



Independent Auditors' Report and
Financial Statements and
Supplemental Information for

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

June 30, 2021 and 2020

**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, 2021 and 2020, the related statements of activities, functional expenses 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 San Diego Tourism Marketing District as of June 30, 2021 and 2020, 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.

Redwitz, Inc.

Orange County	3 Park Plaza, Suite 1700, Irvine, California 92614	(949) 753-1514 • (949) 753-1535 fax
San Francisco Bay Area	1 Almaden Boulevard, Suite 620, San Jose, California 95113	(408) 377-3441 • (408) 377-5834 fax
San Diego County	4275 Executive Square, Suite 1000, La Jolla, California 92037	(858) 455-9000 • (858) 455-8279 fax

www.redwitz.com (800) 576-1514



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". The signature is written in a cursive, flowing style.

Redwitz, Inc.
La Jolla, California
January 7, 2022

San Diego Tourism Marketing District

Statements of Financial Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash	\$ 3,039,520	\$ 2,406,901
Accounts receivable	-	4,247
City holdbacks	12,154,814	18,918,259
Prepaid expenses	33,394	75,069
Accrued interest income	2,980	2,962
Advances to contractors	-	172,136
	<u>15,230,708</u>	<u>21,579,574</u>
Total current assets		
	<u>15,230,708</u>	<u>21,579,574</u>
Total assets	<u>\$ 15,230,708</u>	<u>\$ 21,579,574</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,455,678	\$ 247
Deferred revenue	11,658,210	2,902,717
Indemnification reserve	-	16,861,540
	<u>13,113,888</u>	<u>19,764,504</u>
Total current liabilities		
	<u>13,113,888</u>	<u>19,764,504</u>
Total liabilities		
	<u>13,113,888</u>	<u>19,764,504</u>
Net assets		
Net assets without donor restrictions	<u>2,116,820</u>	<u>1,815,070</u>
	<u>2,116,820</u>	<u>1,815,070</u>
Total net assets		
	<u>2,116,820</u>	<u>1,815,070</u>
Total liabilities and net assets	<u>\$ 15,230,708</u>	<u>\$ 21,579,574</u>

San Diego Tourism Marketing District

Statements of Activities

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Tourism Marketing District revenue	\$ 21,933,500	\$ 38,516,633
Interest income	264,530	626,920
Other income	<u>80,362</u>	<u>66,691</u>
Total revenue and support	<u>22,278,392</u>	<u>39,210,244</u>
Expenses		
Program services		
Allocations to contractors	<u>20,955,905</u>	<u>37,254,176</u>
Total program expenses	<u>20,955,905</u>	<u>37,254,176</u>
Support services		
Management and general		
SDTMD operations	706,064	928,638
Administrative fee to the City of San Diego	<u>314,673</u>	<u>429,563</u>
Total support services expenses	<u>1,020,737</u>	<u>1,358,201</u>
Increase in net assets without donor restrictions	301,750	597,867
Net assets, beginning of year	<u>1,815,070</u>	<u>1,217,203</u>
Net assets, end of year	<u>\$ 2,116,820</u>	<u>\$ 1,815,070</u>

