

File No. 170604

Committee Item No. 2

Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight

Date: Sept. 6, 2017

Board of Supervisors Meeting:

Date: \_\_\_\_\_

#### Cmte Board

- |                                     |                          |  |
|-------------------------------------|--------------------------|--|
| <input type="checkbox"/>            | <input type="checkbox"/> | Motion                                       |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Resolution                                   |
| <input type="checkbox"/>            | <input type="checkbox"/> | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Digest                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Budget and Legislative Analyst Report        |
| <input type="checkbox"/>            | <input type="checkbox"/> | Youth Commission Report                      |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Introduction Form                            |
| <input type="checkbox"/>            | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/> | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Form 126 – Ethics Commission                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Application                                  |
| <input type="checkbox"/>            | <input type="checkbox"/> | Public Correspondence                        |

#### OTHER

**(Click the text below for a direct link to the document)**

- |                                     |                          |                                    |
|-------------------------------------|--------------------------|------------------------------------|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>OEWD Ltr - May 9, 2017</u>      |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Annual Reports - 2014-2016</u>  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>CPA Reports - 2013-2015</u>     |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Referral FYI - May 24, 2017</u> |
| <input type="checkbox"/>            | <input type="checkbox"/> | _____                              |

Prepared by: John Carroll

Date: Sept. 1, 2017

Prepared by: \_\_\_\_\_

Date: \_\_\_\_\_

1 [Moscone Expansion District - Annual Report to the City - FYs 2014-2015 and 2015-2016]

2  
3 **Resolution receiving and approving annual reports for the Moscone Expansion District**  
4 **for FYs 2014-2015 and 2015-2016, submitted as required by the Property and Business**  
5 **Improvement District Law of 1994 (California Streets and Highways Code,**  
6 **Sections 36600, *et seq.*, Section 36650, and the District's management agreement with**  
7 **the City, Section 3.4.**

8  
9 WHEREAS, On November 20, 2012, pursuant to the Property and Business  
10 Improvement District Law of 1994 (the "Act"), California Streets and Highways Code  
11 Sections 36600 *et seq.*, as augmented by Article 15 of the San Francisco Business and Tax  
12 Regulations Code, the Board of Supervisors adopted Resolution No. 416-12, expressing the  
13 City's intention to establish the Moscone Expansion District; and

14 WHEREAS, On February 5, 2013, the Board of Supervisors adopted Resolution  
15 No. 026-13 establishing the Moscone Expansion District ("Resolution to Establish") for a  
16 period of 32 years, commencing July 1, 2013; and

17 WHEREAS, On December 10, 2013, the Board of Supervisors adopted Resolution  
18 No. 427-13 amending the Moscone Expansion District's Management District Plan to require  
19 monthly, instead of quarterly, assessment collection and distribution by the Office of the  
20 Treasurer and Tax Collector; and

21 WHEREAS, The Moscone Expansion District has submitted for the Board's receipt and  
22 approval the Moscone Expansion District annual reports for FYs 2014-2015 and 2015-2016  
23 ("Annual Reports") as required by Section 36650 of the Act and Section 3.4 of the  
24 Management Contract; and  
25

1           WHEREAS, The Annual Reports are on file with the Clerk of the Board of Supervisors  
2 in File No. 170604, and are incorporated herein by reference as though fully set forth; and

3           WHEREAS, Supporting documents, including, but not limited to, a transmittal letter and  
4 memorandum report from the City's Office of Economic and Workforce Development, dated  
5 May 9, 2017, and documentation from the Moscone Expansion District for the Annual Reports  
6 are on file with the Clerk of the Board of Supervisors in File No. 170604; now, therefore, be it

7           RESOLVED, That the Board of Supervisors hereby receives and approves the Annual  
8 Report for the Moscone Expansion District for FYs 2014-2015 and 2015-2016.

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**MEMO**

To: San Francisco Board of Supervisors

CC: Mayor Edwin Lee

From: Chris Corgas, OEWD Senior Program Manager

RE: Moscone Expansion District Annual Report Fiscal Years 2014 – 2015 and 2015 – 2016

Date: May 9, 2017

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This is a memo summarizing the performance of the Moscone Expansion District (MED) and an analysis of its financial statements (based on their audits) for the period between July 1, 2014 and June 30, 2016.

Each year the MED is required to submit an annual report, and a CPA Independent Auditor's Report. The MED has complied with the submission of all these requirements. OEWD staff, with assistance from the Office of the Controller, City Services Auditor Division, reviewed these financial documents to monitor and report on whether they have complied with the rules per the Property and Business Improvement District Law of 1994, California Streets and Highways Code Sections 36600 Et Seq.; San Francisco's Business and Tax Regulations Code Article 15; the San Francisco Tourism Improvement District Management Corporation's management contract with the City for the TID; MED Management District Plan approved by the Board of Supervisors in 2013.

Also attached to this memo are the following documents:

1. Annual Reports
  - a. FY 2014 – 2015
  - b. FY 2015 – 2016
2. CPA Independent Auditors' Report
  - a. FY 2014 – 2015
  - b. FY 2015 – 2016
3. Proposed Resolution to approve the MED annual report for FY 2014 – 2015 and 2015 – 2016.

**Background**

The MED is a business-based assessment district that includes all tourist hotels operating in the City & County of San Francisco that generate revenue from tourist rooms, and which are located in the following geographic areas:



Zone 1: Tourist hotels with addresses:

- On or east of Van Ness Avenue
- On or east of South Van Ness Avenue, and
- On or north of 16<sup>th</sup> Street from South Van Ness to the Bay, including all tourist hotels east of Van Ness Avenue as if it continued north to the Bay, and north of 16<sup>th</sup> Street as if it continued east to the Bay.

Zone 2: Tourist hotels with addresses:

- West of Van Ness Avenue and South Van Ness Avenue, and
- South of 16<sup>th</sup> Street.

The MED includes both privately and publicly owned properties. The district covers 27 blocks and includes approximately 588 parcels.

- December 16, 2008: the Board of Supervisors approved the resolution to form the Tourism Improvement District Business Improvement District to cover hotels identified in the District's Management Plan and Engineer's Report. Resolution # 504-08).
- July 28, 2009: the Board approved the contract for the administration and management of the Tourism Improvement District Business Improvement District (Resolution # 323-09).
- December 10, 2013: the Board of Supervisors approved an amendment to the District's Management Plan to authorize monthly, instead of quarterly, assessment collection and distribution. (Resolution #441-13).

**Basic Info about Tourism Improvement District BID:**

|                                  |   |
|----------------------------------|---|
| Year Formed                      | 2013  |
| Assessment Collection Period     | FY 2014 – 2015 (July 1, 2014 to June 30, 2015)                    |
| Services Start and End Date      | July 1, 2013 – June 20, 2045                                      |
| Initial Estimated Annual Budget  | \$19,332,000  |
| Fiscal Year                      | July 1 – June 30  |
| Executive Director               | Lynn Farzaroli  |
| Name of Nonprofit Owners' Entity | San Francisco Tourism Improvement District Management Corporation |

The current BID website is <http://www.sftid.com/moscone>.

**Summary of Program Areas**

**Summary of Accomplishments, Challenges, and Delivery of Services**

**FY 2014-2015**

**Services and Improvements to Moscone Convention Center**

- Ground breaking ceremony on May 21, 2015

- \$1.26 million to provide customers with rental incentives to attached conventions in San Francisco
- Renovation project to install new air wall panels with door locks at Moscone West was completed

**FY 2015-2016**

**Services and Improvements to Moscone Convention Center**

- Project currently in Phase 2, on track to be completed in December 2018
- Demolition of the current esplanade lobby
- Structural steel erected
- \$2 million utilized to provide convention customers with rental incentives to attached conventions in San Francisco
- Project liaison secured to help with communication to clients

**FY 2014-2015**

**BENCHMARK 1:** The variance between the Management Plan Budget and Fiscal Year budget, by service category.

**ANALYSIS:** MED met this requirement. Of note: MED's budget percentages are from the Management Plan – Table 2 (pg 23.) MED does not break down the budget in the management plan by dollar value. Therefore, the allocation percentages were used for comparison purposes. Expenditure categories in the Management Plan and Annual Report do not match exactly. The Management Plan combines Administration/Contingency/Reserve Allocation in one category, whereas the Annual Report separates Administration from Contingency/Reserve. *See table below.*

| Service Category   | Management Plan Budget | % of Budget | FY 2014-2015 Budget | % of Budget | Variance Percentage Points |
|--|------------------------|-------------|---------------------|-------------|----------------------------|
| Expansion/Development Activities                         |                        | 87.5%       | \$19,985,000        | 86.3%       | -1.2%                      |
| Capital reserve for Future Renovations and Improvements  |                        | 1.0%        | \$228,400           | 1.0%        | 0.0%                       |
| Incentive Fund   |                        | 9.0%        | \$2,055,600         | 8.9%        | -1.1%                      |
| Sales and Marketing Fund                                 |                        | 0.0%        | \$0                 | 0.0%        | 0.0%                       |
| Administration of MED and Operating Contingency Reserves |                        | 2.5%        | \$901,000           | 3.9%        | +1.4%                      |
| <b>TOTAL</b>   |                        | <b>100%</b> | <b>\$23,170,000</b> | <b>100%</b> |                            |

**BENCHMARK 2:** The variance between the budget amount and actual expenses within a fiscal year.

**ANALYSIS:** MED met this requirement. See table below.

| Service Category   | FY 2014-2015 Budget | % of Budget | FY 2014-2015 Actuals | % of Actuals | Variance Percentage Points |
|--|---------------------|-------------|----------------------|--------------|----------------------------|
| Expansion/Development Activities                         | \$19,985,000        | 86.3%       | \$16,383,424         | 89.3%        | +3.0%                      |
| Capital reserve for Future Renovations and Improvements  | \$228,400           | 1.0%        | \$307,170            | 1.7%         | +7%                        |
| Incentive Fund   | \$2,055,600         | 8.9%        | \$1,350,000          | 7.4%         | -1.5%                      |
| Sales and Marketing Fund                                 | \$0                 | 0.0%        | \$0                  | 0.0%         | 0%                         |
| Administration of MED and Operating Contingency Reserves | \$901,000           | 3.9%        | \$306,977            | 1.7%         | -2.2%                      |
| <b>TOTAL</b>   | <b>\$23,170,000</b> | <b>100%</b> | <b>\$18,347,571</b>  | <b>100%</b>  |                            |

**BENCHMARK 3:** Whether MED is indicating the amount of funds to be carried forward into the next fiscal year and designating projects to be spent in current fiscal year

**ANALYSIS:** MED met this requirement. Please note: There is a period between when the City collects assessment payment and when the City disburses the funds to the CBD. As a result, a CBD typically has a fund balance at the end of the fiscal year that is equal to about 6 months of their annual budget. See table below.

