

San Diego Tourism Authority



Financial Statements

For the Years Ended June 30, 2017 and 2016

San Diego Tourism Authority

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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** (the "Organization"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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.

Mayer Hoffman McCann P.C.

November 29, 2017
San Diego, California

San Diego Tourism Authority

Statements of Financial Position

As of June 30, 2017 and 2016

<i>June 30,</i>	2017	2016
Assets		
Current Assets		
Cash	\$ 853,206	\$ 600,712
Accounts receivable:		
Public revenue contracts	7,287,379	6,812,827
Advertising	152,029	216,822
Miscellaneous	11,223	18,891
Events & sponsorships	6,500	63,557
Membership dues	3,056	883
Service agreements and advances	-	320,718
Allowance for doubtful accounts	(9,322)	(9,322)
Total accounts receivable, net	7,450,865	7,424,376
Deposits and prepaid expenses	262,077	230,999
Total Current Assets	8,566,148	8,256,087
Property and equipment, net	219,401	451,835
Total Assets	\$ 8,785,549	\$ 8,707,922
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Current portion of accrued pension costs	\$ 315,000	\$ 145,672
Current portion of capital lease obligations	59,742	62,695
Accounts payable	5,172,227	5,184,828
Accrued expenses	1,544,431	1,496,312
Advance payable	2,000,000	2,000,000
Deferred income:		
Advertising	188,999	202,658
Events and sponsorships	149,517	83,700
Membership dues	18,300	11,155
Total deferred income	356,816	297,513
Total Current Liabilities	9,448,216	9,187,020
Long-Term Liabilities		
Accrued pension costs, less current portion	760,631	1,237,055
Capital lease obligations, less current portion	51,616	74,219
Total Long-Term Liabilities	812,247	1,311,274
Total Liabilities	10,260,463	10,498,294
Net Unrestricted Deficit	(1,474,914)	(1,790,372)
Total Liabilities and Net Assets	\$ 8,785,549	\$ 8,707,922

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

San Diego Tourism Authority

Statements of Activities For the Years Ended June 30, 2017 and 2016

	2017	2016
Revenue		
Public Revenue		
San Diego Tourism Marketing District	\$ 30,418,550	\$ 28,039,872
County of San Diego Grants	67,000	65,000
Total Public Revenue	30,485,550	28,104,872
Private Revenue		
Service agreements	2,550,912	2,704,288
Membership dues	1,339,169	1,306,683
Advertising sales	1,353,567	1,215,181
Events	556,579	585,330
Commissions	129,871	174,706
Sponsorships	70,930	99,031
Miscellaneous income	30,332	26
Total Private Revenue	6,031,360	6,085,245
Total Revenue	36,516,910	34,190,117
Operating Expenses		
Salaries & Benefits		
Salaries	7,957,304	7,417,436
Benefits	1,189,485	1,058,893
Payroll taxes	555,656	528,386
Training	44,340	33,564
Total Salaries & Benefits	9,746,785	9,038,279
Program of Work		
Advertising	17,829,772	15,277,695
Outside professional services	3,461,885	3,770,940
Promotions & events	1,617,049	1,945,926
Travel & entertainment	643,312	677,563
Tourism research	510,331	453,100
Dues & subscriptions	191,852	211,304
Publications	112,767	133,665
Promotional materials	79,081	103,203
Total Program of Work	24,446,049	22,573,396

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

San Diego Tourism Authority

Statements of Activities For the Years Ended June 30, 2017 and 2016

	2017	2016
General & Administrative		
Office and equipment rent	780,168	794,213
Software and equipment maintenance	467,145	653,728
Depreciation & amortization	274,214	256,322
Telephone	132,696	149,763
Outside professional services	89,570	72,068
Printing & postage	88,845	78,822
Bank charges & processing fees	72,298	64,268
Insurance & taxes	69,983	71,686
Office supplies	58,415	59,344
Bad debt expense	15,000	-
Miscellaneous expenses	7,476	13,016
Facility maintenance	-	126
Total General & Administrative	2,055,810	2,213,356
Total Operating Expenses	36,248,644	33,825,031
Change in Net Assets from Operating Activities	268,266	365,086
Pension-related Changes other than Net Periodic Pension Cost	47,192	(828,199)
Change in Net Assets	315,458	(463,113)
Net Unrestricted Deficit at Beginning of Year	(1,790,372)	(1,327,259)
Net Unrestricted Deficit at End of Year	\$ (1,474,914)	\$ (1,790,372)

