

San Diego Tourism Authority



Financial Statements

For the Years Ended June 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 28, 2018
San Diego, California

San Diego Tourism Authority

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current Assets		
Cash	\$ 1,453,640	\$ 853,206
Accounts receivable:		
Public revenue contracts	7,256,272	7,287,379
Advertising	160,687	152,029
Events & sponsorships	80,285	6,500
Service agreements	47,500	-
Miscellaneous	-	11,223
Membership dues	-	3,056
Allowance for doubtful accounts	(9,322)	(9,322)
Total accounts receivable, net	7,535,422	7,450,865
Deposits and prepaid expenses	219,636	262,077
Total Current Assets	9,208,698	8,566,148
Property and equipment, net	115,622	219,401
Total Assets	\$ 9,324,320	\$ 8,785,549
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Current portion of accrued pension costs	\$ 300,000	\$ 315,000
Current portion of capital lease obligations	56,056	59,742
Accounts payable	5,208,274	5,172,227
Accrued expenses	1,680,599	1,544,431
Advance payable	2,000,000	2,000,000
Deferred income:		
Advertising	173,133	188,999
Events and sponsorships	156,098	149,517
Membership dues	3,300	18,300
Total deferred income	332,531	356,816
Total Current Liabilities	9,577,460	9,448,216
Long-Term Liabilities		
Accrued pension costs, less current portion	224,450	760,631
Capital lease obligations, less current portion	52,636	51,616
Total Long-Term Liabilities	277,086	812,247
Total Liabilities	9,854,546	10,260,463
Net Unrestricted Deficit	(530,226)	(1,474,914)
Total Liabilities and Net Assets	\$ 9,324,320	\$ 8,785,549

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

San Diego Tourism Authority

Statements of Activities For the Years Ended June 30, 2018 and 2017

	2018	2017
Revenue		
Public Revenue		
San Diego Tourism Marketing District	\$ 36,331,135	\$ 30,418,550
County of San Diego Grants	69,000	67,000
Total Public Revenue	36,400,135	30,485,550
Private Revenue		
Service agreements	2,401,012	2,550,912
Membership dues	1,321,763	1,339,169
Advertising sales	1,255,301	1,353,567
Events	573,118	556,579
Commissions	138,093	129,871
Sponsorships	74,261	70,930
Miscellaneous income	1,078	30,332
Total Private Revenue	5,764,626	6,031,360
Total Revenue	42,164,761	36,516,910
Operating Expenses		
Salaries & Benefits		
Salaries	8,497,230	7,957,304
Benefits	1,403,980	1,189,485
Payroll taxes	578,512	555,656
Training	74,154	44,340
Total Salaries & Benefits	10,553,876	9,746,785
Program of Work		
Advertising	21,707,681	17,829,772
Outside professional services	3,462,002	3,461,885
Promotions & events	2,476,794	1,617,049
Travel & entertainment	726,022	643,312
Tourism research	435,882	510,331
Dues & subscriptions	199,834	191,852
Publications	132,787	112,767
Promotional materials	64,162	79,081
Total Program of Work	29,205,164	24,446,049

The accompanying notes are an integral part of these financial statements

San Diego Tourism Authority

Statements of Activities For the Years Ended June 30, 2018 and 2017

	2018	2017
General & Administrative		
Office and equipment rent	829,534	780,168
Software and equipment maintenance	350,221	467,145
Depreciation & amortization	176,521	274,214
Telephone	132,246	132,696
Outside professional services	96,047	89,570
Printing & postage	83,200	88,845
Bank charges & processing fees	80,878	72,298
Office supplies	63,347	58,415
Insurance & taxes	32,147	69,983
Miscellaneous expenses	3,653	7,476
Facility maintenance	2,139	-
Bad debt expense	-	15,000
Total General & Administrative	1,849,933	2,055,810
Total Operating Expenses	41,608,973	36,248,644
Change in Net Assets from Operating Activities	555,788	268,266
Pension-related Changes other than Net Periodic Pension Cost	388,900	47,192
Change in Net Assets	944,688	315,458
Net Unrestricted Deficit at Beginning of Year	(1,474,914)	(1,790,372)
Net Unrestricted Deficit at End of Year	\$ (530,226)	\$ (1,474,914)

