

San Diego Tourism Authority



Financial Statements

For the Years Ended June 30, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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.

January 18, 2016
San Diego, California

San Diego Tourism Authority

Statements of Financial Position

<i>June 30,</i>	2015	2014
Assets		
Current Assets		
Cash	\$ 444,370	\$ 906,019
Accounts receivable:		
Public revenue contracts	6,822,226	4,418,951
Advertising	1,854,692	652,550
Service agreements and advances	267,862	413,161
Events & sponsorships	153,850	25,213
Miscellaneous	57,356	5,702
Membership dues	6,745	14,134
Allowance for doubtful accounts	(9,322)	(9,322)
Total accounts receivable, net	9,153,409	5,520,389
Inventory	-	178,949
Deposits and prepaid expenses	172,676	582,307
Total Current Assets	9,770,455	7,187,664
Property and equipment, net	603,977	822,361
Total Assets	\$ 10,374,432	\$ 8,010,025
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Current portion of accrued pension costs	\$ 320,419	\$ 339,598
Current portion of capital lease obligations	42,475	48,649
Accrued expenses	1,322,564	820,907
Accounts payable	7,212,194	4,196,404
Advance payable	2,000,000	2,000,000
Deferred income:		
Advertising	105,715	119,347
Events and sponsorships	52,770	833,045
Total deferred income	158,485	952,392
Total Current Liabilities	11,056,137	8,357,950
Long-Term Liabilities		
Accrued pension costs, less current portion	590,033	770,343
Capital lease obligations, less current portion	55,521	19,077
Total Long-Term Liabilities	645,554	789,420
Total Liabilities	11,701,691	9,147,370
Net Unrestricted Deficit	(1,327,259)	(1,137,345)
Total Liabilities and Net Assets	\$ 10,374,432	\$ 8,010,025

San Diego Tourism Authority

Statements of Activities For the Years Ended June 30, 2015 and 2014

	2015	2014
Revenue		
Public Revenue		
San Diego Tourism Marketing District	\$ 22,971,760	\$ 17,260,222
County of San Diego Grants	79,000	72,000
Total Public Revenue	23,050,760	17,332,222
Private Revenue		
Advertising sales	2,820,204	2,792,013
Service agreements	2,508,124	2,273,000
Membership dues	1,365,018	1,106,154
Sponsorships	1,268,910	84,647
Tickets & retail sales	1,026,421	1,233,788
Events	564,941	487,007
Commissions	92,906	68,388
Miscellaneous income	1,569	15,526
Total Private Revenue	9,648,093	8,060,523
Total Revenue	32,698,853	25,392,745
Operating Expenses		
Salaries & Benefits		
Salaries	6,677,845	5,635,574
Benefits	960,203	724,877
Payroll taxes	478,211	415,471
Training	38,743	50,537
Total Salaries & Benefits	8,155,002	6,826,459
Program of Work		
Advertising	15,869,864	12,442,340
Outside professional services	2,912,008	2,167,816
Promotions & events	1,401,368	646,633
Tickets	815,923	997,687
Travel & entertainment	548,906	317,054
Tourism research	468,194	479,402
Dues & subscriptions	143,889	108,124
Publications	115,019	110,636
Promotional materials	74,133	67,029
Total Program of Work	22,349,304	17,336,721

San Diego Tourism Authority

Statements of Activities, Continued For the Years Ended June 30, 2015 and 2014

	2015	2014
General & Administrative		
Office and equipment rent	791,323	785,381
Software and equipment maintenance	469,121	433,117
Depreciation & amortization	308,910	340,775
Telephone	152,465	147,202
Outside professional services	118,757	81,253
Bad debt expense	117,781	-
Bank charges & processing fees	97,540	82,831
Printing & postage	81,545	89,682
Insurance & taxes	74,139	73,543
Office supplies	39,665	36,624
Miscellaneous expenses	7,114	8,819
Facility maintenance	-	147
Total General & Administrative	2,258,360	2,079,374
Total Operating Expenses	32,762,666	26,242,554
Change in Net Assets from Operating Activities	(63,813)	(849,809)
Pension-related Changes other than Net Periodic Pension Cost	(126,101)	31,210
Change in Net Assets	(189,914)	(818,599)
Net Unrestricted Deficit at Beginning of Year	(1,137,345)	(318,746)
Net Unrestricted Deficit at End of Year	\$ (1,327,259)	\$ (1,137,345)