| FY 2014-2015 Carryover Disbursement             |                     |
|---|---------------------|
| Designated Projects for Future Years            |                     |
| Development and Expansion                       | \$15,153,895        |
| Capital Fund                                    | \$138,207           |
| Incentive Fund                                  | \$2,658,424         |
| Contingency/Reserve                             | \$564,010           |
| <b>Total Designated amount for Future Years</b> | <b>\$18,514,536</b> |

**FY 2015-2016**

**BENCHMARK 1:** The variance between the Management Plan Budget and Fiscal Year budget, by service category.

**ANALYSIS:** MED met this requirement. Of note: MED’s budget percentages are from the Management Plan – Table 2 (pg 23.) MED does not break down the budget in the management plan by dollar value. Therefore, the allocation percentages were used for comparison purposes. Expenditure categories in the Management Plan and Annual Report do not match exactly. The Management Plan combines Administration/Contingency/Reserve Allocation in one category, whereas the Annual Report separates Administration from Contingency/Reserve. *See table below.*

| Service Category   | Management Plan Budget | % of Budget | FY 2015-2016 Budget | % of Budget | Variance Percentage Points |
|--|------------------------|-------------|---------------------|-------------|----------------------------|
| Expansion/Development Activities                         |                        | 87.5%       | \$25,266,500        | 86.2%       | -1.3%                      |
| Capital reserve for Future Renovations and Improvements  |                        | 1.0%        | \$289,000           | 1.0%        | 0.0%                       |
| Incentive Fund   |                        | 9.0%        | \$2,599,000         | 8.9%        | -1.1%                      |
| Sales and Marketing Fund                                 |                        | 0.0%        | \$0                 | 0.0%        | 0.0%                       |
| Administration of MED and Operating Contingency Reserves |                        | 2.5%        | \$1,167,500         | 34.0%       | +1.5%                      |
| <b>TOTAL</b>   |                        | <b>100%</b> | <b>\$29,322,000</b> | <b>100%</b> |                            |

**BENCHMARK 2:** The variance between the budget amount and actual expenses within a fiscal year.

**ANALYSIS:** MED met this requirement. *See table below.*

| Service Category  | FY 2015-2016 Budget | % of Budget | FY 2015-2016 Actuals | % of Actuals | Variance Percentage Points |
|---|---------------------|-------------|----------------------|--------------|----------------------------|
| Expansion/Development Activities                        | \$25,266,500        | 86.2%       | \$15,101,522         | 79.1%        | -7.0%                      |
| Capital reserve for Future Renovations and Improvements | \$289,000           | 1.0%        | \$193,615            | 1.0%         | 0.0%                       |
| Incentive Fund  | \$2,599,000         | 8.9%        | \$3,315,835          | 17.4%        | +8.5%                      |



|  |                     |             |                     |             |       |
|--|---------------------|-------------|---------------------|-------------|-------|
|  |                     |             |                     |             |       |
| Sales and Marketing Fund                                 | \$0                 | 0.0%        | \$0                 | 0.0%        | 0%    |
| Administration of MED and Operating Contingency Reserves | \$1,167,500         | 34.0%       | \$473,973           | 2.5%        | -1.5% |
| <b>TOTAL</b>   | <b>\$29,322,000</b> | <b>100%</b> | <b>\$19,084,945</b> | <b>100%</b> |       |

**BENCHMARK 3:** Whether MED is indicating the amount of funds to be carried forward into the next fiscal year and designating projects to be spent in current fiscal year

**ANALYSIS:** MED met this requirement. Please note: There is a period between when the City collects assessment payment and when the City disburses the funds to the CBD. As a result, a CBD typically has a fund balance at the end of the fiscal year that is equal to about 6 months of their annual budget. See table below.

|   |                     |
|---|---------------------|
| <b>FY 2015-2016 Carryover Disbursement</b>      |                     |
| Designated Projects for Future Years            |                     |
| Development and Expansion                       | \$27,750,446        |
| Capital Fund                                    | \$260,337           |
| Incentive Fund                                  | \$2,190,688         |
| Contingency/Reserve                             | \$879,121           |
| <b>Total Designated amount for Future Years</b> | <b>\$31,080,592</b> |

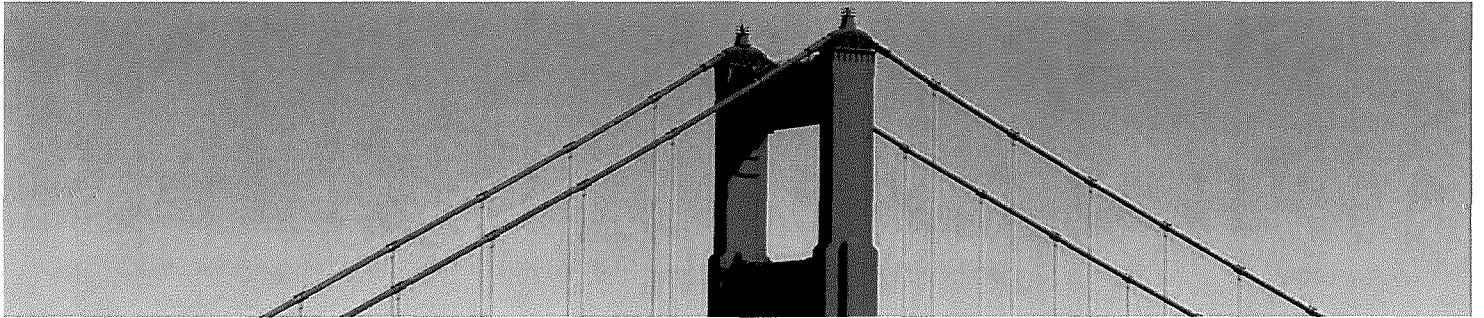
### Findings and Recommendations

The Moscone Expansion District met their reporting requirements under Article 15 of the San Francisco Business and Tax Regulations Code, the California Streets and Highways Code, and the organization’s management agreement with the City and County of San Francisco.

MED shares the same management entity as the San Francisco Tourism Improvement District. As a result the following findings and recommendations echo that of the TID report. The website is generally up-to-date; however, some hyperlinks are broken. OEWD recommends the MED fixes broken links in order to connect to site visitors to the correct information. Additionally, the District is out of compliance with the Brown Act by not keeping an agenda of regular board meetings and posting them on the District’s website. MED should post previous and future board meeting agendas on its website for public view, the organization has begun to take steps to rectify this error. OEWD will work with MED to ensure that this requirement is continually met.

### Conclusion

The Moscone Expansion District is following all requirements placed on it by the California Streets & Highways Code, Article 15 of the San Francisco Business and Tax Regulations Code, and the District's Management Agreement with the City and County of San Francisco, but needs to improve its compliance with the Brown Act. The District continues to succeed at its primary purpose of funding renovations at the Moscone Convention Center.



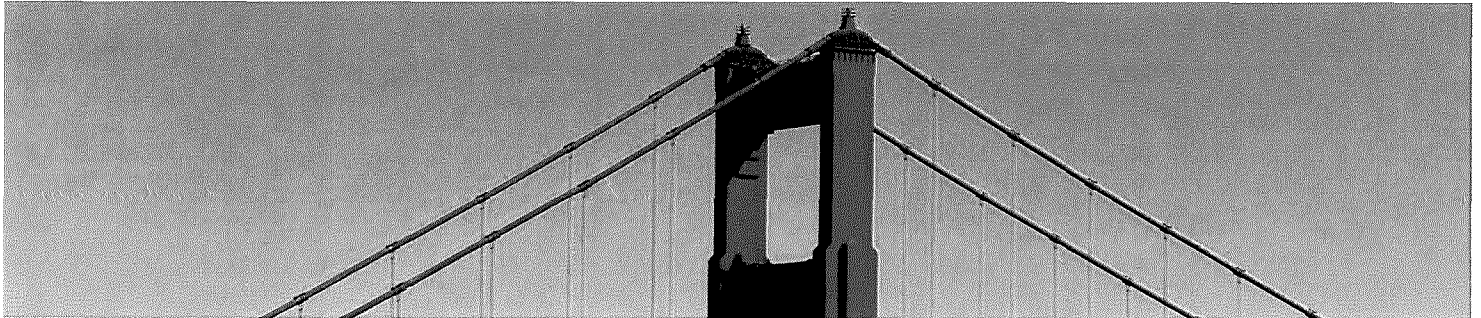
## Annual Report | 2014-2015

The San Francisco Tourism Improvement District Management Corporation (SFTIDMC) is the owners association group that oversees the San Francisco Tourism Improvement District (TID) and the San Francisco Moscone Expansion District (MED). The San Francisco Tourism Improvement District Management Corporation, governed by a board of industry representatives, ensures that the funds are used to benefit the assessed businesses by allocating them to San Francisco Travel programs that draw conventions, meetings, events and leisure travelers to San Francisco, and by keeping the city's convention facilities competitive with those of other major cities.

### **San Francisco Tourism Improvement District**

The San Francisco Tourism Improvement District ensures that funding for the San Francisco Travel Association's selling, marketing and promotion of San Francisco as a visitor destination.





## SALES AND MARKETING PROGRAM

The purpose of the sales and marketing program of work is to set industry standards and position San Francisco as the most compelling destination in the world. One of the primary objectives is to generate visitor-related economic impact to San Francisco and the region. SFTIDMC contracts the services of the San Francisco Travel Association which, with more than 100 years' of expertise, is well positioned to fulfill this goal.

With the benefit of the TID funding, San Francisco Travel has been able to conduct a comprehensive review and strategic analysis of the industry, and has created a plan that focuses on being proactive and setting new, visionary strategies to lead San Francisco's tourism industry.

Highlights of **San Francisco Travel** activity during FY 2014-2015:

### Convention and Meeting Sales

- Over 10 million room nights in San Francisco hotels
- \$1.3 +billion in direct spending
- Sales mission to Washington, DC and Chicago reaching over with over 110 meeting planners
- Attended over 50 trade shows and events including Meeting Professional International, Professional Convention Management Association, International PowWow

**1.9 + million**

Total room nights booked

### Marketing Promotion

San Francisco's balanced mix of convention/ meetings travel, leisure/consumer travel and business travel means that the city isn't as vulnerable to swings in any one market as some other destinations. Leisure visitors comprise 75% of all trips to San Francisco. San Francisco Travel's leisure marketing team has the enviable task of building relationships with, inviting, converting and retaining potential and existing San Francisco leisure travelers.

