

**SAN FRANCISCO TOURISM IMPROVEMENT
DISTRICT MANAGEMENT CORPORATION**

FINANCIAL STATEMENTS AS OF
JUNE 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011)

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, 2012, 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 2011 financial statements and, in our report dated October 27, 2011, we expressed an unqualified 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. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SFTIDMC's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2012, and the changes in its net assets and its 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 31, 2012

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2011)

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2012</u>	<u>2011</u>
CURRENT ASSETS:					
Cash	\$ 7,563,366	\$ -	\$ -	\$ 7,563,366	\$ 10,920,769
Accounts receivable	5,916,572	-	-	5,916,572	5,248,424
	<u>\$ 13,479,938</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,479,938</u>	<u>\$ 16,169,193</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:					
Accounts payable	\$ 5,691,444	\$ -	\$ -	\$ 5,691,444	\$ 1,560,508
Accrued liabilities	25,500	-	-	25,500	35,000
Total current liabilities	5,716,944	-	-	5,716,944	1,595,508

COMMITMENTS AND CONTINGENCIES

NET ASSETS	<u>7,762,994</u>	<u>-</u>	<u>-</u>	<u>7,762,994</u>	<u>14,573,685</u>
	<u>\$ 13,479,938</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,479,938</u>	<u>\$ 16,169,193</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, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
REVENUES:					
Tourism Improvement District	\$ 24,808,837	\$ -	\$ -	\$ 24,808,837	\$ 20,970,337
Interest income	18,349	-	-	18,349	38,748
Total revenues	24,827,186	-	-	24,827,186	21,009,085
EXPENSES:					
Program services	31,186,361	-	-	31,186,361	18,803,388
Management and general	451,516	-	-	451,516	497,367
Total expenses	31,637,877	-	-	31,637,877	19,300,755
CHANGE IN NET ASSETS	(6,810,691)	-	-	(6,810,691)	1,708,330
NET ASSETS - BEGINNING OF YEAR	14,573,685	-	-	14,573,685	12,865,355
NET ASSETS - END OF YEAR	<u>\$ 7,762,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,762,994</u>	<u>\$ 14,573,685</u>

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SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2011)

	Program Services	Management and General	Total	
			2012	2011
Marketing and promotion	\$ 15,869,673	\$ -	\$ 15,869,673	\$ 12,959,038
Moscone Convention Center -				
Repairs and improvements	13,278,102	-	13,278,102	4,573,859
Sales incentive	1,441,230	-	1,441,230	1,270,491
Expansion	597,356	-	597,356	-
Professional services	-	49,640	49,640	60,537
Contractual services -				
Treasurer	-	309,603	309,603	309,603
San Francisco Travel Association	-	78,818	78,818	88,432
Member meetings	-	4,363	4,363	6,330
Insurance and taxes	-	3,052	3,052	2,928
Other	-	6,040	6,040	29,537
	<u>\$ 31,186,361</u>	<u>\$ 451,516</u>	<u>\$ 31,637,877</u>	<u>\$ 19,300,755</u>

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SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,810,691)	\$ 1,708,330
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Accounts receivable	(668,148)	(656,880)
Accounts payable	4,130,936	43,922
Accrued liabilities	(9,500)	4,500
Total adjustments	<u>3,453,288</u>	<u>(608,458)</u>
Net cash provided by (used in) operating activities	<u>(3,357,403)</u>	<u>1,099,872</u>
NET INCREASE (DECREASE) IN CASH	(3,357,403)	1,099,872
CASH - BEGINNING OF YEAR	<u>10,920,769</u>	<u>9,820,897</u>
CASH - END OF YEAR	<u>\$ 7,563,366</u>	<u>\$ 10,920,769</u>

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should be read in conjunction with this statement.

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, known as the Tourism Improvement District (TID), and the assessment of fees on identified businesses within the TID (the "TID Assessment"). The TID Assessment was 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 repairs and improvements to the Moscone Convention Center.

The annual assessments commenced on January 1, 2009, and will continue until December 31, 2023. During the first five years, tourist hotels in Zones 1 and 2 of the TID will be assessed 1.50% and 1.00% of gross revenues from tourist rooms, respectively. After the first five years, the assessment rate will be 1.00% and 0.75% of gross revenues from tourist rooms in Zones 1 and 2, respectively.

The assessment will be collected by the City and remitted to SFTIDMC. The SFTIDMC will ensure that the assessments collected are used to benefit the assessed businesses by allocating them to the San Francisco Travel Association (the Association) (formerly known as San Francisco Convention & Visitors Bureau) to fund its marketing and promotional programs and by keeping San Francisco's convention facilities competitive with those of other major cities.

