

**SAN FRANCISCO TOURISM IMPROVEMENT
DISTRICT MANAGEMENT CORPORATION**

FINANCIAL STATEMENTS AS OF
JUNE 30, 2010

(WITH SUMMARIZED FINANCIAL INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009)

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Francisco Tourism Improvement District
Management Corporation:

We have audited the accompanying statement of financial position of San Francisco Tourism Improvement District Management Corporation (SFTIDMC), a California not-for-profit organization, as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the SFTIDMC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the SFTIDMC's 2009 financial statements and, in our report dated March 29, 2010, we were not able and we did not express an opinion on the financial statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Francisco Tourism Improvement District Management Corporation as of June 30, 2010, and the changes in their net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Louie + Wong LLP

San Francisco, California
October 6, 2010

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2009)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
CURRENT ASSETS:					
Cash	\$ 9,820,897	\$ -	\$ -	\$ 9,820,897	\$ -
Accounts receivable	4,591,544	-	-	4,591,544	8,159,984
	<u>\$ 14,412,441</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,412,441</u>	<u>\$ 8,159,984</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:					
Accounts payable	\$ 1,516,586	\$ -	\$ -	\$ 1,516,586	\$ 407,223
Accrued liabilities	30,500	-	-	30,500	-
Total current liabilities	1,547,086	-	-	1,547,086	407,223
 COMMITMENTS AND CONTINGENCIES					
 NET ASSETS	 12,865,355	 -	 -	 12,865,355	 7,752,761
	<u>\$ 14,412,441</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,412,441</u>	<u>\$ 8,159,984</u>

The accompanying independent auditors' report and notes to financial statements should be read in conjunction with this statement.

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE PERIOD JANUARY 1, 2009 TO JUNE 30, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
REVENUES	\$ 18,880,349	\$ -	\$ -	\$ 18,880,349	\$ 8,159,984
EXPENSES:					
Program services	13,281,455	-	-	13,281,455	-
Management and general	486,300	-	-	486,300	407,223
Total expenses	13,767,755	-	-	13,767,755	407,223
CHANGE IN NET ASSETS	5,112,594	-	-	5,112,594	7,752,761
NET ASSETS - BEGINNING OF PERIOD	7,752,761	-	-	7,752,761	-
NET ASSETS - END OF PERIOD	<u>\$ 12,865,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,865,355</u>	<u>\$ 7,752,761</u>

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should be read in conjunction with this statement.

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

**(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE PERIOD JANUARY 1, 2009 TO JUNE 30, 2009)**

	Program Services	Management and General	Total	
			2010	2009
Marketing and promotion	\$ 11,530,000	\$ -	\$ 11,530,000	\$ -
Sales incentive fund	1,275,176	-	1,275,176	-
Professional services	475,973	78,945	554,918	220,409
Contractual services	-	373,423	373,423	179,656
Management information system	-	8,521	8,521	3,187
Insurance and taxes	-	3,683	3,683	-
Member meetings	-	2,797	2,797	3,971
Other	306	18,931	19,237	-
	<u>\$ 13,281,455</u>	<u>\$ 486,300</u>	<u>\$ 13,767,755</u>	<u>\$ 407,223</u>

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SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE PERIOD JANUARY 1, 2009 TO JUNE 30, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,112,594	\$ 7,752,761
Changes in assets and liabilities -		
Accounts receivable	3,568,440	(8,159,984)
Accounts payable	1,109,363	407,223
Accrued liabilities	30,500	-
Total adjustments	<u>4,708,303</u>	<u>(7,752,761)</u>
Net cash provided by operating activities	<u>9,820,897</u>	<u>-</u>
NET CHANGE IN CASH	9,820,897	-
CASH - BEGINNING OF PERIOD	<u>-</u>	<u>-</u>
CASH - END OF PERIOD	<u>\$ 9,820,897</u>	<u>\$ -</u>

The accompanying independent auditors' report and notes to financial statements
should be read in conjunction with this statement.

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1. Summary of Significant Accounting Policies

General -- San Francisco Tourism Improvement District Management Corporation (SFTIDMC) is a not-for-profit organization formed for the purpose of managing and administering the Tourism Improvement District pursuant to a management contract with the City and County of San Francisco (the City).

On December 16, 2008, the San Francisco Board of Supervisors approved the establishment of a business-based business improvement district to be known as the Tourism Improvement District (TID). The TID assessment is designed to generate funds dedicated to promoting and marketing San Francisco as a leisure and convention destination in an increasingly competitive world, and to fund much-needed repairs and improvements to the Moscone Convention Center.

The TID will assess each tourist hotel in San Francisco a percentage of gross revenues from tourist rooms. The assessment will be collected by the City and remitted to SFTIDMC. SFTIDMC will ensure that the funds are used to benefit the assessed businesses by allocating them to the San Francisco Convention & Visitors Bureau (SFCVB) programs and by keeping San Francisco's convention facilities competitive with those of other major cities. The annual assessments commenced on January 1, 2009 and will continue until December 31, 2023.

The SFCVB's marketing and promotional programs have been funded by SFTIDMC which commenced on July 1, 2009.

Basis of Accounting -- The accompanying financial statements are prepared on the accrual basis of accounting.

