



Report of Independent Auditors and  
Financial Statements and  
Supplemental Information for

**San Diego Tourism Marketing District  
(A Nonprofit Organization)**

June 30, 2019 and 2018

**San Diego Tourism Marketing District  
(A Nonprofit Organization)**

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## Independent Auditors' Report

To the Board of Directors  
San Diego Tourism Marketing District  
San Diego, California

We have audited the accompanying financial statements of San Diego Tourism Marketing District, which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities, and cash flows for the years then ended, and the related statement of functional expenses for the year ended June 30, 2019, 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 San Diego Tourism Marketing District as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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#### **Redwitz, Inc.**

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## Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Redwitz, Inc." in a cursive, slightly stylized font.

**Redwitz, Inc.**  
La Jolla, California  
January 24, 2020

# San Diego Tourism Marketing District

## Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 5,652,213	\$ 1,774,220
Accounts receivable	2,209,582	1,373,253
City holdbacks, current	11,934,732	11,105,611
Prepaid expenses	60,147	214,060
Accrued interest income	2,800	75,679
Advances to contractors	3,000,000	1,322,133
	<u>22,859,474</u>	<u>15,864,956</u>
Other assets		
City holdbacks, net of current portion	14,942,464	22,000,000
	<u>14,942,464</u>	<u>22,000,000</u>
Total assets	<u>\$ 37,801,938</u>	<u>\$ 37,864,956</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 9,553,975	\$ 4,909,197
Deferred revenue	4,976,964	5,283,173
Indemnification reserve, current	7,111,332	5,000,000
	<u>21,642,271</u>	<u>15,192,370</u>
Long-term liabilities		
Indemnification reserve, net of current portion	14,942,464	22,000,000
	<u>14,942,464</u>	<u>22,000,000</u>
Total liabilities	<u>36,584,735</u>	<u>37,192,370</u>
Net assets		
Net assets without donor restrictions	1,217,203	672,586
	<u>1,217,203</u>	<u>672,586</u>
Total liabilities and net assets	<u>\$ 37,801,938</u>	<u>\$ 37,864,956</u>

# San Diego Tourism Marketing District

## Statements of Activities

For the Years Ended June 30, 2019 and 2018

	2019	2018
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Revenue and support		
Tourism Marketing District revenue	\$ 44,917,468	\$ 38,243,775
Interest income	663,188	463,646
Other income	69,741	30,603
Total revenue and support	<u>45,650,397</u>	<u>38,738,024</u>
Expenses		
Program services		
Allocations to contractors	<u>43,583,953</u>	<u>37,418,802</u>
Total program expenses	<u>43,583,953</u>	<u>37,418,802</u>
Support services		
Management and general		
SDTMD operations	987,149	1,131,633
Administrative fee to the City of San Diego	<u>534,678</u>	<u>456,831</u>
Total support services expenses	<u>1,521,827</u>	<u>1,588,464</u>
Increase (decrease) in net assets without donor restrictions	544,617	(269,242)
Net assets, beginning of year	<u>672,586</u>	<u>941,828</u>
Net assets, end of year	<u>\$ 1,217,203</u>	<u>\$ 672,586</u>

# San Diego Tourism Marketing District

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services	Support Services		Total
		SDTMD operations	Administrative fee to the City of San Diego	
Advertising	\$ 25,089,523	\$ -	\$ -	\$ 25,089,523
Advertising agency fees	2,313,375	-	-	2,313,375
Bank service fees	-	98	-	98
Bid fees/team payouts	791,200	-	-	791,200
City administration fee	-	-	534,678	534,678
Dues/subscriptions/memberships	96,807	7,399	-	104,206
Entertainment	8,404	17	-	8,421
Event registration fees	320,658	-	-	320,658
Insurance	-	23,749	-	23,749
Insurance - workers compensation	-	1,347	-	1,347
Lead generation services	38,551	-	-	38,551
Marketing materials/promotional items	59,407	-	-	59,407
Occupancy	-	8,740	-	8,740
Office supplies	-	3,547	-	3,547
Outside contractors	3,654,316	705,111	-	4,359,427
Parking	-	54	-	54
Payroll processing	-	3,331	-	3,331
Payroll tax	-	14,880	-	14,880
Personnel benefits	925,204	9,883	-	935,087
Personnel salaries and wages	5,076,911	206,252	-	5,283,163
Postage and shipping	-	558	-	558
Printing and reproduction	-	2,183	-	2,183
Rentals - remote sales office	54,904	-	-	54,904
Research	476,086	-	-	476,086
Sales commissions	11,245	-	-	11,245
Special event production	181,865	-	-	181,865
Sponsorships	275,606	-	-	275,606
Trade show expenses	4,344	-	-	4,344
Travel	105,637	-	-	105,637
Allocated contractor overhead	4,099,910	-	-	4,099,910
	<u>\$ 43,583,953</u>	<u>\$ 987,149</u>	<u>\$ 534,678</u>	<u>\$ 45,105,780</u>