San Diego Tourism Marketing District

Statements of Functional Expenses

For the Years Ended June 30, 2021 and 2020

	2021				2020			
	Program Services	Support Services		Total	Program Services	Support Services		Total
		SDTMD Operations	Administrative fee to the City of San Diego			SDTMD Operations	Administrative fee to the City of San Diego	
Expenses:								
Advertising	\$ 13,399,182	\$ -	\$ -	\$ 13,399,182	\$ 21,213,716	\$ -	\$ -	\$ 21,213,716
Advertising agency fees	1,741,825	-	-	1,741,825	2,406,393	-	-	2,406,393
Bid fees/team payouts	-	-	-	-	505,000	-	-	505,000
City administration fee	-	-	314,673	314,673	-	-	429,563	429,563
Dues/subscriptions/memberships	78,162	7,223	-	85,385	103,128	7,324	-	110,452
Event registration fees	975	-	-	975	163,930	-	-	163,930
Insurance	-	27,531	-	27,531	-	23,749	-	23,749
Insurance - workers compensation	-	1,037	-	1,037	-	1,382	-	1,382
Lead generation services	78,472	-	-	78,472	71,647	-	-	71,647
Marketing materials/promotional items	-	-	-	-	44,223	-	-	44,223
Occupancy	-	-	-	-	-	8,189	-	8,189
Office supplies	-	152	-	152	-	714	-	714
Outside contractors	598,809	413,995	-	1,012,804	2,042,969	620,733	-	2,663,702
Parking	-	27	-	27	-	19	-	19
Payroll processing	-	3,506	-	3,506	-	3,381	-	3,381
Payroll tax	-	11,753	-	11,753	-	11,408	-	11,408
Personnel benefits	370,411	17,308	-	387,719	933,290	14,908	-	948,198
Personnel salaries and wages	1,528,757	220,725	-	1,749,482	4,777,401	232,875	-	5,010,276
Postage and shipping	-	630	-	630	-	881	-	881
Printing and reproduction	-	2,177	-	2,177	-	3,075	-	3,075
Rentals - remote sales office	7,183	-	-	7,183	54,845	-	-	54,845
Research	349,049	-	-	349,049	474,533	-	-	474,533
Sales commissions	-	-	-	-	2,995	-	-	2,995
Special event production	-	-	-	-	210,766	-	-	210,766
Sponsorships	9,750	-	-	9,750	167,599	-	-	167,599
Training	-	-	-	-	1,000	-	-	1,000
Travel	-	-	-	-	4,278	-	-	4,278
Allocated contractor overhead	2,793,330	-	-	2,793,330	4,076,463	-	-	4,076,463
Total expenses	<u>\$ 20,955,905</u>	<u>\$ 706,064</u>	<u>\$ 314,673</u>	<u>\$ 21,976,642</u>	<u>\$ 37,254,176</u>	<u>\$ 928,638</u>	<u>\$ 429,563</u>	<u>\$ 38,612,377</u>

San Diego Tourism Marketing District

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 301,750	\$ 597,867
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Decrease (increase) in current assets		
Accounts receivable	4,247	2,205,335
City holdbacks	6,763,445	7,958,937
Prepaid expenses	41,675	(14,922)
Accrued interest income	(18)	(162)
Increase (decrease) in current liabilities		
Accounts payable	1,455,431	(9,553,728)
Deferred revenue	8,755,493	(2,074,247)
Indemnification reserve	(16,861,540)	(5,192,256)
Net cash provided (used) by operating activities	<u>460,483</u>	<u>(6,073,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances to contractors	(2,000,000)	-
Collection of advances to contractors	<u>2,172,136</u>	<u>2,827,864</u>
Net cash provided by investing activities	<u>172,136</u>	<u>2,827,864</u>
Net increase (decrease) in cash	632,619	(3,245,312)
Cash, beginning of year	<u>2,406,901</u>	<u>5,652,213</u>
Cash, end of year	<u><u>\$ 3,039,520</u></u>	<u><u>\$ 2,406,901</u></u>

San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2021 and 2020

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 businesses 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 businesses 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 businesses 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. Effective July 1, 2020, the agreement with the City to operate the modified district was extended for a ten-year term expiring June 30, 2030.

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, 2021 and 2020, SDTMD had no net assets with donor restrictions.

San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2021 and 2020

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.

Adoption of new accounting standards

The Financial Accounting Standards Board ("FASB") issued a new Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU and all subsequently issued clarifying ASU's replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. SDTMD adopted the new standard effective July 1, 2020, the first day of the fiscal year using the modified retrospective approach. The adoption resulted in no change to beginning net assets earnings as of July 1, 2020. There was no impact to revenue by applying this ASU for the fiscal year ended June 30, 2021.

As part of the adoption of the ASU, the SDTMD elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Accounting Standards Update 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. SDTMD adopted the new standard effective July 1, 2020, the first day of the fiscal year using the modified retrospective approach. The adoption resulted in no change to beginning net assets earnings as of July 1, 2020. There was no impact to revenue by applying this ASU for the fiscal year ended June 30, 2021.

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, 2021 and 2020, 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 at a point in time in the year in which the performance obligation is met, which is the time that 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, 2021 and 2020.

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.

San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2021 and 2020

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

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 2CFR 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.

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

San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2021 and 2020

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

Fair value measurements (continued)

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.

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. The SDTMD had no subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2021. Subsequent events were evaluated through January 7, 2022, which is the date the financial statements were available to be issued.