Basis of Presentation -- The Financial Accounting Standards Board (FASB) is the authoritative body for financial accounting and reporting in the United States. Effective for periods ending after September 15, 2009, the FASB Accounting Standards Codification became the single official source of authoritative accounting principles generally accepted in the United States for non-governmental entities. Accordingly, previous references to GAAP accounting standards are no longer used in the notes to the financial statements. SFTIDMC has applied this guidance in the preparation of SFTIDMC's financial statements as of June 30, 2010.

Cash -- Cash consists of cash in bank accounts.

Receivables -- The accounts receivable represents the assessments due from the City.

Revenues -- Actual revenues from assessments are recognized when the assessments from hotels become due and measurable.

Professional and Contractual Expenses -- Professional and contractual services are expensed as incurred.

Income Tax -- SFTIDMC has been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(6) and the California Franchise Tax Board under Section 23701(e) of the California Revenue and Taxation Code. Accordingly, no provision for income tax has been made in the accompanying financial statements.

Concentration of Credit Risk -- Financial instruments, which potentially subject SFTIDMC to concentrations of credit risk, consist principally of cash in bank accounts greater than \$250,000 with each financial institution. SFTIDMC periodically reviews its cash and investment policy which are based on management's expectations and estimates and believes that any potential accounting loss is minimal.

Estimates Included in the Financial Statements -- 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and information that is available to management about current events and actions SFTIDMC may take in the future. Actual results could differ from those estimates.

Fair Value of Financial Instruments -- Financial instruments include receivables, payables and accrued liabilities. The carrying values of receivables, payables and accrued liabilities approximate fair value due to the short-term nature of these balances.

Comparative Financial Statements -- The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SFTIDMC's financial statements for the period ended June 30, 2009, from which the summarized information was derived.

Subsequent Events -- SFTIDMC has evaluated subsequent events through October 6, 2010, the date the financial statements were available to be issued.

New Accounting Pronouncement -- In January, 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance intended to improve disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels and the reasons for the transfers and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable inputs, Level 3. Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs, Level 2, and significant unobservable inputs, Level 3. This guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for interim and annual periods beginning after December 15, 2010. As this guidance provides only disclosure requirements, the adoption of this guidance will not impact SFTIDMC's statement of financial position or statement of activities.

2. **Description of Net Assets**

Unrestricted -- This is used to account for unrestricted revenues received from assessments.

Temporarily Restricted -- This is used to account for revenues that are temporarily restricted for a specified purpose or are available to be used in later period. There were no temporarily restricted net assets as of June 30, 2010.

Permanently Restricted -- This is used to account for revenues that are permanently restricted as specified by the Board. There were no permanently restricted net assets as of June 30, 2010.

3. Related Party Transactions

SFTIDMC entered into agreements for professional services and administrative services with the San Francisco Convention & Visitors Bureau (SFCVB), whose members of the Board of Directors are also members of the Board of Directors of SFTIDMC.

Under the professional services agreement, SFCVB will provide marketing and promotional services consistent with the requirements of the management plan. SFCVB will be compensated based on its budget, as approved by SFTIDMC's Board of Directors, and consistent with the management plan. The agreement was effective for the period June 4, 2009 to June 30, 2010 and will automatically renew for another year. The professional services commenced on July 1, 2009.

Under the administrative services agreement, SFCVB will provide the following services: (1) staff support for the operation of SFTIDMC, (2) the Chief Financial Officer (CFO) of SFCVB will also serve as CFO of SFTIDMC and SFCVB's staff will perform finance and accounting related functions, (3) SFCVB will also be responsible for the tax related issues of SFTIDMC, (4) SFCVB will be responsible for all compliance issues of SFTIDMC, including compliance with the management plan approved by the San Francisco Board of Supervisors, and (5) SFCVB will be responsible for developing an appropriate investment policy and program for SFTIDMC's funds. SFCVB will be compensated based on hours worked by SFCVB's employees. The agreement was effective for the period May 28, 2009 to June 30, 2010 and will automatically renew for another year. The administrative services commenced on July 1, 2009.

As of June 30, 2010, SFTIDMC has a payable of \$33,683 to SFCVB for operating expenses paid by SFCVB on behalf of SFTIDMC.

4. Program Expenditures

As discussed in Note 1 to the financial statements, the TID assessment is designed to generate funds dedicated to promoting and marketing San Francisco as a leisure and convention destination and to fund much-needed repairs and improvements to the Moscone Convention Center. Funding for expenditures on these programs commenced on July 1, 2009.

Expenditures related to marketing and promotional programs of SFCVB amounted to \$11,530,000 and sales incentive granted to convention groups related to the rent of the Moscone Convention Center amounted to \$1,275,276 during the fiscal year ended June 30, 2010. Repairs and building improvements to the Moscone Convention Center amounted to \$475,973 during the fiscal year ended June 30, 2010.

Sales incentive payable to the San Francisco Convention Facilities, an operating unit of the City & County of San Francisco, amounted to \$1,275,276 as of June 30, 2010.

5. Commitments

SFTIDMC entered into a Collection Agreement with the Office of the Treasurer and Tax Collector for the City and County of San Francisco (the Treasurer) effective for the period July 23, 2009 to June 30, 2010. Under the Collection Agreement, the Treasurer will provide the following services: (a) the Treasurer will collect assessments in accordance to the management plan, (b) the Treasurer will provide quarterly reports indicating the amount of penalties, fees, assessment and interest collected, and (c) the Treasurer will provide a list of delinquent accounts on a quarterly basis.

SFTIDMC paid \$309,603 in exchange for the collection services during the year ended June 30, 2010.