## San Diego Tourism Marketing District

### Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 544,617	\$ (269,242)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in operating assets		
Accounts receivable	(836,329)	1,945,525
City holdbacks	6,228,415	(368,729)
Prepaid expenses	153,913	95,906
Accrued interest income	72,879	(4,364)
Security deposit	-	1,538
Increase (decrease) in operating liabilities		
Accounts payable	4,644,778	(909,625)
Deferred revenue	(306,209)	1,276,171
Indemnification reserve	(4,946,204)	(2,000,000)
Net cash provided (used) by operating activities	<u>5,555,860</u>	<u>(232,820)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Advances to contractors	(3,000,000)	(1,322,133)
Collection of advances to contractors	<u>1,322,133</u>	<u>806,559</u>
Net cash used by investing activities	<u>(1,677,867)</u>	<u>(515,574)</u>
Net increase (decrease) in cash	3,877,993	(748,394)
Cash, beginning of year	<u>1,774,220</u>	<u>2,522,614</u>
Cash, end of year	<u>\$ 5,652,213</u>	<u>\$ 1,774,220</u>

# San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2019 and 2018

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## Note 1 – Organization and summary of significant accounting policies

### Nature of business

San Diego Tourism Marketing District (“SDTMD”) is a nonprofit mutual benefit corporation, incorporated on November 14, 2007, and organized under the California Nonprofit Mutual Benefit Corporation Law. SDTMD began operations on April 1, 2008. SDTMD is a funding conduit for the development and implementation of effective marketing programs and services that benefit the assessed businesses within the Tourism Marketing District (“TMD”). SDTMD is responsible for the allocation and distribution of the available revenue and contracts with qualified third-party vendors to supply marketing programs and services as required and approved by the Board of Directors. All recipients of funding are required to clearly demonstrate a measurable return on investment for the programs or services they propose, as measured by incremental new room nights generated.

The TMD was formed pursuant to San Diego City Ordinance O-19622 N.S. The ordinance allows qualifying lodging business to create a district within which businesses pay assessments to fund programs and services that specifically benefit the assessed lodging businesses. The TMD assessment is based upon 2% of gross room revenue from transient stays for lodging business with seventy (70) or more sleeping rooms operating within the City of San Diego (“City”) and is remitted and reported to the City. The City oversees the collection of the assessments and ensures that the expenditure of funds is consistent with the TMD Management Plan. TMD funds are released to SDTMD after SDTMD has reimbursed its contractors. The original district (“O-19622”) was established by a procedural ordinance for a five-year term that ended December 31, 2012.

The renewed TMD (“O-20096”) was formed pursuant to San Diego City Ordinance O-20096, and was approved for thirty-nine and one-half (39.5) years with collections commencing January 1, 2013. There are two benefit categories in O-20096. Each benefit category is designed so that the activities provided in connection with that category will confer exclusive privileges and a specific benefit directly to assessed businesses. Category A which includes lodging businesses in the district with thirty (30) or more rooms with an assessment rate of 1.45% and Category B which includes all lodging businesses in the district, regardless of size, with an assessment rate of .55%. SDTMD entered into an agreement with the City to operate O-20096 for a five-year period until November 25, 2017, with a provision to extend beyond the term for three 10-year terms.

On August 2, 2016 the Council of the City of San Diego adopted Resolution Number R-310664 modifying the District Management Plan, (“Modified O-20096”) eliminating the A and B funding categories, and defining lodging business as those with seventy (70) or more rooms. The effective date of the modification is November 1, 2016. SDTMD entered into an agreement with the City to operate the modified district for a five-year period until October 31, 2021.

### Basis of presentation

SDTMD’s financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require SDTMD to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of SDTMD. These net assets may be used at the discretion of SDTMD’s management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SDTMD or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

At June 30, 2019 and 2018, SDTMD had no net assets with donor restrictions.

# San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2019 and 2018

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## Note 1 – Organization and summary of significant accounting policies (continued)

### Basis of accounting

SDTMD's financial statements have been prepared on the accrual basis of accounting.

### Assessment and interest revenue

SDTMD's sole source of income comes from TMD assessments, penalty income, and interest income. The entire TMD program described in the District Management Plan includes activities paid by assessments and other non-assessment revenue. Under the provisions of SDTMD's agreement with the City, a pooled fund was established by the City for the receipt and disbursement of TMD assessments and other City administered assets. The fund, along with any interest income earned on the City's investment pool, is administered by the City's auditor and comptroller. At June 30, 2019 and 2018, the estimated balance of SDTMD's share of the pooled fund is included in accounts receivable and City holdbacks on the statements of financial position.

Revenue from assessments is recognized in the year in which the offsetting liability to contractors is incurred and operating expenses are paid. Thus, deferred assessment revenue includes assessments collected but not expended as of June 30, 2019 and 2018.