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, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in Net Deficit	\$ (189,914)	\$ (818,599)
Adjustments to reconcile change in net assets to net cash provided by / (used in) operating activities:		
Depreciation & amortization	308,910	340,776
Bad debt expense	117,781	-
(Increase) / decrease in operating assets:		
Accounts receivable, net	(3,750,801)	233,370
Deposits and prepaid expenses	409,631	(525,193)
Inventory	178,949	36,705
Increase / (decrease) in operating liabilities:		
Accounts payable	3,015,790	913,344
Accrued expenses	501,657	83,772
Accrued pension costs	(199,489)	(144,656)
Deposits payable	-	(13,000)
Deferred income	(793,907)	48,672
Net Cash Provided By (Used in) Operating Activities	(401,393)	155,191
Cash Flows from Financing Activities		
Principal payments on capitalized lease obligations	(60,256)	(68,546)
Principal payments on long-term debt	-	(42,423)
Net Cash Used In Financing Activities	(60,256)	(110,969)
Net (Decrease) / Increase in Cash	(461,649)	44,222
Cash at Beginning of Year	906,019	861,797
Cash at End of Year	\$ 444,370	\$ 906,019
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 2,341	\$ 5,454
Noncash Investing and Financing Activities:		
The organization acquired approximately \$91,000 and \$28,000 of fixed assets under capital lease agreements during 2015 and 2014, respectively.		

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

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.

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, 2015 and 2014, 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

<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 \$9,322 at June 30, 2015 and 2014, 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, 2014, there were no uncollectible amounts. During the year ended June 30, 2015, 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 \$117,781.
<i>Inventory</i>	SDTA's inventory of promotional items is stated at the lower of cost or fair market value. There was no inventory balance at June 30, 2015.
<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 \$15,869,864 and \$12,442,340 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014.

At June 30, 2015, the federal statute of limitation remains open for the 2012 through 2015 tax years. The statute of limitations for the state income tax returns remains open for the 2011 through 2015 tax years.

San Diego Tourism Authority

Notes to Financial Statements

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:

	2015	2014
Program services	\$ 30,141,494	\$ 23,914,157
Management and general	2,747,273	2,297,187
	\$ 32,888,767	\$ 26,211,344

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:

	2015	2014
Software	\$ 2,062,473	\$ 2,062,473
Leasehold improvements	491,266	491,266
Computer equipment	780,450	689,924
Furniture and fixtures	410,259	410,259
	3,744,448	3,653,922
Accumulated depreciation and amortization	(3,140,471)	(2,831,561)
	\$ 603,977	\$ 822,361

Depreciation and amortization expense was \$308,910 and \$340,775 for the years ended June 30, 2015 and 2014, respectively.

4. Line of Credit

SDTA had a line of credit in the amount of \$300,000. Interest was payable monthly at the floating rate of the Prime rate plus 2.00% annum. The interest rate was 5.25% during 2014. The line of credit expired on June 15, 2015. There were no draws on the line during the year ended June 30, 2014 and no outstanding balance as of June 30, 2014.

SDTA has a revolving line of credit in the amount of \$300,000. Interest is payable monthly at a floating rate equal to the Prime rate plus 1.75% per annum. The minimum interest rate is 5.00%. The line of credit expires upon cancellation by either party. There were no draws on the line during the fiscal year ended June 30, 2015 and no outstanding balance as of June 30, 2015.

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, 2015:

<i>Year Ending June 30,</i>	
2016	\$ 216,808
2017	117,710
2018	89,823
2019	92,364
2020	70,458
Thereafter	-
	<u>\$ 587,163</u>

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.