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in Net Deficit	\$ 944,688	\$ 315,458
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation & amortization	176,521	274,214
Bad debt expense	-	15,000
(Increase) / decrease in operating assets:		
Accounts receivable, net	(84,557)	(41,489)
Deposits and prepaid expenses	42,441	(31,078)
Increase / (decrease) in operating liabilities:		
Accounts payable	36,047	(12,601)
Accrued expenses	136,168	48,119
Accrued pension costs	(551,181)	(307,096)
Deferred income	(24,285)	59,303
Net Cash from Operating Activities	675,842	319,830
Cash Flows from Investing Activities		
Purchases of property and equipment	(8,404)	-
Net Cash from Investing Activities	(8,404)	-
Cash Flows from Financing Activities		
Principal payments on capitalized lease obligations	(67,004)	(67,336)
Net Cash from Financing Activities	(67,004)	(67,336)
Net Increase in Cash	600,434	252,494
Cash at Beginning of Year	853,206	600,712
Cash at End of Year	\$ 1,453,640	\$ 853,206
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 2,392	\$ 4,732
Noncash Investing and Financing Activities:		
The organization acquired approximately \$64,000 and \$42,000 of fixed assets under capital lease agreements during 2018 and 2017, 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"), 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.

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, 2018 and 2017, all net 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

<i>Accounts receivable</i>	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 approximately \$9,300 at June 30, 2018 and 2017, 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.
<i>Inventory</i>	SDTA's inventory of promotional items is stated at the lower of cost or fair market value.
<i>Property and equipment</i>	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.
<i>Revenue recognition</i>	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.
<i>Fair value measurements</i>	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.

San Diego Tourism Authority

Notes to Financial Statements

Fair value measurements, cont'd

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 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 \$21,707,681 and \$17,829,772 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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, 2018 and 2017, management believes SDTA did not have any uncertain tax positions.

San Diego Tourism Authority

Notes to Financial Statements

*Income taxes,
cont'd*

At June 30, 2018, the federal statute of limitation remains open for the 2015 through 2018 tax years. The statute of limitations for the state income tax returns remains open for the 2014 through 2018 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:

	2018	2017
Program services	\$ 38,395,279	\$ 33,462,473
Management and general	2,824,794	2,738,979
	\$ 41,220,073	\$ 36,201,452

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:

	2018	2017
Software	\$ 1,631,083	\$ 1,631,083
Computer equipment	499,490	426,748
Furniture and fixtures	155,367	155,367
	2,285,940	2,213,198
Accumulated depreciation and amortization	(2,170,318)	(1,993,797)
	\$ 115,622	\$ 219,401

Depreciation and amortization expense was \$176,521 and \$274,214 for the years ended June 30, 2018 and 2017, respectively.

**4. Long-Term
Debt**

SDTA has a commercial line of credit in the amount of \$100,000. The full amount of the line has been allocated to the organization's purchasing card program. Outstanding takedowns on the line issued under the card program are due and paid monthly. The commercial line matures in January 2019.

San Diego Tourism Authority

Notes to Financial Statements

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, 2018:

<i>Year Ending June 30,</i>		
2019	\$	139,416
2020		70,458
2021		-
2022		-
2023		-
Thereafter		-
	\$	209,874

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. During the year ended June 30, 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.

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, 2018:

<i>Year Ending June 30,</i>		
2019	\$	516,710
2020		585,702
2021		621,104
2022		650,024
2023		679,342
Thereafter		2,359,790
	\$	5,412,672

Total office lease expense for the offices in San Diego, Alexandria and Chicago, including certain maintenance and ancillary charges, was \$732,728 and \$701,063 for the years ended June 30, 2018 and 2017, respectively.

San Diego Tourism Authority

Notes to Financial Statements

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 \$429,381 and \$365,043 at June 30, 2018 and 2017, respectively. Depreciation expense related to these capitalized leases was \$81,377 and \$72,810 for the years ended June 30, 2018 and 2017, 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, 2018:

<i>Year Ending June 30,</i>			
2019	\$	57,207	
2020		38,013	
2021		14,184	
2022		588	
Total minimum lease payments		109,992	
Amount representing interest		(1,300)	
Present value of minimum lease payments		108,692	
Less current portion		(56,056)	
Long-term portion		\$ 52,636	

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, 2018 and 2017 are as follows:

Change in benefit obligation:	2018	2017
Projected benefit obligation at beginning of year	\$ 6,745,195	\$ 6,459,443
Interest cost	282,710	270,341
Disbursements	(602,913)	(179,788)
Actuarial loss (gain)	(198,944)	195,199
Projected benefit obligation at end of year	\$ 6,226,048	\$ 6,745,195

San Diego Tourism Authority

Notes to Financial Statements

<i>Defined benefit plan, cont'd</i>	Change in plan assets:	2018	2017
	Fair value of plan assets at beginning of year	\$ 5,669,564	\$ 5,076,716
	Employer contributions	360,000	330,000
	Benefits paid	(602,913)	(179,788)
	Actual return on plan assets	274,947	442,636
	Fair value of plan assets at year end	\$ 5,701,598	\$ 5,669,564

Amounts recognized in the balance sheet consist of:

Current portion	\$ (300,000)	\$ (315,000)
Noncurrent portion	(224,450)	(760,631)
Funded Status	\$ (524,450)	\$ (1,075,631)

The accumulated benefit obligation for the plan was \$6,226,048 and \$6,745,195 at June 30, 2018 and 2017, 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 \$67,662.