SDTMD is unable to estimate interest revenue since it lacks visibility to the City's investment pool. Therefore, interest revenue is recognized as it is reported by the City's comptroller. The City credits SDTMD with a portion of the interest earned from the City's investment pool based on SDTMD's average share of the pool.

### Functional expenses

The costs of providing the program and administrative activities have been summarized on a functional basis in the statement of activities. By contract agreement with the City of San Diego, administrative expenses incurred by SDTMD are not allocated to program expenses as they are costs related to corporate governance.

The cost allocation methodology approved by SDTMD for contractors is modeled on OMB Circular A-122 (or successor document) currently 2CRF Part 230. SDTMD requires general and administrative costs and other indirect costs to be pooled for allocation for contractors requesting assessment funds to support indirect costs. The basis of allocation is on the modified total direct cost basis. This methodology requires overhead costs to be pooled and allocated to program costs based on total program direct costs modified by removing certain direct costs from the denominator such as subcontractor and media buys, that if not removed would result in an inequitable allocation of overhead to programs. The overhead pool includes costs associated with contractor facility and corporate governance such as professional services, executive and administrative compensation, depreciation, corporate compliance, office supplies, liability insurance, hospitality supplies, employee morale, training, supervision, and recruitment. Contractor overhead allocations are approved in the budget process.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from these estimates.

Interest revenue as reported by the City is subject to change given the timing of the City's year-end close and audit; it is reasonably possible that the interest income amount may change in the near term.

### Income taxes

SDTMD is exempt from income taxes under Section 501(c) 6 of the Internal Revenue Code and similar provisions of the California Revenue and Taxation code. In addition, the Internal Revenue Service determined that SDTMD is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. SDTMD may be subject to income taxes on any unrelated business income over \$1,000.

# San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2019 and 2018

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## Note 1 – Organization and summary of significant accounting policies (continued)

### Income taxes (continued)

Management of SDTMD considers the likelihood of taxes imposed by taxing authorities and recognizes a liability for or discloses potential significant changes that management believes are more likely than not to occur, including changes to SDTMD's status as a not-for-profit entity. Management believes SDTMD has met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax, therefore no provision for income taxes has been provided in these financial statements.

SDTMD's exempt return filings for the past three years are subject to examination by tax authorities.

### Fair value measurements

The Fair Value Measurements and Disclosure Topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The three general valuation techniques that may be used to measure fair value, are as follows: Market approach – which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources; Cost approach – which is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and the Income approach – which uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (including present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

The Fair Value Measurements and Disclosure Topic establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority.

The carrying amount reflected in the statements of financial position for cash, receivables, prepaids, payables, and deferred revenue approximates fair values due to the relative short maturities of these instruments.

### New accounting pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted the provisions of this new standard and has applied the following provisions:

- Changes in terminology used to describe categories of net assets throughout the financial statements;
- New disclosures regarding liquidity and availability of resources (Note 9);
- Expanded disclosures related to functional allocation of expenses;
- Functional expense categories have been disaggregated by their natural classification in a statement of functional expenses.

### Reclassifications

Certain accounts in the prior period financial statements have been reclassified to conform with the presentation in the current period financial statements.

### Subsequent events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events were evaluated through January 24, 2020, which is the date the financial statements were available to be issued. See Note 10 for disclosure of subsequent events.

## San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2019 and 2018

### Note 2 – Accounts receivable

Accounts receivable at June 30, 2019 and 2018 are comprised of assessments collected by the City but unremitted to SDTMD. The balances in accounts receivable due from the City at June 30, 2019 and 2018 are as follows:

	2019	2018
Assessments receivable	\$ 2,209,582	\$ 1,373,253

SDTMD submissions to the City are reviewed by the City to make certain they are allocable and allowable for TMD funding.

#### Accounts receivable - O-19622

Under O-19622, the City remits assessments collected to SDTMD as reimbursement requests are submitted to the City by SDTMD. Reimbursements of SDTMD submissions are made within 30 days of submission, beyond which they are considered delinquent. There were no delinquent reimbursements at June 30, 2019 and 2018.

#### Accounts receivable - O-20096 and Modified O-20096

Under O-20096 and Modified O-20096, the City remits assessments to SDTMD as collected less City holdbacks of opportunity/catastrophe reserve, indemnification reserve, and City administration fees. SDTMD receives remittances from the City on a monthly basis. The monthly remittances are comprised of assessments collected, penalty income collected, and interest income earned on pooled investments, during the prior period less City holdbacks. Subsequently, the SDTMD submits reconciliation reports to support expenditures against the City remittances.

SDTMD's receivables are deemed by management to be fully collectible. No allowance for doubtful accounts is considered necessary.

### Note 3 – City holdbacks

City holdbacks are assessments collected by the City and unremitted to SDTMD to fund the opportunity/catastrophe and indemnification reserves. Other City holdbacks consist of assessments collected and unremitted by the City in excess of the amounts held to fund the required reserves and SDTMD budgeted expenditures.