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.

Future minimum San Diego office lease payments for which SDTA is obligated under the agreement is as follows at June 30, 2015:

<i>Year Ending June 30,</i>	
2016	\$ 453,018
2017	472,124
2018	493,218
2019	516,710
2020	86,782
Thereafter	-
	<u>\$ 2,021,852</u>

Total office lease expense for the offices in San Diego, Alexandria and Chicago, including certain maintenance and ancillary charges, was \$680,045 and \$663,553 for the years ended June 30, 2015 and 2014, 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 \$363,677 and \$273,150 at June 30, 2015 and 2014, respectively. Depreciation expense related to these capitalized leases was \$52,566 and \$66,744 for the years ended June 30, 2015 and 2014, 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, 2015:

<i>Year Ending June 30,</i>	
2016	\$ 43,536
2017	37,094
2018	18,884
Total minimum lease payments	99,514
Amount representing interest	(1,518)
Present value of minimum lease payments	97,996
Less current portion	(42,475)
Long-term portion	\$ 55,521

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 projected benefit obligation as of and for the years ended June 30, 2015 and 2014 are as follows:

Change in benefit obligation:	2015	2014
Projected benefit obligation at beginning of year	\$ 5,789,885	\$ 5,657,083
Interest cost	284,742	281,247
Disbursements	(191,655)	(421,050)
Actuarial (gain) loss	(16,215)	272,605
Projected benefit obligation at end of year	\$ 5,866,757	\$ 5,789,885

San Diego Tourism Authority

Notes to Financial Statements

<i>Defined benefit plan, cont'd</i>	2015	2014
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 4,679,944	\$ 4,402,486
Employer contributions	321,048	206,064
Administrative expenses		(10,622)
Benefits paid	(191,655)	(421,050)
Actual return on plan assets	146,968	503,066
Fair value of plan assets at year end	\$ 4,956,305	\$ 4,679,944
Amounts recognized in the balance sheet consist of:		
Current portion	\$ (320,419)	\$ (339,598)
Noncurrent portion	(590,033)	(770,343)
Funded Status	\$ (910,452)	\$ (1,109,941)

The accumulated benefit obligation for the plan was \$5,866,757 and \$5,789,885 at June 30, 2015 and 2014, 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 \$48,714.

For the years ended June 30, 2015 and 2014, the actuarially computed net periodic benefit cost includes the following components:

	2015	2014
Interest cost	\$ 284,742	\$ 281,247
Service cost	-	13,000
Amortization of loss	48,714	104,992
Expected return on plan assets	(337,998)	(306,621)
Net periodic benefit cost	\$ (4,542)	\$ 92,618

Other changes in plan assets and benefit obligations recognized in unrestricted net assets at June 30, 2015 and 2014, were as follows:

	2015	2014
Net loss	\$ 174,815	\$ 73,782
Amortization of net loss	(48,714)	(104,992)
Total recognized in unrestricted net assets	126,101	(31,210)
Net periodic benefit cost	(4,542)	92,618
Total recognized in net periodic benefit cost and unrestricted net assets	\$ 121,559	\$ 61,408

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, 2015 and 2014, were as follows:

	2015	2014
Discount rate for net periodic pension cost	5.00%	5.00%
Discount rate for benefit obligation	4.75%	4.75%
Expected 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, 2015, were as follows:

Years Ending June 30,

2016	\$ 569,511
2017	255,668
2018	250,768
2019	563,408
2020	321,472
2021-2025	\$ 2,301,924

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, 2015 and 2014, the plan's assets by category were as follows:

Investment Class – Percentage of Assets	2015	2014
Debt	53%	48%
Equity	47%	52%
	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, 2015 and 2014:

Pooled separate accounts: Valued based on the net asset value of units held by the plan at the respective year end.

Guaranteed interest fund: Valued at fair value, which represents contributions, reinvested income, less any withdrawals, plus accrued interest.