Note 2 – Accounts receivable

Accounts receivable at June 30, 2020 is comprised of a receivable from a contractor that arose from a packet adjustment. The balances in accounts receivable due at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Accounts receivable	<u>\$ -</u>	<u>\$ 4,247</u>

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, 2021 and 2020.

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.

San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2021 and 2020

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.

City holdbacks (amounts that will be held in reserve for less than one year) are comprised of the following at June 30, 2021 and 2020:

	2021	2020
Indemnification reserve (see Note 6)	\$ -	\$ 16,861,540
Opportunity/catastrophe reserve	11,118,098	1,809,446
Other City holdbacks	1,036,716	247,273
Total City holdbacks	<u>\$ 12,154,814</u>	<u>\$ 18,918,259</u>

Note 4 – Accounts payable

The balances in accounts payable at June 30, 2021 and 2020 consist of the following:

	2021	2020
Unpaid reimbursement requests from contractors	\$ 1,448,964	\$ -
Unpaid administrative invoices	6,714	247
	<u>\$ 1,455,678</u>	<u>\$ 247</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 unspent 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. Effective July 1, 2020, the City approved release of indemnification reserve and the remaining balance was transferred to the opportunity/catastrophe reserve (see Note 6). The balance in deferred revenue as of June 30, 2021 and 2020 is as follows:

	2021	2020
Modified O-20096	\$ 3,734,170	\$ 2,902,717
O-20096	7,924,040	-
Total deferred revenue	<u>\$ 11,658,210</u>	<u>\$ 2,902,717</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 a legal challenge to the district or assessment. Under the terms of the amendment to the SDTMD contract, the indemnification reserve as of June 30, 2020 is \$16,861,540. Reserve funds are physically held by the City and are included in City holdbacks on the statement of financial position.

During June 2020, City Council approved release of \$11,500,000 of indemnification reserve for expenditure in the SDTMD budget for the year ended June 30, 2021 (see Note 3). On November 24, 2020, the City Council approved release of the remaining reserve in the amount of \$5,361,540 for expenditure in the SDTMD budget for the year ended June 30, 2021. There is no indemnification reserve at June 30, 2021.

San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020, 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.

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, 2021 and 2020, SDTMD had uninsured cash balances of \$2,842,364 and \$2,457,098, respectively.

As of June 30, 2021 and 2020, 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 City holdbacks make up approximately 80% and 88% of total assets, respectively.

Note 9 – Liquidity and availability of financial assets

The following table reflects SDTMD's financial assets as of June 30, 2021 and 2020 available for general expenditures within one year:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash	\$ 3,039,520	\$ 2,406,901
Accounts receivable	-	4,247
City holdbacks	12,154,814	18,918,259
Advances to contractors	-	172,136
Accrued interest income	2,980	2,962
Total financial assets available to meet general expenditures within one year:	<u>\$ 15,197,314</u>	<u>\$ 21,504,505</u>

At June 30, 2021, 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.

San Diego Tourism Marketing District

Notes to Financial Statements

June 30, 2021 and 2020

Note 10 – Risks and uncertainties

In March 2020, the outbreak of a novel strain of coronavirus (“COVID-19”) became widespread in the United States and was declared a National Emergency. State and local authorities recommended social distancing and imposed quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures are designed to protect the overall public health, however, the measures have severely impacted the SDTMD’s ability to operate at levels prior to the outbreak due to a significant reduction in assessment revenue derived from hotel room night stays.

In response to COVID-19, the SDTMD implemented cost-saving and cash preservation measures for the year ended June 30, 2021, by reducing administrative costs, revising the fiscal year 2021 budget to eliminate funding for all contractors except for the Destination Marketing Organization (“DMO”) contractor, and requiring the DMO to significantly reduce their approved budget for 2021. In addition, the SDTMD requested the release of the remaining indemnification reserve in order for the funds to be accessible. On November 24, 2020, the City Council approved the release of the remaining indemnification reserve in the amount of \$5,361,540 (see Note 6).

The extent of the impact of COVID-19 on the SDTMD’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on contractors, hotels and the tourism industry all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact the SDTMD’s financial condition or results of operations is uncertain.