Current City holdbacks (amounts that will be held in reserve for less than one year) are comprised of the following at June 30, 2019 and 2018:

	2019	2018
Indemnification reserve, current portion (see Note 6)	\$ 7,111,332	\$ 5,000,000
Opportunity/catastrophe reserve	3,581,870	3,140,595
Other City holdbacks	1,241,530	2,965,016
Total current City holdbacks	\$ 11,934,732	\$ 11,105,611

Long-term City holdbacks (amounts that will be held in reserve for more than one year) are comprised of the following as of June 30, 2019 and 2018:

	2019	2018
Indemnification reserve (see Note 6)	\$ 22,053,796	\$ 27,000,000
Less: current portion	(7,111,332)	(5,000,000)
Total long-term City holdbacks	\$ 14,942,464	\$ 22,000,000

## San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2019 and 2018

### Note 4 – Accounts payable

The balances in accounts payable at June 30, 2019 and 2018 consist of the following:

	2019	2018
Unpaid reimbursement requests from contractors	<u>\$ 9,553,975</u>	<u>\$ 4,909,197</u>

### Note 5 – Deferred revenue

Deferred revenue consists of unspent assessments which include opportunity/catastrophe reserve required under the provision of the City contract, unbudgeted and/or under spent variable distributions from competitive applications, and under spent administrative costs. Per agreement with the City, the remaining deferred revenue under O-20096 was transferred to the indemnification reserve upon the modification of the district (see Note 6). The balance in deferred revenue as of June 30, 2019 and 2018 is as follows:

	2019	2018
Distributable funds - O-19622	\$ -	\$ 3,795
Modified O-20096	<u>4,976,964</u>	<u>5,279,378</u>
	<u>\$ 4,976,964</u>	<u>\$ 5,283,173</u>

### Note 6 – Indemnification reserve

The City of San Diego required an amendment to the SDTMD contract requiring the district to reserve assessments to manage risk associated with the disbursement of assessment funds prior to the resolution of and legal challenge to the district or assessment. Under the terms of the amendment to the SDTMD contract, the indemnification reserve as of June 30, 2019 and 2018 is \$22,053,796 and \$27,000,000, respectively. Reserve funds are physically held by the City and are included in City holdbacks on the statement of financial position.

During June 2019 and 2018, City Council approved release of \$7,111,332 and \$5,000,000, respectively, of indemnification reserve for expenditure in the SDTMD budget for the years ended June 30, 2020 and June 30, 2019, respectively (see Note 3).

### Note 7 – Assessment contract

#### O-19622

On April 1, 2008, SDTMD entered into an agreement with the City to operate the TMD. The City collects the assessment revenue and maintains the funds in treasury. The board of directors of SDTMD contracts with local organizations to promote the San Diego lodging industry. SDTMD requests reimbursement from the City for all expended funds. SDTMD requires its contractors to provide detailed documentation to support their expenditures in order to ensure only eligible items are being expended with TMD funds. This agreement terminated on March 31, 2013, with the expiration of the initial district.

#### O-20096 and Modified O-20096

On November 26, 2012, SDTMD entered into an agreement with the City to operate the renewed TMD district and subsequently modified the TMD district on August 2, 2016. The board of directors of SDTMD contracts with local organizations to promote the San Diego lodging industry. The City collects the assessment revenue and advances the proceeds directly to SDTMD net of the budgeted opportunity/catastrophe reserve, 5% of assessments, indemnification reserve, and the City administration fees. On at least a monthly basis, SDTMD submits reconciliation reports to the City accounting for all the expended funds. SDTMD requires its contractors to provide detailed documentation to support their expenditures in order to ensure only eligible items are being expended with TMD funds.

As of June 30, 2019 and 2018, management of SDTMD asserts that the corporation was in compliance with the terms of the City's agreement. See supplemental Schedules I and II for budget-to-actual comparisons.

## San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2019 and 2018

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### Note 8 – Concentrations

SDTMD maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. SDTMD has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. At June 30, 2019, and 2018, SDTMD had uninsured cash balances of \$5,947,441 and \$7,751,818, respectively.

As of June 30, 2019, and 2018, TMD assessments and interest thereon make up 100% of the funds received by SDTMD from the City and the related accounts receivable, accrued interest income, and holdbacks make up approximately 77% and 91% of total assets, respectively.

### Note 9 – Liquidity and availability of financial assets

The following table reflects the organization's financial assets as of June 30, 2019 available for general expenditures within one year:

Financial assets at year end:	<u>2019</u>
Cash	\$ 5,652,213
Accounts receivable	2,209,582
City holdbacks	26,877,196
Advances to contractors	3,000,000
Accrued interest income	2,800
Total financial assets	<u>37,741,791</u>
Less amount unavailable due to contractual funding requirements:	
Indemnification reserve, not available for expenditure within one year	<u>14,942,464</u>
Total financial assets available to meet general expenditures within one year:	<u>\$ 22,799,327</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. Accounts receivable are expected to be collected within one year. Utilization of City Holdbacks related to the indemnification reserve is budgeted per contract agreement with the City of San Diego and cannot be altered without approval of the San Diego City Counsel.