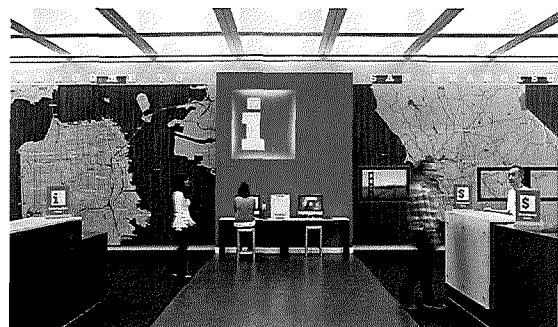
### **Visitor Information Center (ViC)**

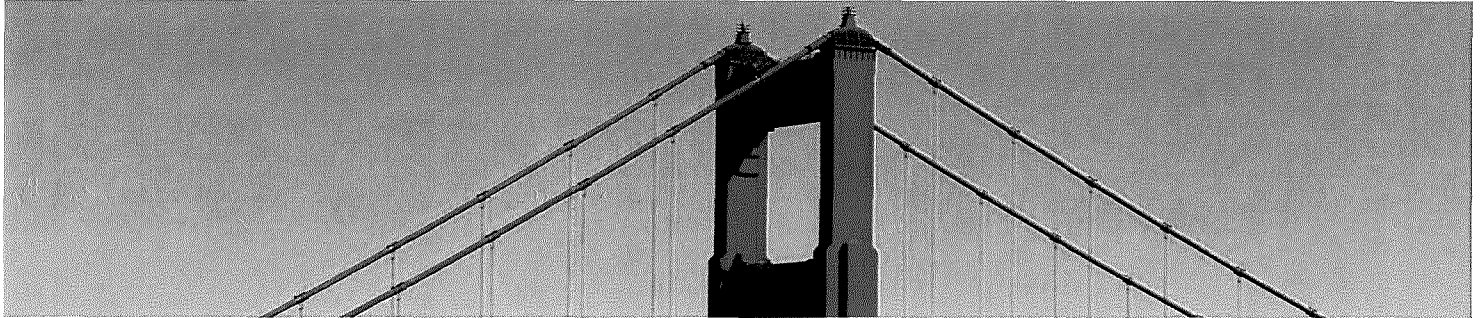
400,000 visitors per year

14 languages spoken by staff and volunteers

**SFTID**

SAN FRANCISCO TOURISM  
IMPROVEMENT DISTRICT





**SanFrancisco.travel**

5+ million visitors  
\$300+ million in economic impact

**Key Marketing Themes**

Never the same. Always San Francisco.  
Art & Culture  
Food & Wine  
Diversity  
Sustainable Travel

**Social Media**

Facebook 62+ million impressions  
Twitter 169,000+ followers  
Instagram 100,000+ followers

**18 Million visitors to  
San Francisco  
\$10.7 billion visitor  
spending**

**Publications Produced**

**Visitor Planning Guide, Produced Bi-Annually**

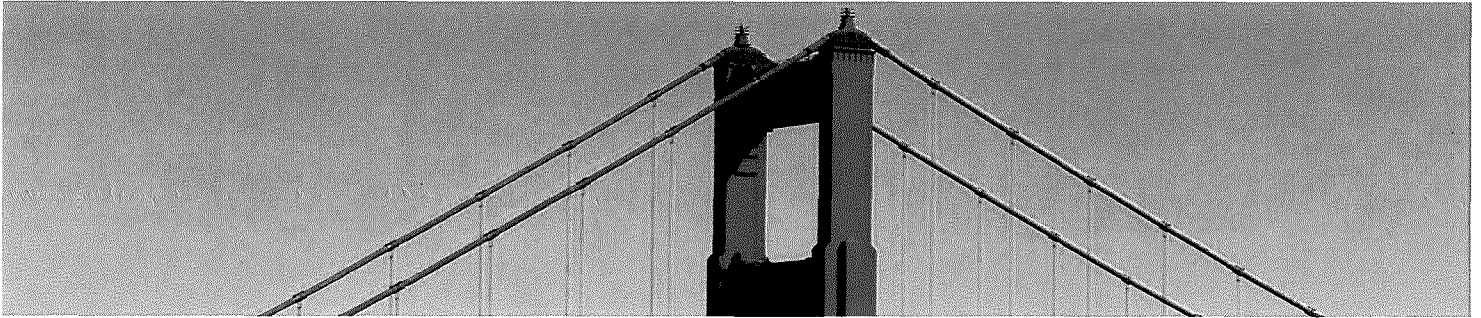
- The official leisure visitor fulfillment piece is distributed to 225,000 travelers annually.

**Meeting Planners Guide, annual**

- Reach 15,000 meeting and travel professionals who bring high - value travelers to San Francisco.
- Direct-mailed to an exclusive list of meeting professionals, travel agents and tour operators in the U.S. and Canada
- 14 overseas travel representative offices

**Tourism Sales and Marketing**

- 4+ million international visitors to San Francisco
- San Francisco Travel has 14 representation offices in 13 different countries that are responsible for direct contact with the travel trade and media promoting San Francisco.
- Partnered with SFO on new air service to Dublin, China and Abu Dhabi.
- San Francisco Travel hosted over 1,000 travel professionals in 2014-15
- San Francisco hosted 800+ journalists
- Media Coverage
  - 5 billion impressions
  - \$300+ million value



## MOSCONE EXPANSION DISTRICT



- Construction began on the Moscone Expansion and Renovation project in November 2014. Phase 0, make ready work, was completed in April of 2015. Phase 1 construction started in April 2015.
- Ground Breaking Ceremony was on May 21, 2015
- Continued communications with Convention clients that are booked through the construction years. Goal is to have Moscone Center remain open and operational throughout the project.
- Over \$1.26 million was utilized to provide convention customers with rental incentives to attached conventions to San Francisco.
- A renovation project to install new air wall panels with door locks at Moscone West was completed.



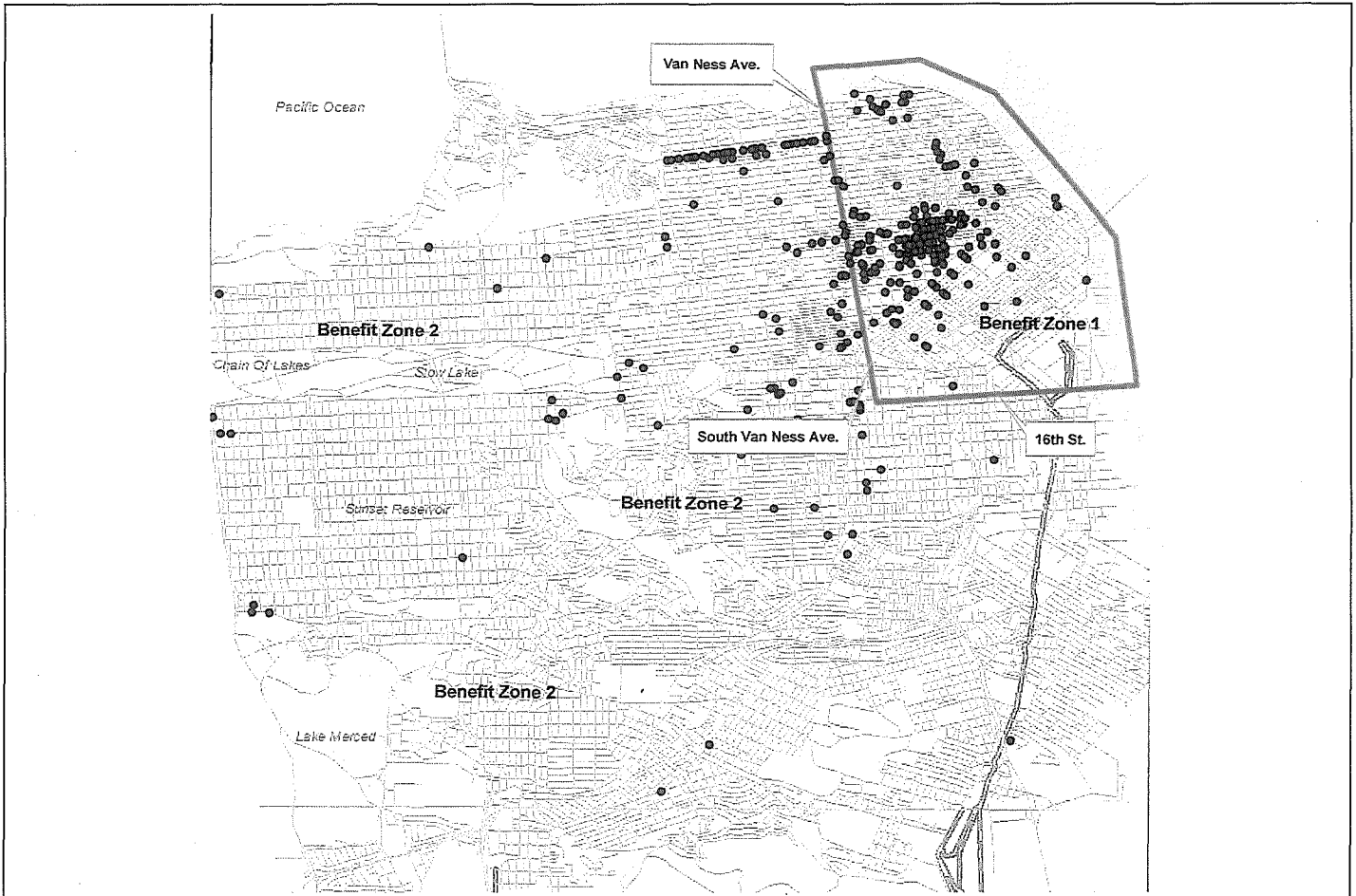


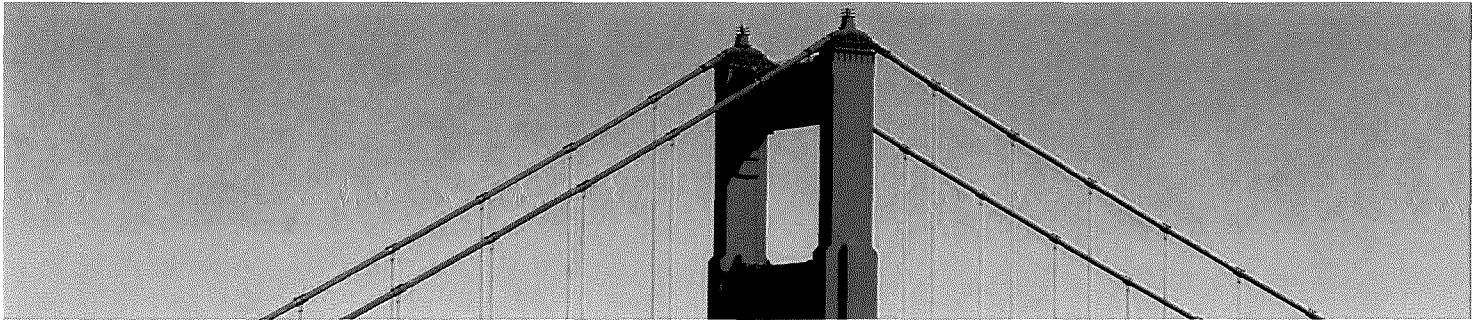
### TID and MED COLLECTION METHODOLOGY

Tourist hotels are broken up into two zones. The zones are the same for the TID and MED assessments. Tourist hotels in Zone 1 are assessed 1% of gross revenue from tourist rooms for the TID and 1.25% for the MED. Tourist hotels in Zone 2 are assessed 75% of gross revenue from tourist rooms for TID and .3125 for the MED.