The Association's marketing and promotional programs have been funded by SFTIDMC since July 1, 2009.

Basis of Presentation -- The SFTIDMC prepares the financial statements in accordance with generally accepted accounting principles promulgated in the United States of America for Not-for-Profits. The significant accounting and reporting policies used by SFTIDMC are described subsequently to enhance the usefulness and understandability of the financial statements.

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

Cash -- Cash consists of cash in bank accounts.

Accounts Receivable and Allowance for Doubtful Accounts -- The accounts receivable represents the assessments due from the City. The allowance for doubtful accounts is determined based on the collectability of receivables. Receivables are written off when it is probable that the receivables will not be collected.

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 and believes that any potential loss is not material to the financial statements.

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. On an ongoing basis, management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

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 year ended June 30, 2011, from which the summarized information was derived.

2. Description of Net Assets

Unrestricted -- This is used to account for unrestricted revenues received from assessments and other unrestricted income and expenses.

Temporarily Restricted -- This is used to account for resources that are restricted by the donor for use for a particular purpose or in a particular future period. SFTIDMC had no temporarily restricted net assets as of June 30, 2012.

Permanently Restricted -- This is used to account for resources whose use is limited by donor-imposed restrictions that neither expires by being used in accordance with the donor's restriction nor by the passage of time. SFTIDMC had no permanently restricted net assets as of June 30, 2012.

3. Related Party Transactions

SFTIDMC entered into agreements for professional and administrative services with the Association, whose members of the Board of Directors are also members of the Board of Directors of SFTIDMC.

Under the professional services agreement, the Association will provide marketing and promotional services consistent with the requirements of the management plan. The Association 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 was automatically renewed through June 30, 2012.

Under the administrative services agreement, the Association will provide the following services: (1) staff support for the operation of SFTIDMC, (2) the Chief Financial Officer (CFO) of the Association will serve as CFO of SFTIDMC and the Association's staff will perform finance and accounting related functions, (3) the Association will be responsible for the tax related issues of SFTIDMC, (4) the Association 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) the Association will be responsible for developing an appropriate investment policy and program for SFTIDMC funds. The Association will be compensated based on hours worked by the Association's employees.

SFTIDMC has a payable of \$30,616 to the Association for the operating expenses paid by the Association on behalf of SFTIDMC as of June 30, 2012.

4. Program Services

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 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 the Association amounted to \$15,869,673, and sales incentive granted to convention groups related to the rent of the Moscone Convention Center amounted to \$1,441,230 during the year ended June 30, 2012. Repairs and improvements to the Moscone Convention Center amounted to \$13,278,102 during the year ended June 30, 2012.

Sales incentive payable to the Moscone Convention Center, an operating unit of the City & County of San Francisco, amounted to \$1,441,230 as of June 30, 2012.

5. Commitments

Pursuant to the establishment of the TID as approved by the Board of Supervisors in December 2008, the Office of the Treasurer and Tax Collector for the City and County of San Francisco (the Treasurer) was mandated to collect the TID Assessments on behalf of the SFTIDMC. In August 2009, an administration agreement was entered into between the Treasurer and SFTIDMC wherein the Treasurer agreed to

provide the following services: (a) collect assessments in accordance with the management plan, (b) provide quarterly reports indicating the amount of penalties, fees, assessment and interest collected, and (c) provide a list of delinquent accounts on a quarterly basis. In exchange for the collection services, SFTIDMC agreed to pay the Treasurer a total of \$309,603 each year through June 30, 2010. In January 2011, both the Treasurer and SFTIDMC agreed to extend the administration agreement through June 30, 2012, for the same amount of fees of \$309,603.

Both parties are negotiating a potential expansion of the scope of services to be provided by the Treasurer to SFTIDMC which, when approved, will become effective from July 1, 2012 through June 30, 2014.

6. Subsequent Events

On July 27, 2012, SFTIDMC entered into a revolving line of credit agreement with a bank which will expire on July 1, 2013, subject to renewal or extension at the bank's discretion. Under the agreement, SFTIDMC may borrow up to a maximum amount of \$5,000,000. The line of credit bears an interest of 3.25% per annum, subject to change from time to time based on changes in the prime rate set by the bank, but under no circumstances be less than 3.00% per annum. In addition, SFTIDMC shall comply with certain financial and negative covenants throughout the term of the agreement.

SFTIDMC has evaluated subsequent events through October 31, 2012, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.