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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in Net Deficit	\$ 315,458	\$ (463,113)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	274,214	256,322
Bad debt expense	15,000	-
(Increase) / decrease in operating assets:		
Accounts receivable, net	(41,489)	1,729,033
Deposits and prepaid expenses	(31,078)	(58,323)
Increase / (decrease) in operating liabilities:		
Accounts payable	(12,601)	(2,027,366)
Accrued expenses	48,119	173,748
Accrued pension costs	(307,096)	472,275
Deferred income	59,303	139,028
Net Cash From Operating Activities	319,830	221,604
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(10,760)
Net Cash From Investing Activities	-	(10,760)
Cash Flows from Financing Activities		
Principal payments on capitalized lease obligations	(67,336)	(54,502)
Net Cash From Financing Activities	(67,336)	(54,502)
Net Change in Cash	252,494	156,342
Cash at Beginning of Year	600,712	444,370
Cash at End of Year	\$ 853,206	\$ 600,712
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 4,732	\$ 3,735
Noncash Investing and Financing Activities:		
The Organization acquired approximately \$42,000 and \$93,000 of fixed assets under capital lease agreements during 2017 and 2016, respectively.		

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

San Diego Tourism Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies

A summary of the **San Diego Tourism Authority's** significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Organization

The **San Diego Tourism Authority** ("SDTA"), formally 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.

Liquidity

See Note 7 regarding management's assessment of SDTA's liquidity.

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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the organization may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

As of June 30, 2017 and 2016, all assets were unrestricted.

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 and accrued pension costs.

San Diego Tourism Authority

Notes to Financial Statements

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, 2017 and 2016, 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. During the year ended June 30, 2017, management determined that certain accounts receivable comprised primarily of advances and expense reimbursements made under service agreements were uncollectible resulting in a charge to income of \$15,000.

Inventory SDTA's inventory of promotional items is stated at the lower of cost or fair market value.

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.

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:

San Diego Tourism Authority

Notes to Financial Statements

Fair value measurements, cont'd

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 6 for the fair value measurements of SDTA's defined benefit plan.

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 \$17,829,772 and \$15,277,695 for the years ended June 30, 2017 and 2016, respectively.

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, 2017 and 2016.

At June 30, 2017, the federal statute of limitation remains open for the 2014 through 2017 tax years. The statute of limitations for the state income tax returns remains open for the 2013 through 2017 tax years.

Functional allocation of expenses

The cost of providing various programs and other activities is summarized on a functional basis below for the years ended June 30:

	2017	2016
Program services	\$ 33,462,473	\$ 31,837,141
Management and general	2,738,979	2,816,089
	\$ 36,201,452	\$ 34,653,230

San Diego Tourism Authority

Notes to Financial Statements

- 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:

	2017	2016
Software	\$ 1,631,083	\$ 2,062,473
Leasehold improvements	-	491,266
Computer equipment	426,748	884,630
Furniture and fixtures	155,367	410,259
	2,213,198	3,848,628
Accumulated depreciation and amortization	(1,993,797)	(3,396,793)
	\$ 219,401	\$ 451,835

Depreciation and amortization expense was \$274,214 and \$256,322 for the years ended June 30, 2017 and 2016, respectively.

- 4. Long-Term Debt** SDTA has a revolving line of credit in the amount of \$100,000. Interest is payable monthly at a floating rate of the Prime rate plus 2.00% per annum. The minimum interest rate is 6.00%. The line of credit expires upon cancellation by either party. There was one draw on the line during the fiscal year ended June 30, 2017 and no outstanding balance as of June 30, 2017.

5. Leases

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 at June 30, 2017:

<i>Year Ending June 30,</i>			
2018	\$	219,279	
2019		142,376	
2020		70,458	
2021		-	
2022		-	
Thereafter		-	
	\$	432,113	

San Diego Tourism Authority

Notes to Financial Statements

Operating leases, cont'd

SDTA entered into an office lease in San Diego, CA in May 2011 with payments commencing September 1, 2011. The lease expires August 31, 2019 and includes an extension option. Under the lease, SDTA is responsible for its share of operating expenses.