**Zone 1 Tourist hotels:** All tourist hotels with addresses on or east of Van Ness Avenue, on or east of South Van Ness Avenue, and on or north of 16<sup>th</sup> Street from South Van Ness to the Bay, including all tourist hotels east of Van Ness Avenue as if it continued north to the Bay, and north of 16<sup>th</sup> Street as if it continued east to the Bay.

**Zone 2 Tourist hotels:** All tourist hotels with addresses west of Van Ness Avenue and South Van Ness Avenue, and all tourist hotels south of 16<sup>th</sup> Street.





**San Francisco Tourism Improvement District Management Corporation (SFTIDMC)**

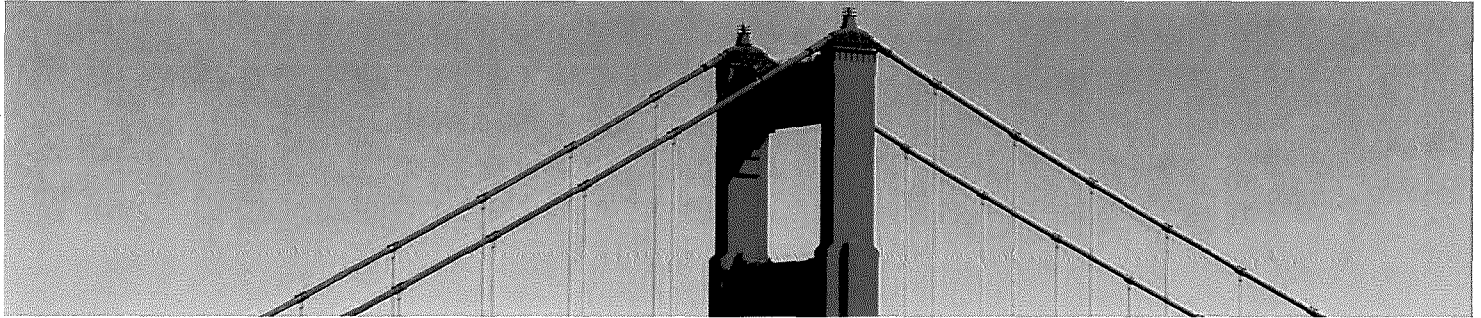
**BUDGET & BALANCE SHEET**

San Francisco Tourism Improvement District Management Corporation (SFTIDMC)  
 Tourism Improvement District & Moscone Expansion District  
 BUDGET + BALANCE SHEET

| JULY 2014-JUNE 2015 ACTUAL                          | TID                 | MED                 | TOTAL               |
|---|---------------------|---------------------|---------------------|
| <b>INCOME</b>                                       | <b>ACTUAL</b>       | <b>ACTUAL</b>       | <b>ACTUAL</b>       |
| Assessment Fee                                      | \$24,471,280        | \$28,756,795        | \$53,228,075        |
| Interest Income                                     | \$40,316            | \$67,655            | \$107,971           |
| <b>TOTAL INCOME</b>                                 | <b>\$24,511,596</b> | <b>\$28,824,450</b> | <b>\$53,336,046</b> |
| <b>EXPENSES</b>                                     | <b>ACTUAL</b>       | <b>ACTUAL</b>       | <b>ACTUAL</b>       |
| SFTA Marketing & Operations                         | \$21,815,239        | \$0                 | \$21,815,239        |
| Moscone Convention Center Development and Expansion | \$0                 | \$16,383,424        | \$16,383,424        |
| Moscone Convention Center Capital Fund              | \$0                 | \$307,170           | \$307,170           |
| Moscone Convention Center Incentive Fund            | \$0                 | \$1,350,000         | \$1,350,000         |
| SFTIDMC Administration and Operating Expenses       | \$547,003           | \$306,977           | \$853,980           |
| <b>TOTAL EXPENSES</b>                               | <b>\$22,362,242</b> | <b>\$18,347,571</b> | <b>\$40,709,813</b> |

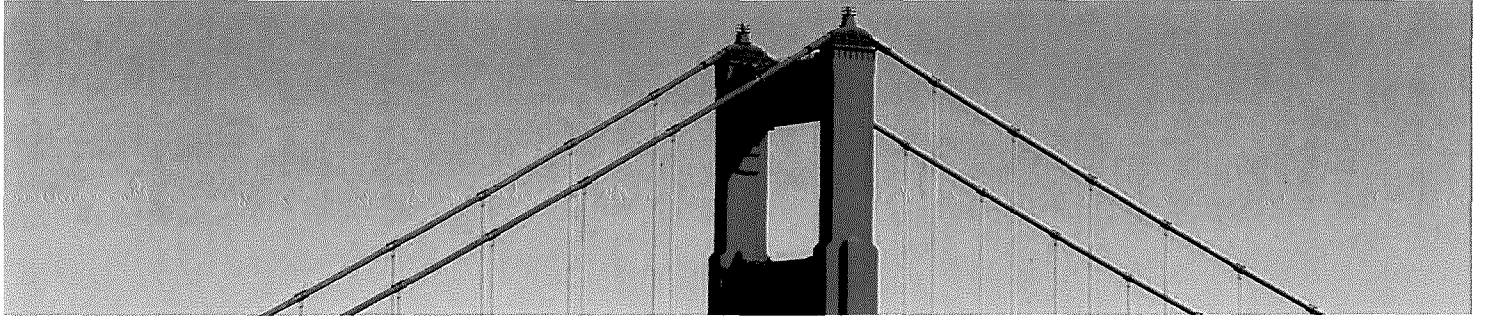
| JULY 2014-JUNE 2015 BALANCE SHEET         | TID                 | MED                 | TOTAL               |
|---|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                             |                     |                     |                     |
| Cash                                      | \$9,709,304         | \$17,505,899        | \$27,215,203        |
| Accounts Receivable, Net                  | \$5,526,307         | \$6,622,695         | \$12,149,002        |
| <b>TOTAL ASSETS</b>                       | <b>\$15,235,611</b> | <b>\$24,128,594</b> | <b>\$39,364,205</b> |
| <b>LIABILITIES</b>                        |                     |                     |                     |
| Accounts Payable                          | \$790               | \$5,592,059         | \$5,592,849         |
| Accrued Liabilities                       | \$18,000            | \$22,000            | \$40,000            |
| <b>TOTAL LIABILITIES</b>                  | <b>\$18,790</b>     | <b>\$5,614,059</b>  | <b>\$5,632,849</b>  |
| <b>TOTAL NET ASSETS (CARRYOVER)</b>       | <b>\$15,216,821</b> | <b>\$18,514,535</b> | <b>\$33,731,356</b> |
| <b>TOTAL LIABILITIES &amp; NET ASSETS</b> | <b>\$15,235,611</b> | <b>\$24,128,594</b> | <b>\$39,364,205</b> |





| JULY 2015-JUNE 2016 BUDGET                        |                     |                     |        | TID | MED | TOTAL               |
|---|---------------------|---------------------|--------|-----|-----|---------------------|
| INCOME  | BUDGET              | BUDGET              | BUDGET |     |     |                     |
| Assessment Fee                                    | \$25,042,000        | \$29,322,000        |        |     |     | \$54,364,000        |
| Interest Income                                   | \$0                 | \$0                 |        |     |     | \$0                 |
| <b>TOTAL INCOME</b>                               | <b>\$25,042,000</b> | <b>\$29,322,000</b> |        |     |     | <b>\$54,364,000</b> |
| EXPENSES  | BUDGET              | BUDGET              | BUDGET |     |     |                     |
| SFTA Marketing & Operations                       | \$24,677,500        | \$0                 |        |     |     | \$24,677,500        |
| Moscone Convention Center Development & Expansion | \$0                 | \$25,266,500        |        |     |     | \$25,266,500        |
| Moscone Convention Center Capital Fund            | \$0                 | \$289,000           |        |     |     | \$289,000           |
| Moscone Convention Center Incentive Fund          | \$0                 | \$2,599,000         |        |     |     | \$2,599,000         |
| SFTIDMC Administration                            | \$364,500           | \$445,500           |        |     |     | \$810,000           |
| Contingency/Reserve                               | \$0                 | \$722,000           |        |     |     | \$722,000           |
| <b>TOTAL EXPENSES</b>                             | <b>\$25,042,000</b> | <b>\$29,322,000</b> |        |     |     | <b>\$54,364,000</b> |
| <b>NET INCOME</b>                                 | <b>\$0</b>          | <b>\$0</b>          |        |     |     | <b>\$0</b>          |

| PROJECTED CARRYOVER DISBURSEMENT                    | TID                 | MED                 | TOTAL               | TO BE USED IN FY 2015-2016 | TO BE USED IN FUTURE YEARS |
|---|---------------------|---------------------|---------------------|----------------------------|----------------------------|
| <b>CARRYOVER</b>                                    |                     |                     |                     |                            |                            |
| SFTA Marketing & Operations                         | \$11,558,987        | \$0                 | \$11,558,987        | \$0                        | \$11,558,987               |
| Moscone Convention Center Development and Expansion | \$0                 | \$15,153,895        | \$15,153,895        | \$0                        | \$15,153,895               |
| Moscone Convention Center Capital Fund              | \$2,334,361         | \$138,207           | \$2,472,568         | \$0                        | \$2,472,568                |
| Moscone Convention Center Incentive Fund            | \$652,083           | \$2,658,424         | \$3,310,507         | \$0                        | \$3,310,507                |
| Contingency/Reserve                                 | \$671,390           | \$564,010           | \$1,235,400         | \$0                        | \$1,235,400                |
| <b>TOTAL CARRYOVER DISBURSEMENT</b>                 | <b>\$15,216,821</b> | <b>\$18,514,535</b> | <b>\$33,731,356</b> | <b>\$0</b>                 | <b>\$33,731,356</b>        |