### Note 10 – Contingencies

As of June 30, 2016, SDTMD was a defendant in a lawsuit in San Diego Superior Court which asserted that the November 12, 2012 renewal of the SDTMD and its associated assessment on hotels in the City of San Diego was invalid under the provision of Proposition 26 of the California Constitution. On September 1, 2016, the lawsuit was dismissed. Subsequently, the plaintiff filed a request for SDTMD to pay its costs and a motion for attorney fees, which was granted in the amount of \$874,035. On April 4, 2019, the Court of Appeal reversed this ruling. On April 24, 2019, the plaintiff petitioned for a rehearing which was denied. On August 19, 2019, the trial court entered an amended judgment deleting the award of attorney fees of \$874,035 and awarding SDTMD its costs, and no appeal was taken from the amended judgement. The case is now complete.

## **Supplemental Information**

## San Diego Tourism Marketing District

Schedule I - Statements of Revenues and Expenditures - TMD Agreement with City of San Diego - Modified O-20096 and O-19622

For the Year Ended June 30, 2019

	Modified O-20096	O-19622	Total	Budget	Difference
<b>REVENUES</b>					
Assessments	\$ 39,520,997	\$ 800	\$ 39,521,797	\$ 39,942,627	\$ (420,830)
Prior year deferred/budgeted reserves	6,279,378	-	6,279,378	4,644,762	1,634,616
Total assessments	45,800,375	800	45,801,175	44,587,389	1,213,786
Less: deferred revenue/budgeted reserves	(5,976,964)	3,795	(5,973,169)	(3,664,360)	(2,308,809)
Assessment revenues realized	39,823,411	4,595	39,828,006	40,923,029	(1,095,023)
Other income	-	-	-	-	-
Penalty income	40,456	-	40,456	-	40,456
Interest income	168,116	1,322	169,438	160,000	9,438
Total revenues	40,031,983	5,917	40,037,900	41,083,029	(1,045,129)
<b>EXPENSES</b>					
Competitive Applications					
Targeted Marketing and Sales Programs	24,247,367	-	24,247,367	24,648,988	(401,621)
Destination Marketing	14,390,382	-	14,390,382	14,415,508	(25,126)
Total Competitive Applications	38,637,749	-	38,637,749	39,064,496	(426,747)
Administration					
Personnel	232,363	-	232,363	294,371	(62,008)
Contractual services	615,633	75,000	690,633	974,480	(283,847)
Overhead	49,635	-	49,635	55,123	(5,488)
Contingency	-	-	-	244,559	(244,559)
Administrative fee to the City of San Diego	288,031	-	288,031	450,000	(161,969)
Total SDTMD operating expenses	1,185,662	75,000	1,260,662	2,018,533	(757,871)
Total expense	39,823,411	75,000	39,898,411	41,083,029	(1,184,618)
Increase in net assets without donor restrictions	\$ 208,572	\$ (69,083)	\$ 139,489	\$ -	\$ 139,489
<b>DEFERRED REVENUE AND INDEMNIFICATION RESERVE</b>					
Operations	\$ 1,395,094	\$ -	\$ 1,395,094	\$ -	\$ 1,395,094
Opportunity/catastrophe reserve	3,581,870	-	3,581,870	2,664,360	917,510
Distributable funds	-	-	-	-	-
Indemnification reserve	1,000,000	-	1,000,000	1,000,000	-
Total deferred revenue/indemnification reserve	5,976,964	-	5,976,964	3,664,360	2,312,604
Total expenditures	39,823,411	75,000	39,898,411	41,083,029	(1,184,618)
Total expenditures and reserves	\$ 45,800,375	\$ 75,000	\$ 45,875,375	\$ 44,747,389	\$ 1,127,986
<b>BUDGET-TO-ACTUAL FOR COMPETITIVE APPLICATIONS</b>					
San Diego Tourism Authority (SDTA)	\$ 36,465,507	\$ -	\$ 36,465,507	\$ 36,672,996	\$ (207,489)
Surf Cup - Elite Clubs National League - Girls	80,000	-	80,000	80,000	-
Surf Cup - Manchester City	40,000	-	40,000	40,000	-
Surf Cup - Thanksgiving Challenge	37,000	-	37,000	40,000	(3,000)
California Police Athletic Federation	41,133	-	41,133	75,000	(33,867)
California State Games	175,000	-	175,000	175,000	-
San Diego Bay Wine and Food Festival	74,145	-	74,145	74,500	(355)
San Diego Bayfair - Thunderboats	95,000	-	95,000	95,000	-
San Diego Bowl Game Association - Holiday Bowl	375,000	-	375,000	375,000	-
San Diego Bowl Game Association - Navy vs. Notre Dame	200,000	-	200,000	200,000	-
San Diego Crew Classic - Spring	208,235	-	208,235	250,000	(41,765)
San Diego Gaelic Athletic Association	23,397	-	23,397	25,500	(2,103)
Extreme Sailing	248,782	-	248,782	250,000	(1,218)
Swoop Challenge	50,000	-	50,000	50,000	-
USTA Billie Jean King Girls National Championship	50,000	-	50,000	50,000	-
USA Ultimate (Frisbee)	30,000	-	30,000	30,000	-
San Diego Brewers Guild	21,500	-	21,500	21,500	-
Best Coast Beer Fest	53,050	-	53,050	60,000	(6,950)
Surf - US Soccer Summer	370,000	-	370,000	500,000	(130,000)
	\$ 38,637,749	\$ -	\$ 38,637,749	\$ 39,064,496	\$ (426,747)