SDTA entered into an office lease in Alexandria, VA in August 2012 with payments commencing September 1, 2012. During the year ended June 30, 2014, SDTA exercised an option to renew the lease for an additional five years as well as expanded the leased premises.

Future minimum San Diego office lease payments for which SDTA is obligated under the agreement is as follows at June 30, 2017:

<i>Year Ending June 30,</i>	
2018	\$ 493,218
2019	516,710
2020	86,782
2021	-
2022	-
Thereafter	-
	\$ 1,096,710

Total office lease expense for the offices in San Diego, Alexandria and Chicago, including certain maintenance and ancillary charges, was \$701,063 and \$674,546 for the years ended June 30, 2017 and 2016, respectively.

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 \$365,043 and \$457,097 at June 30, 2017 and 2016, respectively. Depreciation expense related to these capitalized leases was \$72,810 and \$52,863 for the years ended June 30, 2017 and 2016, respectively.

San Diego Tourism Authority

Notes to Financial Statements

Capital leases, cont'd 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, 2017:

<i>Year Ending June 30,</i>			
2018	\$	62,250	
2019		36,349	
2020		16,567	
2021		-	
Total minimum lease payments		115,166	
Amount representing interest		(3,808)	
Present value of minimum lease payments		111,358	
Less current portion		(59,742)	
Long-term portion		\$ 51,616	

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, 2017 and 2016 are as follows:

Change in benefit obligation:		2017		2016
Projected benefit obligation at beginning of year	\$	6,459,443	\$	5,866,757
Interest cost		270,341		276,835
Disbursements		(179,788)		(209,938)
Actuarial loss		195,199		525,789
Projected benefit obligation at end of year	\$	6,745,195	\$	6,459,443
<hr/>				
Change in plan assets:		2017		2016
Fair value of plan assets at beginning of year	\$	5,076,716	\$	4,956,305
Employer contributions		330,000		403,660
Benefits paid		(179,788)		(209,938)
Actual return on plan assets		442,636		(73,311)
Fair value of plan assets at year end	\$	5,669,564	\$	5,076,716

San Diego Tourism Authority

Notes to Financial Statements

Defined benefit plan, cont'd Amounts recognized in the balance sheet consist of:

Current portion	\$ (315,000)	\$ (145,672)
Noncurrent portion	(760,631)	(1,237,055)
Funded Status	\$ (1,075,631)	\$ (1,382,727)

The accumulated benefit obligation for the plan was \$6,745,195 and \$6,459,443 at June 30, 2017 and 2016, respectively.

The estimated net loss, prior service cost and transition obligation for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$77,281.

For the years ended June 30, 2017 and 2016, the actuarially computed net periodic benefit cost includes the following components:

	2017	2016
Interest cost	\$ 270,341	\$ 276,835
Amortization of loss	82,949	55,998
Expected return on plan assets	(283,194)	(285,097)
Net periodic benefit cost	\$ 70,096	\$ 47,736

Other changes in plan assets and benefit obligations recognized in unrestricted net assets at June 30, 2017 and 2016, were as follows:

	2017	2016
Net loss	\$ 35,757	\$ 884,197
Amortization of net loss	(82,949)	(55,998)
Total recognized in unrestricted net assets	(47,192)	828,199
Net periodic benefit cost	70,096	47,736
Total recognized in net periodic benefit cost and unrestricted net assets	\$ 22,904	\$ 875,935

The plan's assumptions used to determine the net periodic pension cost and the benefit obligation for the years ended June 30, 2017 and 2016, were as follows:

	2017	2016
Discount rate for net periodic pension cost	4.25%	4.75%
Discount rate for benefit obligation	4.25%	4.25%
Expected long term return on plan assets	7.00%	7.00%
Rate of compensation increase	0.00%	0.00%

San Diego Tourism Authority

Notes to Financial Statements

Defined benefit plan, cont'd The Plan's expected future benefit payments at June 30, 2017, were as follows:

<i>Years Ending June 30,</i>			
2018	\$	186,407	
2019		189,769	
2020		227,316	
2021		236,632	
2022		428,103	
2023-2027		1,935,462	

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, 2017 and 2016, the plan's assets by category were as follows:

Investment Class – Percentage of Assets	2017	2016
Debt	48%	53%
Equity	50%	45%
Other	2%	2%
	100%	100%

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

Following is a description of the valuation methodologies used for plan's investments measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016:

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 June 30, 2017:

	Level 2	Level 3	Total
Closed end funds and			
Exchange traded products	\$ 1,692,203	\$ -	\$ 1,692,203
Mutual funds	3,977,361	-	3,977,361
Total investments	\$ 5,669,564	\$ -	\$ 5,669,564

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, 2016:

	Level 2	Level 3	Total
Closed end funds and			
Exchange traded products	\$ 697,105	\$ -	\$ 697,105
Mutual funds	4,379,611	-	4,379,611
Total investments	\$ 5,076,716	\$ -	\$ 5,076,716

SDTA expects to contribute \$315,000 to the plan for the year ending June 30, 2018.

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 \$218,318 and \$201,682 into the plan for the years ended June 30, 2017 and 2016, 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.

San Diego Tourism Authority

Notes to Financial Statements

7. Economic Dependency, Cont'd

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 currently 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, the amount of collected TMD assessments to be held in reserve by the City during fiscal year 2014 was \$5.5 million. Reserved assessments under the Second Amendment 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.

San Diego Tourism Authority

Notes to Financial Statements

- 7. Economic Dependency, Cont'd** TMD assessments collected above the defined reserve amounts are available to SDTMD for distribution to its contractors. SDTA received \$30,418,550 and \$28,039,872 in SDTMD funding for the years ended June 30, 2017 and 2016, respectively.

Total SDTMD funding constituted approximately 83% and 82% of total revenues in 2017 and 2016, respectively.

During June and July 2015, SDTA received cash advances from SDTMD totaling \$2,000,000 for on-going programs. Repayment of the advance was made during 2016.

New cash advances totaling \$2,000,000 were received during 2016.

- 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** SDTA has evaluated commitments through November 29, 2017, which is the date the financial statements were available to be issued.
- 10. Subsequent Events** SDTA has evaluated subsequent events through November 29, 2017, which is the date the financial statements were available to be issued.

**Auditors' Report on Compliance
Based on an
Audit of the Financial Statements as Related to
The San Diego Tourism Marketing District Funding Agreement**



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**Auditors' Report on Compliance
Based on an Audit of the Financial Statements as Related to
the San Diego Tourism Marketing District Funding Agreement**

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

We have audited the financial statements of the **San Diego Tourism Authority** (the "Organization") as of and for the years ended June 30, 2017 and 2016 and have issued our report thereon dated November 29, 2017.

We conducted our audits in accordance with accounting principles generally accepted in the United States of America. Those standards require that we perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Organization is the responsibility of the Organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the compliance applicable to the San Diego Tourism Marketing District ("SDTMD") Funding Agreement. However, the objective of our audits of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no material instances of noncompliance that are required to be reported herein.

This report is intended for the information of the SDTMD, the Organization's Board of Directors, the Organization's management, and officials of applicable governmental granting agencies. However, this report is a matter of public record and its distribution is not limited.

Mayer Hoffman McCann P.C.

San Diego, California
November 29, 2017

San Diego Tourism Authority

Schedule of Budget and Actual Expenditures of SDTMD Funds For the Year Ended June 30, 2017 (Unaudited)

SAN DIEGO TOURISM MARKETING DISTRICT (SDTMD) FUNDING

Program Funding	Budget	Actual	Variance
Expense Classification			
Advertising and Promotion	\$ 16,209,929	\$ 16,228,683	\$ (18,754)
Salaries and Benefits	7,070,999	7,107,294	(36,295)
Support Services	3,865,685	3,630,228	235,457
General and Administrative	2,394,942	2,382,205	12,737
Research	427,793	460,676	(32,883)
Events, Travel and Entertainment	658,543	609,464	49,079
Total Expenses	<u>\$ 30,627,891</u>	<u>\$ 30,418,550</u>	<u>\$ 209,341</u>

The 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.