## **SFTID Board of Directors | FY 2014-15**

### **BOARD CHAIR**

Toni Knorr, St Regis Hotel

### **BOARD VICE-CHAIR**

Ralph Lee, Hotel Whitcomb

### **SECRETARY/TREASURER**

David von Winkler, Kimpton Hotels

### **Board Members**

Rodrigo Enriquez, Extronomical Adventures

Karlene Holloman, Commune Hotels

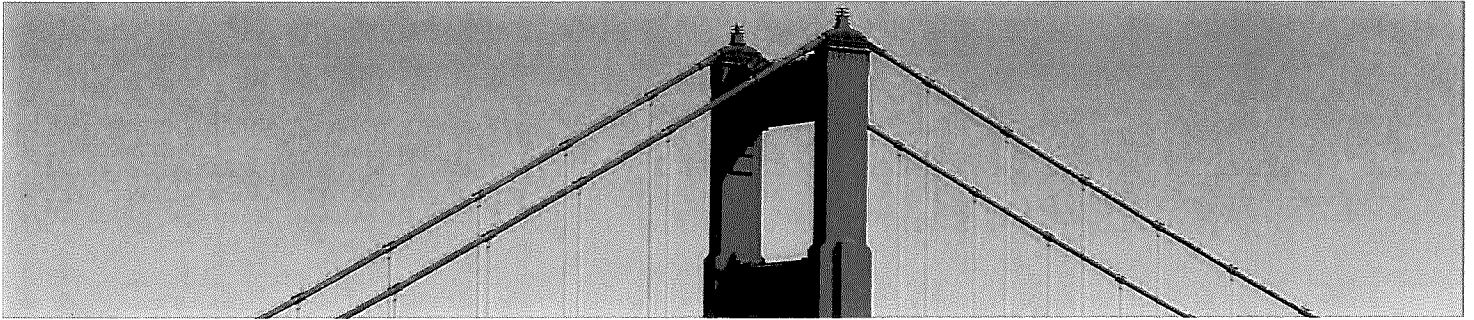
Thomas Klein, Fairmont Hotels

John Noguchi, City and County of San Francisco

Chuck Pacioni, Marriott Marquis

Stephen Revetria, Giants Enterprises

Rick Swig, RSBA & Associates



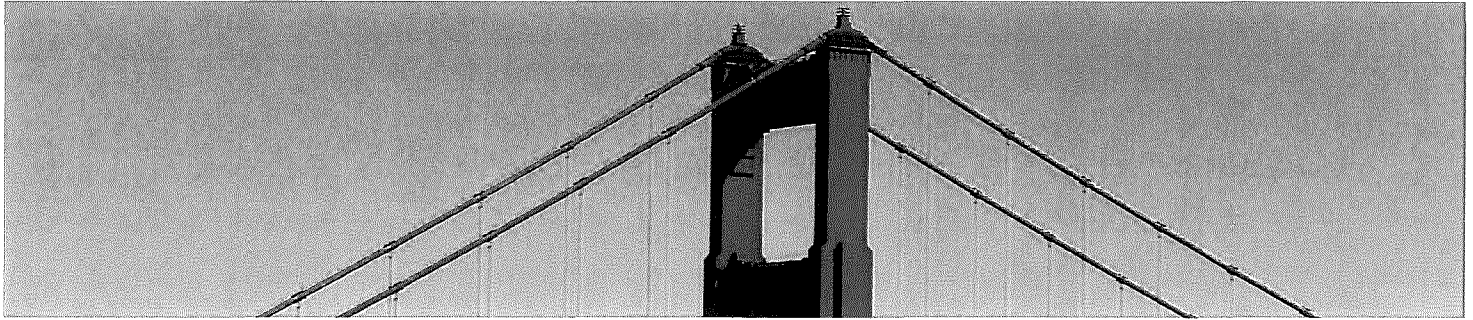
## Annual Report | 2015-2016

The San Francisco Tourism Improvement District Management Corporation (SFTIDMC) is the owners association group that over sees the San Francisco Tourism Improvement District (TID) and the San Francisco Moscone Expansion District (MED). The San Francisco Tourism Improvement District Management Corporation, governed by a board of industry representatives, ensures that the funds are used to benefit the assessed businesses by allocating them to San Francisco Travel programs that draw conventions, meetings, events and leisure travelers to San Francisco, and by keeping the city's convention facilities competitive with those of other major cities.

### San Francisco Tourism Improvement District

The San Francisco Tourism Improvement District ensures that funding for the San Francisco Travel Association's selling, marketing and promotion of San Francisco as a visitor destination.





## SALES AND MARKETING PROGRAM

The purpose of the sales and marketing program of work is to set industry standards and position San Francisco as the most compelling destination in the world. One of the primary objectives is to generate visitor-related economic impact to San Francisco and the region. SFTIDMC contracts the services of the San Francisco Travel Association which, with more than 100 years' of expertise, is well positioned to fulfill this goal.

With the benefit of the TID funding, San Francisco Travel has been able to conduct a comprehensive review and strategic analysis of the industry, and has created a plan that focuses on being proactive and setting new, visionary strategies to lead San Francisco's tourism industry.

Highlights of **San Francisco Travel** activity during FY 2015-2016:

### Convention and Meeting Sales

- 1,579,988 million room nights booked
- 1,347 Meeting held in San Francisco
- \$1.17 billion in direct spending
- Sales mission to Washington, DC and Chicago reaching over with over 200 meeting planners
- Attended over 50 trade shows and events

**1.58 million**

Total room nights booked

### Marketing Promotion

San Francisco's balanced mix of convention/ meetings travel, leisure/consumer travel and business travel means that the city isn't as vulnerable to swings in any one market as some other destinations. Leisure visitors comprise 75% of all trips to San Francisco. San Francisco Travel's leisure marketing team has the enviable task of building relationships with, inviting, converting and retaining potential and existing San Francisco leisure travelers.

### Visitor Information Center (ViC)

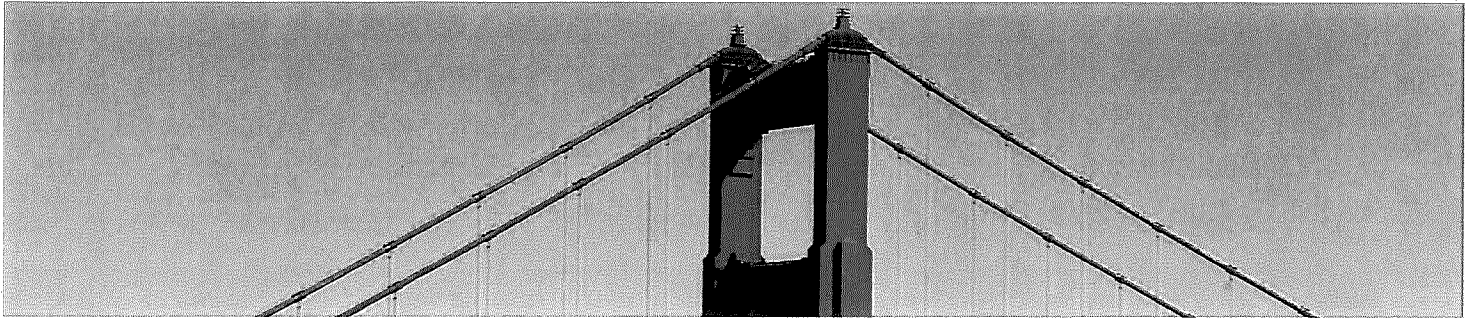
292,000 visitors per year

18 languages spoken by staff and volunteers

During 2015-16 hotel sales were up by 8% and attraction sales up by 36%

**SFTID**

SAN FRANCISCO TOURISM  
IMPROVEMENT DISTRICT



**SanFrancisco.travel**

6.3 million visitors  
\$216.8 million in economic impact

**Never the Same. Always San Francisco.**

69.7 million impressions  
\$41.6 million in economic impact

**Holiday Campaign**

356.9 million impressions  
\$14.2 million in economic impact

**Social Media**

Facebook 603,000+ LIKES  
Twitter 203,000+ followers  
Instagram 202,000+ followers

**Publications Produced**

**Visitor Planning Guide, Produced Bi-Annually**

- The official leisure visitor fulfillment piece is distributed to 225,000 travelers annually.
  - California Welcome Centers
  - San Francisco International Airport
  - Moscone Center
  - San Francisco Visitor Information Center
  - Macy's/SF Travel Visitor Information Center

**Meeting Planners Guide, annual**

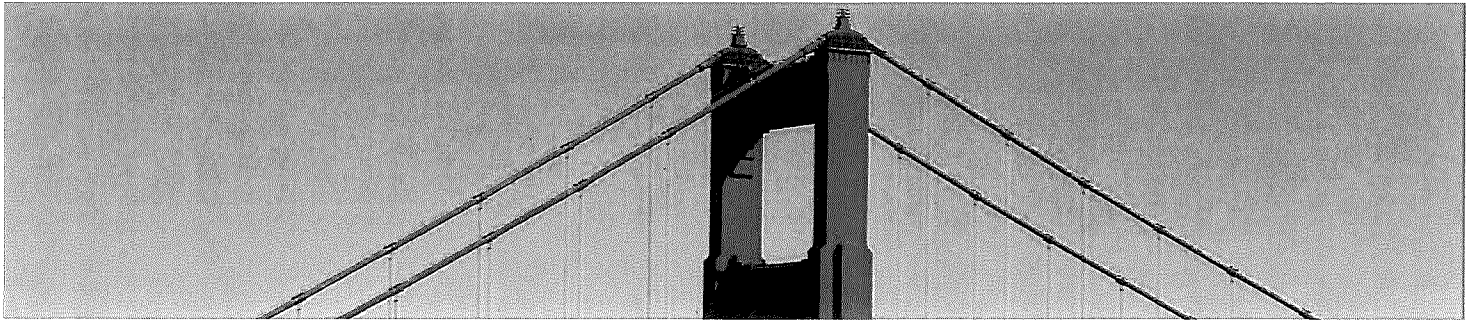
- Reach 15,000 meeting and travel professionals who bring high - value travelers to San Francisco.
- Direct-mailed to an exclusive list of meeting professionals, travel agents and tour operators in the U.S. and Canada
- 14 overseas travel representative offices
- US and International Sales Missions

**Tourism Sales and Marketing**

- 4+ million international visitors to San Francisco
- Partnered with SFO on new air service
- San Francisco Travel hosted over 1,250 travel professionals
- Attended 15 International and Domestic trade shows
- San Francisco hosted 900+ journalists
- Media Coverage
  - 5.8 billion impressions
  - \$375+ million value

**18 Million visitors to  
San Francisco**

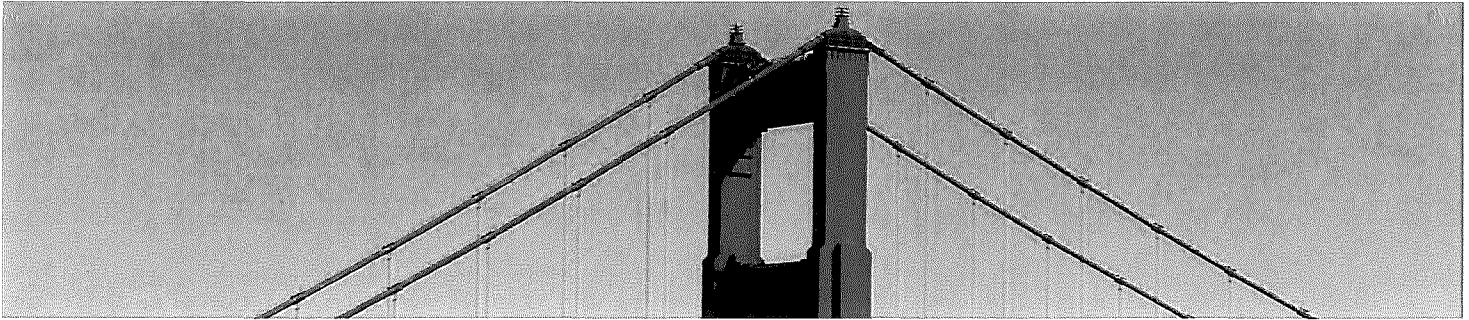




## MOSCONE EXPANSION DISTRICT



- Demolition of the current esplanade lobby occurred December 2015. That was followed by structural steel erection, due to be complete October 2016.
- Project sub-contractor and material buyout 95% complete.
- Project secured a project liaison to help with project communications to clients.
- Continued communications with Convention clients that are booked through the construction years. Moscone Center will remain open and operational throughout the project.
- Over \$2 million was utilized to provide convention customers with rental incentives to attached conventions to San Francisco.
- The project is currently in phase 2, with completion on track for December 2018.