## San Diego Tourism Marketing District

Schedule I - Statements of Revenues and Expenditures - TMD Agreement with City of San Diego - Modified O-20096 and O-19622

For the Year Ended June 30, 2018

	Modified O-20096	O-19622	Total	Budget	Difference
<b>REVENUES</b>					
Assessments	\$ 37,435,873	\$ 3,795	\$ 37,439,668	\$ 36,855,968	\$ 583,700
Prior year deferred/budgeted reserves	4,493,859	-	4,493,859	3,058,608	1,435,251
Total assessments	41,929,732	3,795	41,933,527	39,914,576	2,018,951
Less: deferred revenue/budgeted reserves	(6,279,378)	(5,157)	(6,284,535)	(3,223,512)	(3,061,023)
Assessment revenues realized	35,650,354	(1,362)	35,648,992	36,691,064	(1,042,072)
Other income	-	-	-	-	-
Penalty income	16,411	-	16,411	-	16,411
Interest income	107,770	569	108,339	160,000	(51,661)
Total revenues	35,774,535	(793)	35,773,742	36,851,064	(1,077,322)
<b>EXPENSES</b>					
Competitive Applications					
Targeted Marketing and Sales Programs	20,735,727	-	20,735,727	20,848,072	(112,345)
Destination Marketing	13,683,075	-	13,683,075	13,721,563	(38,488)
Total Competitive Applications	34,418,802	-	34,418,802	34,569,635	(150,833)
Administration					
Personnel	267,698	-	267,698	293,200	(25,502)
Contractual services	667,686	-	667,686	1,330,850	(663,164)
Overhead	52,437	-	52,437	57,761	(5,324)
Contingency	-	-	-	99,618	(99,618)
Administrative fee to the City of San Diego	243,731	-	243,731	500,000	(256,269)
Total SDTMD operating expenses	1,231,552	-	1,231,552	2,281,429	(1,049,877)
Total expense	35,650,354	-	35,650,354	36,851,064	(1,200,710)
Increase in net assets without donor restrictions	\$ 124,181	\$ (793)	\$ 123,388	\$ -	\$ 123,388
<b>DEFERRED REVENUE AND INDEMNIFICATION RESERVE</b>					
Operations	\$ 1,395,126	\$ 3,795	\$ 1,398,921	\$ -	\$ 1,398,921
Opportunity/catastrophe reserve	3,140,595	-	3,140,595	2,223,512	917,083
Distributable funds	743,657	-	743,657	-	743,657
Indemnification reserve	1,000,000	-	1,000,000	1,000,000	-
Total deferred revenue/indemnification reserve	6,279,378	3,795	6,283,173	3,223,512	3,059,661
Total expenditures	35,650,354	-	35,650,354	36,851,064	(1,200,710)
Total expenditures and reserves	\$ 41,929,732	\$ 3,795	\$ 41,933,527	\$ 40,074,576	\$ 1,858,951
<b>BUDGET-TO-ACTUAL FOR COMPETITIVE APPLICATIONS</b>					
San Diego Tourism Authority (SDTA)	\$ 32,116,435	\$ -	\$ 32,116,435	\$ 32,157,085	\$ (40,650)
SDTA - Breeders Cup	100,000	-	100,000	100,000	-
SDTA - US Australian Football	29,700	-	29,700	29,700	-
SDTA - Thanksgiving Soccer	50,000	-	50,000	50,000	-
SDTA - Surf Cup Sports (sponsorship thru SDTA)	72,500	-	72,500	120,000	(47,500)
SDTA - US Soccer	500,000	-	500,000	500,000	-
SDTA - Destination Care (Medical Marketing)	47,500	-	47,500	50,000	(2,500)
SDTA - US National Girls Tennis Championship	15,000	-	15,000	15,000	-
Total San Diego Tourism Authority	32,931,135	-	32,931,135	33,021,785	(90,650)
California Police Athletic Federation	40,639	-	40,639	50,000	(9,361)
California State Games	150,000	-	150,000	150,000	-
Century Club - Farmers Insurance Open	100,000	-	100,000	100,000	-
Extreme Sailing	400,000	-	400,000	400,000	-
San Diego Bayfair - Thunderboats	95,000	-	95,000	95,000	-
San Diego Bowl Game Association	300,000	-	300,000	300,000	-
San Diego Brewers Guild - Beer Week	73,490	-	73,490	74,900	(1,410)
San Diego Crew Classic	150,948	-	150,948	200,000	(49,052)
Destination Marketing - SDTMD Master Plan	177,590	-	177,590	177,950	(360)
	\$ 34,418,802	\$ -	\$ 34,418,802	\$ 34,569,635	\$ (150,833)