Supplemental Information

San Diego Tourism Marketing District

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

For the Year Ended June 30, 2021

	Modified O-20096	O-20096	O-19622	Total	Budget	Difference
REVENUES						
Assessments	\$ 13,817,543	\$ 9,910	\$ -	\$ 13,827,453	\$ 14,000,000	\$ (172,547)
Prior year deferred/budgeted reserves	3,902,717	15,861,540	-	19,764,257	18,908,985	855,272
Total assessments	17,720,260	15,871,450	-	33,591,710	32,908,985	682,725
Less: deferred revenue/budgeted reserves	(3,734,170)	(7,924,040)	-	(11,658,210)	(10,595,001)	(1,063,209)
Assessment revenues realized	13,986,090	7,947,410	-	21,933,500	22,313,984	(380,484)
Other income	10	-	-	10	-	10
Penalty income	77,666	2,686	-	80,352	-	80,352
Interest income	46,138	218,374	18	264,530	50,000	214,530
Total revenues	14,109,904	8,168,470	18	22,278,392	22,363,984	(85,592)
EXPENSES						
Competitive Applications						
Targeted Marketing and Sales Programs	2,093,417	7,937,500	-	10,030,917	10,046,170	(15,253)
Destination Marketing	10,924,988	-	-	10,924,988	10,926,302	(1,314)
Total Competitive Applications	13,018,405	7,937,500	-	20,955,905	20,972,472	(16,567)
Administration						
Personnel	250,823	-	-	250,823	251,973	(1,150)
Contractual services	413,995	-	-	413,995	394,742	19,253
Overhead	41,246	-	-	41,246	55,742	(14,496)
Contingency	-	-	-	-	381,055	(381,055)
Administrative fee to the City of San Diego	261,620	53,053	-	314,673	308,000	6,673
Total SDTMD operating expenses	967,684	53,053	-	1,020,737	1,391,512	(370,775)
Total expense	13,986,089	7,990,553	-	21,976,642	22,363,984	(387,342)
Increase in net assets without donor restrictions	\$ 123,815	\$ 177,917	\$ 18	\$ 301,750	\$ -	\$ 301,750
DEFERRED REVENUE AND INDEMNIFICATION RESERVE						
Operations	\$ 540,113	\$ -	\$ -	\$ 540,113	\$ -	\$ 540,113
Opportunity/catastrophe reserve	3,194,057	7,924,040	-	11,118,097	10,595,001	523,096
Total deferred revenue/indemnification reserve	3,734,170	7,924,040	-	11,658,210	10,595,001	1,063,209
Total expenditures	13,986,089	7,990,553	-	21,976,642	22,363,984	(387,342)
Total expenditures and reserves	\$ 17,720,259	\$ 15,914,593	\$ -	\$ 33,634,852	\$ 32,958,985	\$ 675,867
BUDGET-TO-ACTUAL FOR COMPETITIVE APPLICATIONS						
San Diego Tourism Authority (SDTA)	\$ 13,018,405	\$ 7,937,500	\$ -	\$ 20,955,905	\$ 20,972,472	\$ (16,567)
	\$ 13,018,405	\$ 7,937,500	\$ -	\$ 20,955,905	\$ 20,972,472	\$ (16,567)