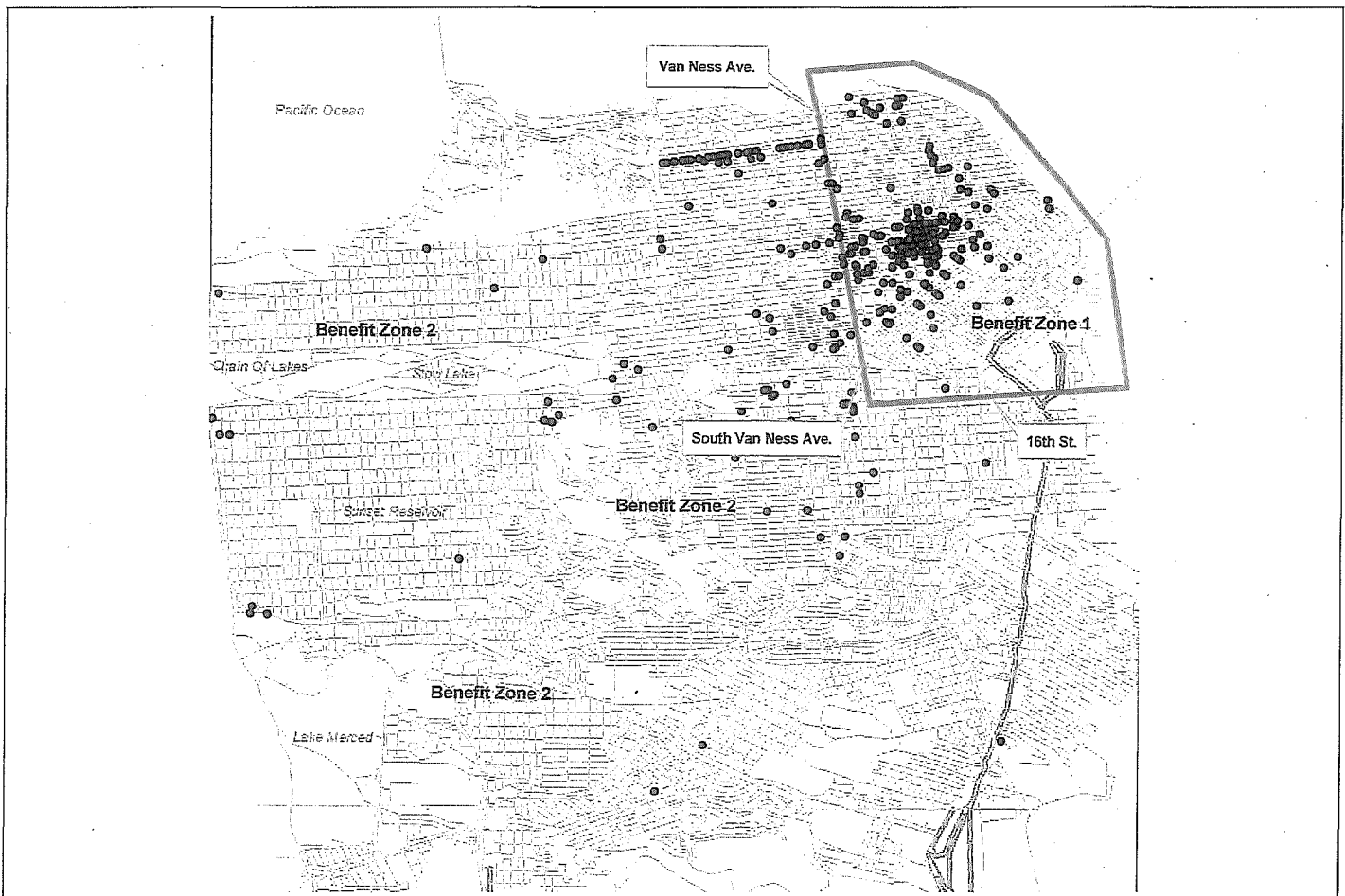


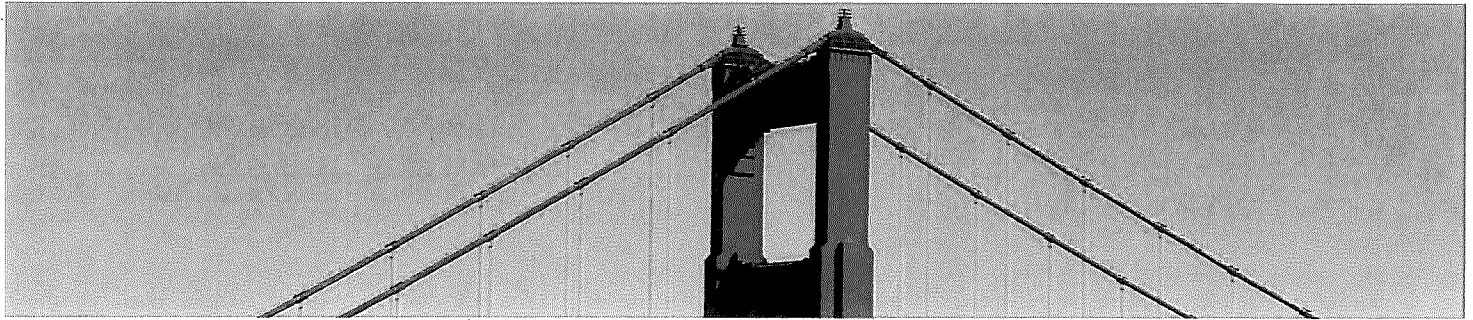
### TID and MED COLLECTION METHODOLOGY

Tourist hotels are broken up into two zones. The zones are the same for the TID and MED assessments. Tourist hotels in Zone 1 are assessed 1% of gross revenue from tourist rooms for the TID and 1.25% for the MED. Tourist hotels in Zone 2 are assessed 75% of gross revenue from tourist rooms for TID and .3125 for the MED.

**Zone 1 Tourist hotels:** All tourist hotels with addresses on or east of Van Ness Avenue, on or east of South Van Ness Avenue, and on or north of 16<sup>th</sup> Street from South Van Ness to the Bay, including all tourist hotels east of Van Ness Avenue as if it continued north to the Bay, and north of 16<sup>th</sup> Street as if it continued east to the Bay.

**Zone 2 Tourist hotels:** All tourist hotels with addresses west of Van Ness Avenue and South Van Ness Avenue, and all tourist hotels south of 16<sup>th</sup> Street.





**San Francisco Tourism Improvement District Management Corporation (SFTIDMC)**

**BUDGET & BALANCE SHEET**

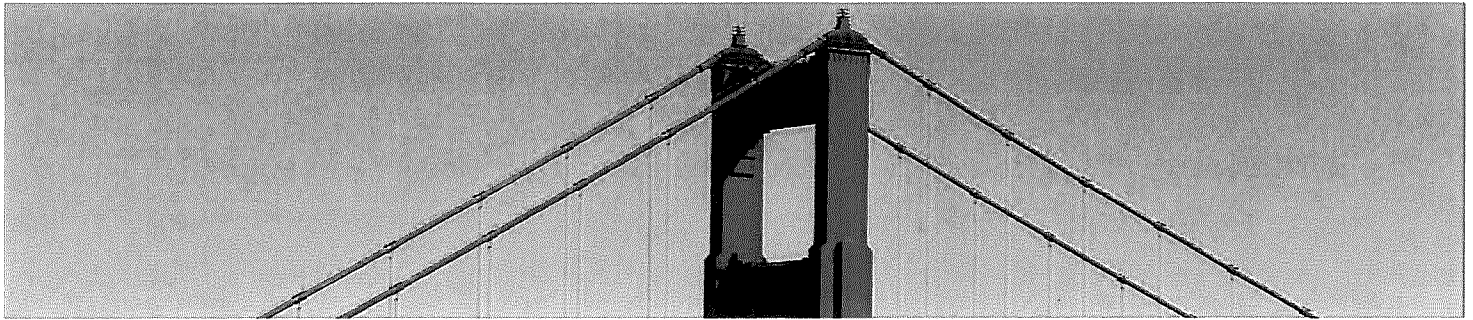
| JULY 2015-JUNE 2016 ACTUAL                          | TID                  | MED                 | Total               |
|---|----------------------|---------------------|---------------------|
| <b>INCOME</b>                                       | <b>ACTUAL</b>        | <b>ACTUAL</b>       |                     |
| Assessment Fee                                      | \$26,158,050         | \$31,538,330        | \$57,696,380        |
| Interest Income                                     | \$37,097             | \$112,672           | \$149,769           |
| <b>TOTAL INCOME</b>                                 | <b>\$26,195,147</b>  | <b>\$31,651,002</b> | <b>\$57,846,149</b> |
| <b>EXPENSES</b>                                     |                      |                     |                     |
| SFTA Marketing & Operations                         | \$29,605,500         | \$0                 | \$29,605,500        |
| Moscone Convention Center Development and Expansion | \$0                  | \$15,101,522        | \$15,101,522        |
| Moscone Convention Center Capital Fund              | \$0                  | \$193,615           | \$193,615           |
| Moscone Convention Center Incentive Fund            | \$0                  | \$3,315,835         | \$3,315,835         |
| SFTIDMC Administration and Operating Expenses       | \$375,787            | \$473,973           | \$849,760           |
| <b>TOTAL EXPENSES</b>                               | <b>\$29,981,287</b>  | <b>\$19,084,945</b> | <b>\$49,066,232</b> |
| <b>NET INCOME</b>                                   | <b>(\$3,786,140)</b> | <b>\$12,566,057</b> | <b>\$8,779,917</b>  |

| JULY 2015-JUNE 2016 BALANCE SHEET         | TID                 | MED                 | TOTAL               |
|---|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                             |                     |                     |                     |
| Cash                                      | \$1,267,715         | \$5,657,009         | \$6,924,724         |
| Short-term Investment                     | \$0                 | \$18,844,625        | \$18,844,625        |
| Long-term Investment                      | \$3,677,468         | \$2,075,643         | \$5,753,111         |
| Accounts Receivable, Net                  | \$6,526,555         | \$8,203,112         | \$14,729,667        |
| <b>TOTAL ASSETS</b>                       | <b>\$11,471,738</b> | <b>\$34,780,389</b> | <b>\$46,252,127</b> |
| <b>LIABILITIES</b>                        |                     |                     |                     |
| Accounts Payable                          | \$21,032            | \$2,983,521         | \$3,004,553         |
| Accrued Liabilities                       | \$20,025            | \$0                 | \$20,025            |
| Long-Term - Construction Retention        | \$0                 | \$716,276           | \$716,276           |
| <b>TOTAL LIABILITIES</b>                  | <b>\$41,057</b>     | <b>\$3,699,797</b>  | <b>\$3,740,854</b>  |
| <b>TOTAL NET ASSETS (CARRYOVER)</b>       | <b>\$11,430,681</b> | <b>\$31,080,592</b> | <b>\$42,511,273</b> |
| <b>TOTAL LIABILITIES &amp; NET ASSETS</b> | <b>\$11,471,738</b> | <b>\$34,780,389</b> | <b>\$46,252,127</b> |