For the years ended June 30, 2018 and 2017, the actuarially computed net periodic benefit cost includes the following components:

	2018	2017
Interest cost	\$ 282,710	\$ 270,341
Amortization of loss	77,281	82,949
Settlement cost	166,648	-
Expected return on plan assets	(328,920)	(283,194)
Net periodic benefit cost	\$ 197,719	\$ 70,096

Other changes in plan assets and benefit obligations recognized in unrestricted net assets at June 30, 2018 and 2017, were as follows:

	2018	2017
Net (gain) loss	\$ (243,929)	\$ 35,757
Amortization of net loss	(144,971)	(82,949)
Total recognized in unrestricted net assets	(388,900)	(47,192)
Net periodic benefit cost	197,719	70,096
Total recognized in net periodic benefit cost and unrestricted net assets	\$ (191,181)	\$ 22,904

San Diego Tourism Authority

Notes to Financial Statements

Defined benefit plan, cont'd

The plan's assumptions used to determine the net periodic pension cost and the benefit obligation for the years ended June 30, 2018 and 2017, were as follows:

	2018	2017
Discount rate for net periodic pension cost	4.25%	4.25%
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%

The Plan's expected future benefit payments at June 30, 2018, were as follows:

Years Ending June 30,

2019	\$	192,864
2020		230,505
2021		239,808
2022		407,073
2023		323,184
2024-2028	\$	1,939,376

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, 2018 and 2017, the plan's assets by category were as follows:

Investment Class – Percentage of Assets	2018	2017
Debt	45%	48%
Equity	52%	50%
Other	3%	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, 2018 and 2017:

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.

San Diego Tourism Authority

Notes to Financial Statements

Defined benefit plan, cont'd

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, 2018:

	Level 2	Level 3	Total
Closed end funds and Exchange traded products	\$ 1,778,263	\$ -	\$ 1,778,263
Mutual funds	3,923,335	-	3,923,335
Total investments	\$ 5,701,598	\$ -	\$ 5,701,598

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

SDTA expects to contribute approximately \$300,000 to the plan for the year ending June 30, 2019.

SDTA recognizes periodic pension cost in accordance with the FASB'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 \$228,014 and \$218,318 into the plan for the years ended June 30, 2018 and 2017, respectively.

San Diego Tourism Authority

Notes to Financial Statements

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 million by the end of fiscal year 2017 if no resolution to the pending

San Diego Tourism Authority

Notes to Financial Statements

7. Economic Dependency, Cont'd

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. During fiscal year 2018, \$3 million of funds so held were released to SDTMD. The released funds were allocated to SDTA for specific marketing initiatives during fiscal year 2018.

SDTA received \$36,331,135 and \$30,418,550 in SDTMD funding for the years ended June 30, 2018 and 2017, respectively.

Total SDTMD funding constituted approximately 86% and 83% of total revenues in 2018 and 2017, respectively.

During June 2017 and July 2017, SDTA received cash advances from SDTMD totaling \$2,000,000 for 2018 programs. Repayment of the advance was made during June 2018 and July 2018.

During June 2018 and July 2018, new cash advances totaling \$2,000,000 were received for 2019 programs. Repayment of this advance is due by June 30, 2019.

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 28, 2018, which is the date the financial statements were available to be issued.

10. Subsequent Events

SDTA has evaluated subsequent events through November 28, 2018, which is the date the financial statements were available to be issued.

**Accountant's Report on Compliance
Based on an
Audit of the Financial Statements as Related to
The San Diego Tourism Marketing District ("SDTMD") Funding Agreement**

San Diego Tourism Authority

Schedule of Budget and Actual Expenditures of SDTMD Funds For the Year Ended June 30, 2018 (Unaudited)

SAN DIEGO TOURISM MARKETING DISTRICT (SDTMD) FUNDING

Program Funding	Budget	Actual	Variance
Expense Classification			
Advertising and Promotion	\$ 20,827,360	\$ 21,041,098	\$ (213,738)
Salaries and Benefits	7,893,013	7,825,438	67,575
Support Services	4,223,835	3,954,382	269,453
General and Administrative	2,202,129	2,196,744	5,385
Research	435,196	408,387	26,809
Events, Travel and Entertainment	840,253	905,086	(64,833)
Total Expenses	<u>\$ 36,421,786</u>	<u>\$ 36,331,135</u>	<u>\$ 90,651</u>

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.