**San Diego Tourism Marketing District**

Schedule II - Statements of Revenues and Expenditures - TMD Agreement with City of San Diego - O-20096

For the Year Ended June 30, 2019

	Actual	Budget	Difference
<b>REVENUES</b>			
Assessments	\$ 143,258	\$ -	\$ 143,258
Prior year deferred revenue/budgeted reserves	26,000,000	26,000,000	-
Total assessments	26,143,258	26,000,000	143,258
Less: deferred revenue/budgeted reserves	(21,053,796)	(21,000,000)	(53,796)
Assessment revenues realized	5,089,462	5,000,000	89,462
Other income	2,685	-	2,685
Penalty income	26,600	-	26,600
Interest income	493,750	-	493,750
Total revenues	<u>5,612,497</u>	<u>5,000,000</u>	<u>612,497</u>
<b>EXPENSES</b>			
Category A			
A3 - Competitive targeting	2,133,852	2,134,729	(877)
Total A1 - A3 expenses	<u>2,133,852</u>	<u>2,134,729</u>	<u>(877)</u>
SDTMD operating expenses			
Personnel	-	-	-
Contractual services	11,650	-	11,650
Overhead	29	-	29
Contingency	-	-	-
Administrative fee to the City of San Diego	169,899	-	169,899
Total SDTMD operating expenses	<u>181,578</u>	<u>-</u>	<u>181,578</u>
Total category A	<u>2,315,430</u>	<u>2,134,729</u>	<u>180,701</u>
Category B			
SDTMD operating expenses			
Contractual services	2,828	-	2,828
Overhead	11	-	11
Administrative fee to the City of San Diego	76,748	-	76,748
Total SDTMD operating expenses	<u>79,587</u>	<u>-</u>	<u>79,587</u>
Destination marketing with a specific call to action	2,812,352	2,865,271	(52,919)
Total category B	<u>2,891,939</u>	<u>2,865,271</u>	<u>26,668</u>
Total expenses	<u>5,207,369</u>	<u>5,000,000</u>	<u>207,369</u>
Increase in net assets without donor restrictions	<u>\$ 405,128</u>	<u>\$ -</u>	<u>\$ 405,128</u>
<b>DEFERRED REVENUE AND INDEMNIFICATION RESERVE</b>			
Category A			
Indemnification reserve	\$ 17,470,366	\$ 17,445,242	\$ 25,124
Total category A	<u>17,470,366</u>	<u>17,445,242</u>	<u>25,124</u>
Category B			
Opportunity/catastrophe reserve	-	(3,150)	3,150
Indemnification reserve	3,583,430	3,554,758	28,672
Total category B	<u>3,583,430</u>	<u>3,551,608</u>	<u>31,822</u>
Total deferred revenue/indemnification reserve	<u>21,053,796</u>	<u>20,996,850</u>	<u>56,946</u>
Total expenditures	<u>5,207,369</u>	<u>5,000,000</u>	<u>207,369</u>
Total expenditures and reserves	<u>\$ 26,261,165</u>	<u>\$ 25,996,850</u>	<u>\$ 264,315</u>
<b>BUDGET-TO-ACTUAL FOR COMPETITIVE APPLICATIONS</b>			
San Diego Tourism Authority (SDTA)	\$ 4,946,204	\$ 5,000,000	\$ (53,796)
	<u>\$ 4,946,204</u>	<u>\$ 5,000,000</u>	<u>\$ (53,796)</u>

See independent auditors' report

**San Diego Tourism Marketing District**

Schedule II - Statements of Revenues and Expenditures - TMD Agreement with City of San Diego - O-20096