**SFTID**

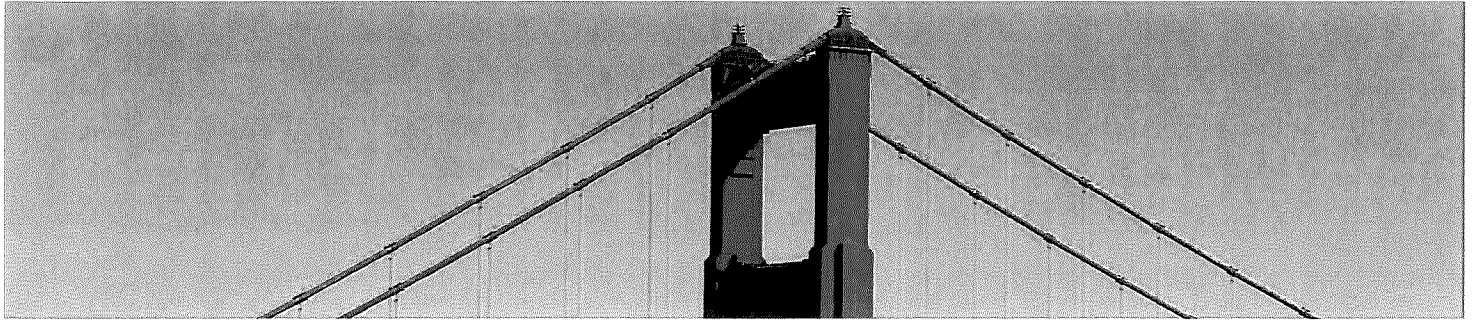
| JULY 2016-JUNE 2017 BUDGET<br>IMPROVEMENT DISTRICT | TID                 | MED                 | TOTAL               |
|--|---------------------|---------------------|---------------------|
| <b>INCOME</b>                                      | <b>BUDGET</b>       | <b>BUDGET</b>       | <b>BUDGET</b>       |
| Assessment Fee                                     | \$24,328,500        | \$29,328,500        | \$53,657,000        |
| Interest Income                                    | \$0                 | \$0                 | \$0                 |
| <b>TOTAL INCOME</b>                                | <b>\$24,328,500</b> | <b>\$29,328,500</b> | <b>\$53,657,000</b> |





| <b>JULY 2016-JUNE 2017 BUDGET</b>                   |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | <b>TID</b>          | <b>MED</b>          | <b>TOTAL</b>        |
| <b>INCOME</b>                                       | <b>BUDGET</b>       | <b>BUDGET</b>       | <b>BUDGET</b>       |
| Assessment Fee                                      | \$24,328,500        | \$29,328,500        | \$53,657,000        |
| Interest Income                                     | \$0                 | \$0                 | \$0                 |
| <b>TOTAL INCOME</b>                                 | <b>\$24,328,500</b> | <b>\$29,328,500</b> | <b>\$53,657,000</b> |
| <b>EXPENSES</b>                                     | <b>BUDGET</b>       | <b>BUDGET</b>       | <b>BUDGET</b>       |
| SFTA Marketing & Operations                         | \$24,405,500        | \$0                 | \$24,405,500        |
| Moscone Convention Center Development and Expansion | \$0                 | \$25,662,400        | \$25,662,400        |
| Moscone Convention Center Capital Fund              | \$0                 | \$293,300           | \$293,300           |
| Moscone Convention Center Incentive Fund            | \$0                 | \$2,639,600         | \$2,639,600         |
| SFTIDMC Administration                              | \$370,000           | \$452,000           | \$822,000           |
| Contingency/Reserve                                 | \$0                 | \$281,200           | \$281,200           |
| <b>TOTAL EXPENSES</b>                               | <b>\$24,775,500</b> | <b>\$29,328,500</b> | <b>\$54,104,000</b> |
| <b>NET INCOME</b>                                   | <b>(\$447,000)</b>  | <b>\$0</b>          | <b>(\$447,000)</b>  |

| <b>PROJECTED CARRYOVER DISBURSEMENT</b>             | <b>TID TOTAL</b>    | <b>MED TOTAL</b>    | <b>TOTAL</b>        | <b>TO BE USED IN FY</b> | <b>TO BE USED IN FUTURE YEARS</b> |
|---|---------------------|---------------------|---------------------|-------------------------|-----------------------------------|
|   |                     |                     |                     |                         |                                   |
| CARRYOVER   |                     |                     |                     |                         |                                   |
| SFTA Marketing & Operations                         | \$7,758,049         | \$0                 | \$7,758,049         | \$447,000               | \$7,311,049                       |
| Moscone Convention Center Development and Expansion | \$0                 | \$27,750,446        | \$27,750,446        | \$0                     | \$27,750,446                      |
| Moscone Convention Center Capital Fund              | \$2,343,805         | \$260,337           | \$2,604,142         | \$0                     | \$2,604,142                       |
| Moscone Convention Center Incentive Fund            | \$654,721           | \$2,190,688         | \$2,845,409         | \$0                     | \$2,845,409                       |
| Contingency/Reserve                                 | \$674,106           | \$879,121           | \$1,553,227         | \$0                     | \$1,553,227                       |
| <b>TOTAL CARRYOVER DISBURSEMENT</b>                 | <b>\$11,403,681</b> | <b>\$31,080,592</b> | <b>\$42,511,273</b> | <b>\$447,000</b>        | <b>\$42,064,273</b>               |



## **SFTID Board of Directors | FY 2015-16**

### **BOARD CHAIR**

Tom Klein, Regional VP & General Manager, Fairmont Hotels

### **BOARD VICE-CHAIR**

Ralph Lee, General Manager, Whitcomb Hotel

### **SECRETARY/TREASURER**

David Von Winckler, General Manager, Director of Operations, Sir Francis Drake Hotel – Kimpton

### **Board Members**

Darren Inverson, General Manager, Metreon

Monique Moyer, Director, Port of San Francisco

Thomas Klein, Fairmont Hotels

Ralph Lee, Hotel Whitcomb

John Noguchi, City and County of San Francisco

Chuck Pacioni, General Manager, Marriott Marquis

Rick Swig, RSBA & Associates

David von Winckler, Kimpton Hotels

Craig Waterman, General Manager, Hotel Kabuki

Ingrid Summerfield, Filament Hospitality

Anne Marie Presutti, Vice President & General Manager, Hotel Nikko

One Front Street, Suite 2900  
San Francisco, CA 94111  
415.227.2605  
info@sftid.com  
www.sftid.com

**SAN FRANCISCO TOURISM IMPROVEMENT  
DISTRICT MANAGEMENT CORPORATION**

COMBINED FINANCIAL STATEMENTS AS OF  
AND FOR THE YEAR ENDED  
JUNE 30, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014)

TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of San Francisco Tourism Improvement District Management Corporation (SFTIDMC), a California not-for-profit organization, which comprise the combined statements of financial position as of June 30, 2015, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to combined financial statements.

### **Management's Responsibility for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the SFTIDMC's preparation and fair presentation of the combined 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 SFTIDMC'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of San Francisco Tourism Improvement District Management Corporation as of June 30, 2015, and the combined changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the SFTIDMC's 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 28, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Louie + Wong LLP*

San Francisco, California  
October 22, 2015

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2015**

**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

**ASSETS**

|                        | <u>TID</u>           | <u>MED</u>           | <u>Totals</u>        |                      |
|------------------------|----------------------|----------------------|----------------------|----------------------|
|                        |                      |                      | <u>2015</u>          | <u>2014</u>          |
| <b>CURRENT ASSETS:</b> |                      |                      |                      |                      |
| Cash                   | \$ 9,709,304         | \$ 7,367,160         | \$ 17,076,464        | \$ 13,103,151        |
| Short-term investments | -                    | 10,138,739           | 10,138,739           | -                    |
| Accounts receivable    | 5,526,307            | 6,622,695            | 12,149,002           | 10,893,896           |
|                        | <u>\$ 15,235,611</u> | <u>\$ 24,128,594</u> | <u>\$ 39,364,205</u> | <u>\$ 23,997,047</u> |

**LIABILITIES AND NET ASSETS**

|                             |               |                  |                  |                  |
|-----------------------------|---------------|------------------|------------------|------------------|
| <b>CURRENT LIABILITIES:</b> |               |                  |                  |                  |
| Accounts payable            | \$ 790        | \$ 5,592,059     | \$ 5,592,849     | \$ 2,858,424     |
| Accrued liabilities         | 18,000        | 22,000           | 40,000           | 33,500           |
|                             | <u>18,790</u> | <u>5,614,059</u> | <u>5,632,849</u> | <u>2,891,924</u> |

**COMMITMENTS AND CONTINGENCIES**

|                        |                      |                      |                      |                      |
|------------------------|----------------------|----------------------|----------------------|----------------------|
| <b>NET ASSETS</b>      |                      |                      |                      |                      |
| Unrestricted           | 15,216,821           | 18,514,535           | 33,731,356           | 21,105,123           |
| Temporarily restricted | -                    | -                    | -                    | -                    |
| Permanently restricted | -                    | -                    | -                    | -                    |
|                        | <u>15,216,821</u>    | <u>18,514,535</u>    | <u>33,731,356</u>    | <u>21,105,123</u>    |
|                        | <u>\$ 15,235,611</u> | <u>\$ 24,128,594</u> | <u>\$ 39,364,205</u> | <u>\$ 23,997,047</u> |

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

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT**  
**MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015**