San Diego Tourism Marketing District

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

For the Year Ended June 30, 2020

	Modified O-20096	O-19622	Total	Budget	Difference
REVENUES					
Assessments	\$ 31,226,284	\$ -	\$ 31,226,284	\$ 31,235,891	\$ (9,607)
Prior year deferred/budgeted reserves	5,976,964	-	5,976,964	5,276,339	700,625
Total assessments	37,203,248	-	37,203,248	36,512,230	691,018
Less: deferred revenue/budgeted reserves	(3,902,717)	-	(3,902,717)	(2,088,458)	(1,814,259)
Assessment revenues realized	33,300,531	-	33,300,531	34,423,772	(1,123,241)
Other income	2,335	-	2,335	-	2,335
Penalty income	60,053	-	60,053	-	60,053
Interest income	167,085	162	167,247	160,000	7,247
Total revenues	33,530,004	162	33,530,166	34,583,772	(1,053,606)
EXPENSES					
Competitive Applications					
Targeted Marketing and Sales Programs	17,834,085	-	17,834,085	18,532,490	(698,405)
Destination Marketing	14,227,835	-	14,227,835	14,406,261	(178,426)
Total Competitive Applications	32,061,920	-	32,061,920	32,938,751	(876,831)
Administration					
Personnel	260,573	-	260,573	285,839	(25,266)
Contractual services	620,733	-	620,733	817,214	(196,481)
Overhead	47,332	-	47,332	58,606	(11,274)
Contingency	-	-	-	201,362	(201,362)
Administrative fee to the City of San Diego	309,973	-	309,973	282,000	27,973
Total SDTMD operating expenses	1,238,611	-	1,238,611	1,645,021	(406,410)
Total expense	33,300,531	-	33,300,531	34,583,772	(1,283,241)
Increase in net assets without donor restrictions	\$ 229,473	\$ 162	\$ 229,635	\$ -	\$ 229,635
DEFERRED REVENUE AND INDEMNIFICATION RESERVE					
Operations	\$ 1,093,271	\$ -	\$ 1,093,271	\$ -	\$ 1,093,271
Opportunity/catastrophe reserve	1,809,446	-	1,809,446	1,088,458	720,988
Indemnification reserve	1,000,000	-	1,000,000	1,000,000	-
Total deferred revenue/indemnification reserve	3,902,717	-	3,902,717	2,088,458	1,814,259
Total expenditures	33,300,531	-	33,300,531	34,583,772	(1,283,241)
Total expenditures and reserves	\$ 37,203,248	\$ -	\$ 37,203,248	\$ 36,672,230	\$ 531,018
BUDGET-TO-ACTUAL FOR COMPETITIVE APPLICATIONS					
San Diego Tourism Authority (SDTA)	\$ 30,422,036	\$ -	\$ 30,422,036	\$ 31,261,838	\$ (839,802)
Best Coast Beer Fest	60,000	-	60,000	60,000	-
California Police Athletic Federation	15,728	-	15,728	15,353	375
California State Games-Summer	125,000	-	125,000	125,000	-
California State Games-Winter	50,000	-	50,000	50,000	-
Gator by the Bay	34,779	-	34,779	70,000	(35,221)
La Jolla Historical Society	51,787	-	51,787	60,000	(8,213)
Pro Am Beach Soccer	27,000	-	27,000	27,000	-
San Diego Bay Wine and Food Festival	70,910	-	70,910	70,910	-
San Diego Bayfair - Thunderboats	95,000	-	95,000	95,000	-
San Diego Bowl Game Association - Holiday Bowl	410,000	-	410,000	410,000	-
San Diego Brewers Guild	30,972	-	30,972	31,000	(28)
San Diego Crew Classic - Spring	25,892	-	25,892	25,264	628
San Diego Diplomacy Council	28,836	-	28,836	28,906	(70)
Surf Cup - Thanksgiving Challenge	40,000	-	40,000	34,500	5,500
USA Ultimate (Frisbee)	23,980	-	23,980	23,980	-
USTA Billie Jean King Girls National Championship	50,000	-	50,000	50,000	-
Wonderfront	500,000	-	500,000	500,000	-
	\$ 32,061,920	\$ -	\$ 32,061,920	\$ 32,938,751	\$ (876,831)

San Diego Tourism Marketing District

Schedule III - Statement of Revenues and Expenditures - TMD Agreement with City of San Diego - O-20096