For the Year Ended June 30, 2018

	Actual	Budget	Difference
<b>REVENUES</b>			
Assessments	\$ 81,640	\$ -	\$ 81,640
Prior year deferred revenue/budgeted reserves	28,513,143	28,637,882	(124,739)
Total assessments	28,594,783	28,637,882	(43,099)
Less: deferred revenue/budgeted reserves	(26,000,000)	(25,637,882)	(362,118)
Assessment revenues realized	2,594,783	3,000,000	(405,217)
Other income	-	-	-
Penalty income	14,192	-	14,192
Interest income	355,307	-	355,307
Total revenues	<u>2,964,282</u>	<u>3,000,000</u>	<u>(35,718)</u>
<b>EXPENSES</b>			
Category A			
A3 - Competitive targeting	2,200,000	2,200,000	-
Total A1 - A3 expenses	<u>2,200,000</u>	<u>2,200,000</u>	<u>-</u>
SDTMD operating expenses			
Contractual services	117,258	-	117,258
Overhead	7	-	7
Administrative fee to the City of San Diego	137,758	-	137,758
Total SDTMD operating expenses	<u>255,023</u>	<u>-</u>	<u>255,023</u>
Total category A	<u>2,455,023</u>	<u>2,200,000</u>	<u>255,023</u>
Category B			
SDTMD operating expenses			
Contractual services	26,544	-	26,544
Overhead	3	-	3
Administrative fee to the City of San Diego	75,342	-	75,342
Total SDTMD operating expenses	<u>101,889</u>	<u>-</u>	<u>101,889</u>
Destination marketing with a specific call to action	800,000	800,000	-
Total category B	<u>901,889</u>	<u>800,000</u>	<u>101,889</u>
Total expenses	<u>3,356,912</u>	<u>3,000,000</u>	<u>356,912</u>
Decrease in net assets without donor restrictions	<u>\$ (392,630)</u>	<u>\$ -</u>	<u>\$ (392,630)</u>
<b>DEFERRED REVENUE AND INDEMNIFICATION RESERVE</b>			
Category A			
Indemnification reserve	\$ 19,604,217	\$ 19,284,158	\$ 320,059
Total category A	<u>19,604,217</u>	<u>19,284,158</u>	<u>320,059</u>
Category B			
Operations	-	-	-
Opportunity/catastrophe reserve	-	-	-
Distributable funds	-	-	-
Indemnification reserve	6,395,783	6,353,724	42,059
Total category B	<u>6,395,783</u>	<u>6,353,724</u>	<u>42,059</u>
Total deferred revenue/indemnification reserve	<u>26,000,000</u>	<u>25,637,882</u>	<u>362,118</u>
Total expenditures	<u>3,356,912</u>	<u>3,000,000</u>	<u>356,912</u>
Total expenditures and reserves	<u>\$ 29,356,912</u>	<u>\$ 28,637,882</u>	<u>\$ 719,030</u>
<b>BUDGET-TO-ACTUAL FOR COMPETITIVE APPLICATIONS</b>			
San Diego Tourism Authority (SDTA)	\$ 3,000,000	\$ 3,000,000	\$ -
	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>

## San Diego Tourism Marketing District

Schedule III - Statements of Activities by District - Modified O-20096, O-20096, and O-19622  
For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Modified O-20096	O-20096	O-19622	Total	Modified O-20096	O-20096	O-19622	Total
Revenue and support								
Tourism Marketing District revenue	\$ 39,823,411	\$ 5,089,462	\$ 4,595	\$ 44,917,468	\$ 35,650,354	\$ 2,594,783	\$ (1,362)	\$ 38,243,775
Interest income	168,116	493,750	1,322	663,188	107,770	355,307	569	463,646
Other income	40,456	29,285	-	69,741	16,411	14,192	-	30,603
Total revenue and support	<u>40,031,983</u>	<u>5,612,497</u>	<u>5,917</u>	<u>45,650,397</u>	<u>35,774,535</u>	<u>2,964,282</u>	<u>(793)</u>	<u>38,738,024</u>
Expenses								
Program services								
Direct expenses to contractors	34,537,839	4,946,204	-	39,484,043	30,264,227	3,000,000	-	33,264,227
Indirect expenses to contractors	<u>4,099,910</u>	<u>-</u>	<u>-</u>	<u>4,099,910</u>	<u>4,154,575</u>	<u>-</u>	<u>-</u>	<u>4,154,575</u>
Total program expenses	<u>38,637,749</u>	<u>4,946,204</u>	<u>-</u>	<u>43,583,953</u>	<u>34,418,802</u>	<u>3,000,000</u>	<u>-</u>	<u>37,418,802</u>
Support services								
Management and general								
SDTMD operations	897,631	14,518	75,000	987,149	987,821	143,812	-	1,131,633
Administrative fee to the City of San Diego	<u>288,031</u>	<u>246,647</u>	<u>-</u>	<u>534,678</u>	<u>243,731</u>	<u>213,100</u>	<u>-</u>	<u>456,831</u>
Total support services expense	<u>1,185,662</u>	<u>261,165</u>	<u>75,000</u>	<u>1,521,827</u>	<u>1,231,552</u>	<u>356,912</u>	<u>-</u>	<u>1,588,464</u>
Increase (decrease) in net assets without donor restrictions	208,572	405,128	(69,083)	544,617	124,181	(392,630)	(793)	(269,242)
Net assets, beginning of year	<u>172,533</u>	<u>428,170</u>	<u>71,883</u>	<u>672,586</u>	<u>48,352</u>	<u>820,800</u>	<u>72,676</u>	<u>941,828</u>
Net assets, end of year	<u>\$ 381,105</u>	<u>\$ 833,298</u>	<u>\$ 2,800</u>	<u>\$ 1,217,203</u>	<u>\$ 172,533</u>	<u>\$ 428,170</u>	<u>\$ 71,883</u>	<u>\$ 672,586</u>