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, 2015:

	Level 2	Level 3	Total
Pooled separate account - blend	\$ 4,956,305	\$ -	\$ 4,956,305
Guaranteed interest fund	-	-	-
Total investments	\$ 4,956,305	\$ -	\$ 4,956,305

The table below sets forth a summary of changes in fair value of the plan's level 3 investment for 2015:

	Guaranteed Interest Fund
Balance, beginning of year	\$ 1,583,821
Interest	40,036
Purchases	128,419
Sales	(1,752,276)
Balance, end of year	\$ -

The following table represents the Plan's level 3 financial instruments as of June 30, 2014, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Type	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Guaranteed interest fund	\$1,583,821	Income Approach	(a)	(a)

(a) – The fair value of the guaranteed interest fund was calculated using the income approach in conjunction with the cost of capital method. The parameters used for discounting in the calculation were estimated using the perspective of the principal market for the contract under consideration. The principal market consists of other insurance carriers with similar contracts on their books.

The table below sets forth by level, within the fair value hierarchy, the plan's investments at fair value as of June 30, 2014:

	Level 2	Level 3	Total
Pooled separate account - blend	\$ 3,096,123	\$ -	\$ 3,096,123
Guaranteed interest fund	-	1,583,821	1,583,821
Total investments	\$ 3,096,123	\$ 1,583,821	\$ 4,679,944

San Diego Tourism Authority

Notes to Financial Statements

Defined benefit plan, cont'd

The table below sets forth a summary of changes in fair value of the plan's level 3 investment for 2014:

	Guaranteed Interest Fund
Balance, beginning of year	\$ 1,637,730
Interest	47,180
Purchases	54,013
Sales	(155,102)
Balance, end of year	\$ 1,583,821

SDTA expects to contribute approximately \$321,000 to the plan for the year ending June 30, 2015.

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 \$179,307 and \$95,842 into the plan for the years ended June 30, 2015 and 2014, 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. Base funding under the agreement totaled \$7,974,518 and incremental funding totaled \$3,937,746 for the nine months ended March 31, 2013.

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. For the three months ended June 30, 2013, SDTA received \$4,895,025, approximately 90% of available SDTMD funding.

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 2015 was \$6.5 million, resulting in an accumulated reserve balance of \$12 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

San Diego Tourism Authority

Notes to Financial Statements

**7. Economic
Dependency,
Cont'd**

associated with the pending litigation. TMD assessments collected above the defined reserve amounts are available to SDTMD for distribution to its contractors. SDTA received \$22,971,760 and \$17,260,222 in SDTMD funding for the years ended June 30, 2015 and 2014, respectively.

Total SDTMD funding constituted approximately 70% and 68% of total revenues in 2015 and 2014, respectively.

During July 2014 through November 2014 SDTA received cash advances from SDTMD totaling \$2,000,000 for on-going programs. Repayment of the advance was made during June 2015 through July 2015.

New cash advances totaling \$2,000,000 were received from June 2015 through July 2015.

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 January 18, 2016, which is the date the financial statements were available to be issued.

**10. Subsequent
Events**

SDTA has evaluated subsequent events through January 18, 2016, which is the date the financial statements were available to be issued.



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**Accountants' 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, 2015 and 2014 and have issued our report thereon dated January 18, 2016.

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
January 18, 2016

San Diego Tourism Authority

Schedule of Budget and Actual Expenditures of City Funds For the Year Ended June 30, 2015 (Unaudited)

SAN DIEGO TOURISM MARKETING DISTRICT (SDTMD) FUNDING

Base Program Funding	Budget	Actual	Variance
Expense Classification			
Advertising and Promotion	\$ 11,688,647	\$ 11,228,473	\$ 460,174
Salaries and Benefits	5,794,708	5,680,308	114,400
Support Services	4,321,322	3,630,157	691,165
General and Administrative	1,836,340	1,732,161	104,179
Research	336,561	324,178	12,383
Events, Travel and Entertainment	567,680	376,483	191,197
Total Expenses	\$ 24,545,258	\$ 22,971,760	\$ 1,573,498

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 its contractors.