For the Year Ended June 30, 2020

	Actual	Budget	Difference
REVENUES			
Assessments	\$ 23,845	\$ -	\$ 23,845
Prior year deferred revenue/budgeted reserves	21,053,796	5,407,332	15,646,464
Total assessments	21,077,641	5,407,332	15,670,309
Less: deferred revenue/budgeted reserves	(15,861,539)	(5,407,332)	(10,454,207)
Assessment revenues realized	5,216,102	-	5,216,102
Penalty income	4,303	-	4,303
Interest income	459,673	-	459,673
Total revenues	<u>5,680,078</u>	<u>-</u>	<u>5,680,078</u>
EXPENSES			
Category A			
A3 - Competitive targeting	2,028,606	2,218,312	(189,706)
Total A1 - A3 expenses	<u>2,028,606</u>	<u>2,218,312</u>	<u>(189,706)</u>
SDTMD operating expenses			
Administrative fee to the City of San Diego	74,576	-	74,576
Total SDTMD operating expenses	<u>74,576</u>	<u>-</u>	<u>74,576</u>
Total category A	<u>2,103,182</u>	<u>2,218,312</u>	<u>(115,130)</u>
Category B			
SDTMD operating expenses			
Administrative fee to the City of San Diego	45,014	-	45,014
Total SDTMD operating expenses	<u>45,014</u>	<u>-</u>	<u>45,014</u>
Destination marketing with a specific call to action	3,163,650	3,189,020	(25,370)
Total category B	<u>3,208,664</u>	<u>3,189,020</u>	<u>19,644</u>
Total expenses	<u>5,311,846</u>	<u>5,407,332</u>	<u>(95,486)</u>
Increase in net assets without donor restrictions	<u>\$ 368,232</u>	<u>\$ (5,407,332)</u>	<u>\$ 5,775,564</u>
DEFERRED REVENUE AND INDEMNIFICATION RESERVE			
Category A			
Indemnification reserve	\$ 15,441,759	\$ 15,177,176	\$ 264,583
Total category A	<u>15,441,759</u>	<u>15,177,176</u>	<u>264,583</u>
Category B			
Indemnification reserve	419,780	303,492	116,288
Total category B	<u>419,780</u>	<u>303,492</u>	<u>116,288</u>
Total deferred revenue/indemnification reserve	<u>15,861,539</u>	<u>15,480,668</u>	<u>380,871</u>
Total expenditures	<u>5,311,846</u>	<u>5,407,332</u>	<u>(95,486)</u>
Total expenditures and reserves	<u>\$ 21,173,385</u>	<u>\$ 20,888,000</u>	<u>\$ 285,385</u>
BUDGET-TO-ACTUAL FOR COMPETITIVE APPLICATIONS			
San Diego Tourism Authority (SDTA)	\$ 5,192,256	\$ 5,407,332	\$ (215,076)
	<u>\$ 5,192,256</u>	<u>\$ 5,407,332</u>	<u>\$ (215,076)</u>

San Diego Tourism Marketing District

Schedule IV - Statements of Activities by District - Modified O-20096, O-20096, and O-19622

For the Years Ended June 30, 2021 and 2020

	2021				2020			
	Modified O-20096	O-20096	O-19622	Total	Modified O-20096	O-20096	O-19622	Total
Revenue and support								
Tourism Marketing District revenue	\$ 13,986,090	\$ 7,947,410	\$ -	\$ 21,933,500	\$ 33,300,531	\$ 5,216,102	\$ -	\$ 38,516,633
Interest income	46,138	218,374	18	264,530	167,085	459,673	162	626,920
Other income	77,676	2,686	-	80,362	62,388	4,303	-	66,691
Total revenue and support	<u>14,109,904</u>	<u>8,168,470</u>	<u>18</u>	<u>22,278,392</u>	<u>33,530,004</u>	<u>5,680,078</u>	<u>162</u>	<u>39,210,244</u>
Expenses								
Program services								
Direct expenses to contractors	10,505,973	7,656,602	-	18,162,575	27,985,457	5,192,256	-	33,177,713
Indirect expenses to contractors	2,512,432	280,898	-	2,793,330	4,076,463	-	-	4,076,463
Total program expenses	<u>13,018,405</u>	<u>7,937,500</u>	<u>-</u>	<u>20,955,905</u>	<u>32,061,920</u>	<u>5,192,256</u>	<u>-</u>	<u>37,254,176</u>
Support services								
Management and general								
SDTMD operations	706,064	-	-	706,064	928,638	-	-	928,638
Administrative fee to the City of San Diego	261,620	53,053	-	314,673	309,973	119,590	-	429,563
Total support services expense	<u>967,684</u>	<u>53,053</u>	<u>-</u>	<u>1,020,737</u>	<u>1,238,611</u>	<u>119,590</u>	<u>-</u>	<u>1,358,201</u>
Increase in net assets without donor restrictions	123,815	177,917	18	301,750	229,473	368,232	162	597,867
Net assets, beginning of year	610,578	1,201,530	2,962	1,815,070	381,105	833,298	2,800	1,217,203
Net assets, end of year	<u>\$ 734,393</u>	<u>\$ 1,379,447</u>	<u>\$ 2,980</u>	<u>\$ 2,116,820</u>	<u>\$ 610,578</u>	<u>\$ 1,201,530</u>	<u>\$ 2,962</u>	<u>\$ 1,815,070</u>