of assessments so held one year after receipt by the City. Waiver and indemnification agreements were executed by approximately 18% of city lodging businesses.

In November 2014, the City approved the Second Amendment to the Operating Agreement that rescinded the First Amendment thereby eliminating the waiver and indemnification agreements and providing for defined amounts of collected TMD assessments to be held in reserve for each of four consecutive fiscal years beginning in fiscal year 2014. Per the terms of the Second Amendment, reserved assessments accumulate to $30.0 million by the end of fiscal year 2017 if no resolution to the pending litigation is obtained before that date. The City may, at its discretion, increase the amount of collected TMD assessments to be held in reserve based on its revised assessment of the risk of loss associated with the pending litigation.

In August 2016, the City adopted a Resolution modifying the District Plan to define city lodging business for the purposes of TMD assessments as lodging businesses with seventy or more rooms.

Rulings on the various legal challenges have allowed the City to begin partial release of TMD assessments held in reserve. Funds released from the reserve by the City to SDTMD totaled $5 million and $3 million for the years ended June 30, 2019 and 2018, respectively. The released funds were allocated to SDTA for specific marketing initiatives during fiscal years 2019 and 2018.
7. Economic Dependency, Cont’d

SDTA received $41,411,711 and $36,331,135 in total SDTMD funding for the years ended June 30, 2019 and 2018, respectively.

SDTMD funding constituted approximately 87% and 86% of total revenues in 2019 and 2018, respectively.

During June 2017 through July 2017, SDTA received cash advances from SDTMD totaling $2 million for on-going programs. Repayment of the advance was made during 2018.

During June 2018 and July 2018, new cash advances were received totaling $2 million. In December 2018, an additional advance of $1 million was received from SDTMD.

8. Insurance

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 for which the SDTA carries commercial insurance. SDTA purchases commercial insurance to cover the risk of loss for property, business liabilities, and medical payments.

9. Commitments

Operating leases

SDTA leases certain office facilities and equipment under operating leases. Future minimum lease payments, for which SDTA is obligated under the agreements, excluding the San Diego office lease, are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$160,830</td>
</tr>
<tr>
<td>2021</td>
<td>$97,335</td>
</tr>
<tr>
<td>2022</td>
<td>$67,602</td>
</tr>
<tr>
<td>2023</td>
<td>$50,628</td>
</tr>
<tr>
<td>2024</td>
<td>$50,368</td>
</tr>
<tr>
<td>Thereafter</td>
<td>$6,724</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$433,487</strong></td>
</tr>
</tbody>
</table>

SDTA has an office lease in Chicago, IL. In March 2019, SDTA entered into a third amendment to the lease agreement and extended the lease for an additional five years through July 2024.

SDTA entered into an office lease in San Diego, CA in May 2011 with payments commencing September 1, 2011 with initial term expiring August 31, 2019 and an extension option. In May 2018, the lease was amended to extend the expiration date to August 31, 2026. Under the lease, SDTA is responsible for its share of operating expenses.
Operating leases, cont’d  
Future minimum San Diego office lease payments for which SDTA is obligated under the agreement is as follows at June 30, 2019:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$ 585,702</td>
</tr>
<tr>
<td>2021</td>
<td>621,104</td>
</tr>
<tr>
<td>2022</td>
<td>650,024</td>
</tr>
<tr>
<td>2023</td>
<td>679,342</td>
</tr>
<tr>
<td>2024</td>
<td>710,708</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,649,082</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,895,962</strong></td>
</tr>
</tbody>
</table>

Total office lease expense for the offices in San Diego, Alexandria and Chicago, including certain maintenance and ancillary charges, was $984,257 and $732,728 for the years ended June 30, 2019 and 2018, respectively.

10. Subsequent Events  
SDTA has evaluated subsequent events through November 26, 2019, which is the date the financial statements were available to be issued.
Supplemental Schedule
San Diego Tourism Authority
Schedule of Budget and Actual Expenditures of SDTMD Funds
For the Year Ended June 30, 2019

SAN DIEGO TOURISM MARKETING DISTRICT (SDTMD) FUNDING

<table>
<thead>
<tr>
<th>Expense Classification</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising and promotion</td>
<td>$ 25,674,483</td>
<td>$ 25,417,873</td>
<td>$ 256,610</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>7,989,871</td>
<td>7,920,878</td>
<td>68,993</td>
</tr>
<tr>
<td>Support services</td>
<td>5,015,682</td>
<td>5,043,211</td>
<td>(27,529)</td>
</tr>
<tr>
<td>General and administrative</td>
<td>2,119,692</td>
<td>2,120,109</td>
<td>(417)</td>
</tr>
<tr>
<td>Research</td>
<td>470,977</td>
<td>480,860</td>
<td>(9,883)</td>
</tr>
<tr>
<td>Events, travel and entertainment</td>
<td>402,291</td>
<td>428,780</td>
<td>(26,489)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$ 41,672,996</strong></td>
<td><strong>$ 41,411,711</strong></td>
<td><strong>$ 261,285</strong></td>
</tr>
</tbody>
</table>

The Budget represents total funds allocated to SDTA by the 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.