**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

|                                       | Unrestricted         |                      | Temporarily<br>Restricted | Permanently<br>Restricted | Totals               |                      |
|---------------------------------------|----------------------|----------------------|---------------------------|---------------------------|----------------------|----------------------|
|                                       | TID                  | MED                  |                           |                           | 2015                 | 2014                 |
| <b>REVENUES:</b>                      |                      |                      |                           |                           |                      |                      |
| Assessments                           | \$ 24,471,280        | \$ 28,756,795        | \$ -                      | \$ -                      | \$ 53,228,075        | \$ 42,509,251        |
| Interest income                       | 40,316               | 67,655               | -                         | -                         | 107,971              | 40,188               |
| Total revenues                        | <u>24,511,596</u>    | <u>28,824,450</u>    | <u>-</u>                  | <u>-</u>                  | <u>53,336,046</u>    | <u>42,549,439</u>    |
| <b>EXPENSES:</b>                      |                      |                      |                           |                           |                      |                      |
| Program services                      | 21,815,239           | 18,040,594           | -                         | -                         | 39,855,833           | 29,883,657           |
| Management and general                | 547,003              | 306,977              | -                         | -                         | 853,980              | 1,068,197            |
| Total expenses                        | <u>22,362,242</u>    | <u>18,347,571</u>    | <u>-</u>                  | <u>-</u>                  | <u>40,709,813</u>    | <u>30,951,854</u>    |
| <b>CHANGE IN NET ASSETS</b>           | 2,149,354            | 10,476,879           | -                         | -                         | 12,626,233           | 11,597,585           |
| <b>NET ASSETS - BEGINNING OF YEAR</b> | <u>13,067,467</u>    | <u>8,037,656</u>     | <u>-</u>                  | <u>-</u>                  | <u>21,105,123</u>    | <u>9,507,538</u>     |
| <b>NET ASSETS - END OF YEAR</b>       | <u>\$ 15,216,821</u> | <u>\$ 18,514,535</u> | <u>\$ -</u>               | <u>\$ -</u>               | <u>\$ 33,731,356</u> | <u>\$ 21,105,123</u> |

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



**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2015**

**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

|                                       | <u>TID</u>                  |                                   | <u>MED</u>                  |                                   | <u>Totals</u>        |                      |
|---------------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|----------------------|----------------------|
|                                       | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>2015</u>          | <u>2014</u>          |
| Marketing and promotion               | \$ 21,815,239               | \$ -                              | \$ -                        | \$ -                              | \$ 21,815,239        | \$ 18,500,000        |
| Moscone Center -                      |                             |                                   |                             |                                   |                      |                      |
| Expansion                             | -                           | -                                 | 16,383,424                  | -                                 | 16,383,424           | 10,307,735           |
| Sales incentive                       | -                           | -                                 | 1,350,000                   | -                                 | 1,350,000            | 1,068,781            |
| Capital projects                      | -                           | -                                 | 307,170                     | -                                 | 307,170              | -                    |
| Contractual services -                |                             |                                   |                             |                                   |                      |                      |
| Treasurer fees                        | -                           | 329,121                           | -                           | 250,525                           | 579,646              | 791,285              |
| San Francisco Travel Association fees | -                           | 199,500                           | -                           | 12,088                            | 211,588              | 190,000              |
| Professional fees                     | -                           | 16,297                            | -                           | 40,411                            | 56,708               | 84,425               |
| Insurance and taxes                   | -                           | 1,903                             | -                           | 2,200                             | 4,103                | 3,766                |
| Interest expense                      | -                           | -                                 | -                           | -                                 | -                    | 3,375                |
| Office expenses                       | -                           | 182                               | -                           | 1,753                             | 1,935                | 2,487                |
|                                       | <u>\$ 21,815,239</u>        | <u>\$ 547,003</u>                 | <u>\$ 18,040,594</u>        | <u>\$ 306,977</u>                 | <u>\$ 40,709,813</u> | <u>\$ 30,951,854</u> |

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

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT**  
**MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**(WITH SUMMARIZED FINANCIAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2014)**

|  | <u>TID</u>          | <u>MED</u>          | <u>Totals</u>        |                      |
|--|---------------------|---------------------|----------------------|----------------------|
|  |                     |                     | <u>2015</u>          | <u>2014</u>          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                     |                      |                      |
| Change in net assets   | \$ 2,149,354        | \$ 10,476,879       | \$ 12,626,233        | \$ 11,597,585        |
| Adjustments to reconcile change in net assets<br>to net cash provided by (used in) operating activities: |                     |                     |                      |                      |
| Accounts receivable  | (539,775)           | (715,331)           | (1,255,106)          | (4,437,351)          |
| Accounts payable   | (1,949,525)         | 4,683,950           | 2,734,425            | 1,290,519            |
| Accrued liabilities  | (2,100)             | 8,600               | 6,500                | 5,500                |
| Total adjustments  | <u>(2,491,400)</u>  | <u>3,977,219</u>    | <u>1,485,819</u>     | <u>(3,141,332)</u>   |
| Net cash provided (used in) by operating activities  | <u>(342,046)</u>    | <u>14,454,098</u>   | <u>14,112,052</u>    | <u>8,456,253</u>     |
| <b>CASH FLOW FROM INVESTING ACTIVITY:</b>  |                     |                     |                      |                      |
| Purchase of investments  | -                   | (10,138,739)        | (10,138,739)         | -                    |
| Net cash used in investing activities  | <u>-</u>            | <u>(10,138,739)</u> | <u>(10,138,739)</u>  | <u>-</u>             |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | (342,046)           | 4,315,359           | 3,973,313            | 8,456,253            |
| <b>CASH - BEGINNING OF YEAR</b>  | <u>10,051,350</u>   | <u>3,051,801</u>    | <u>13,103,151</u>    | <u>4,646,898</u>     |
| <b>CASH - END OF YEAR</b>  | <u>\$ 9,709,304</u> | <u>\$ 7,367,160</u> | <u>\$ 17,076,464</u> | <u>\$ 13,103,151</u> |

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

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**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 and Moscone Expansion District pursuant to a management contract with the City and County of San Francisco (the City).

**Basis of Presentation** -- The accompanying combined financial statements include the accounts of Tourism Improvement District and Moscone Expansion District.

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

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

**Cash and Cash Equivalents** -- Cash consists of cash in checking and savings accounts. SFTIDMC considers all short-term and highly liquid investments with

original maturities of three months or less as cash equivalents, unless the investments are held for meeting restrictions of a capital or endowment nature.

**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. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for doubtful accounts has been provided.

**Investments** -- Investments consist of corporate bonds which are carried at market value. Investments with maturities of less than one year as of the balance sheet date are classified as short-term. Investments with maturities of more than one year as of the balance sheet date are classified as long-term.

SFTIDMC invest in high quality obligations in order to achieve the maximum yield consistent with safety of principal and maintenance of liquidity. The primary objective is the preservation of capital and the assurance of appropriate liquidity, by limiting default risk and market risk, to meet the needs of SFTIDMC. The secondary objective is to maximize the current and expected yield on the fund assets, so as to provide additional income for operating purposes. The investment policy also requires the management to maintain a reasonable relationship between short-term and long-term investments.

**Revenues** -- Actual revenues from assessments, which include fines and penalties, are recognized when the assessments from hotels become due and measurable and when collectability is reasonably assured.

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

**Tax Status** -- SFTIDMC is exempt from federal and state income taxation under Section 501(c)(6) of the Internal Revenue Code (IRC) and under Section 23701(e)

of the California Revenue and Taxation Code, respectively. Accordingly, no provision for income tax has been made in the accompanying combined financial statements.

Generally accepted accounting provides disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and does not believe that SFTIDMC has any uncertain tax positions that require adjustment or disclosure in the combined financial statements. SFTIDMC's returns are subject to examination by federal and state taxing authorities, generally for three to four years, respectively, after they are filed.

**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 combined financial statements.

**Estimates Included in the Combined Financial Statements** -- The preparation of combined 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 combined 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 combined 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 combined financial statements for the year ended June 30, 2014, from which the summarized information was derived.

**New Accounting Pronouncement** -- In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The core principle of the guidance is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new guidance to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this new guidance will require significantly expanded revenue recognition disclosures. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2018. SFTIDMC is currently evaluating the provisions of this ASU.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern. The guidance requires management, in connection with preparing financial statements, to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The amendments in this update are effective for the annual period ending after December 15, 2016. SFTIDMC will adopt the provisions of ASU No. 2014-15 effective July 1, 2017. The adoption is not expected to have a material effect on the financial statements of SFTIDMC.

**Subsequent Events** -- SFTIDMC has evaluated subsequent events through October 22, 2015, the date the combined financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the combined financial statements would be required.

**2. Description of Net Assets**

**Unrestricted** -- This is used to account for resources that are available to support SFTIDMC's operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the purposes specified in the Management District Plan, the nature of the organization, the environment in which it operates, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

The unrestricted net assets are limited for the following purposes as provided in the Management District Plan as of June 30, 2015:

|   | <u>TID</u>           | <u>MED</u>           | <u>Total</u>         |
|---|----------------------|----------------------|----------------------|
| Moscone Center Development<br>and Expansion         | \$ 2,414,447         | \$ 13,495,557        | \$ 15,910,004        |
| Marketing and Promotions                            | 11,478,899           | -                    | 11,478,899           |
| Moscone Center Incentive Fund                       | 652,083              | 3,990,121            | 4,642,204            |
| Administration and Operating<br>Contingency Reserve | 671,392              | 662,594              | 1,333,986            |
| Moscone Center Capital Reserve                      | -                    | 366,263              | 366,263              |
|   | <u>\$ 15,216,821</u> | <u>\$ 18,514,535</u> | <u>\$ 33,731,356</u> |

**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, 2015.

**Permanently Restricted** -- This is used to account for resources whose use is limited by donor-imposed restrictions that neither expire 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, 2015.

### 3. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB Accounting Standards Codification (ASC) 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SFTIDMC has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value



measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy. There has been no change in the methodology used at June 30, 2015 and 2014.

**Investments** -- These consist of corporate bonds which are valued at quoted prices using similar securities for which prices are available. These are classified under Level 2 of the valuation hierarchy. In determining fair value, the market approach is used which utilizes process and other relevant information generated by market transactions involving identical generated assets or liabilities. Observable inputs reflect the assumptions market participants would use in valuing a financial instruments based on market data obtained from independent sources.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SFTIDMC believe their valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

#### **4. Business Improvement Districts**

##### ***Tourism Improvement District (TID)***

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, and assessments on gross room revenues (TID assessment) on hotels within the TID, which are categorized as Zone 1 or Zone 2 depending on their location. The TID assessments were designed to generate funds

dedicated to promoting and marketing the City of San Francisco as a leisure and convention destination in an increasingly competitive world, and to fund repairs and improvements to the Moscone Center.

The annual TID assessments commenced on January 1, 2009, and will continue until December 31, 2023. The schedule of TID assessments is as follows:

| <u>Periods</u>                      | <u>Zone 1</u> | <u>Zone 2</u> |
|-------------------------------------|---------------|---------------|
| January 1, 2009 – December 31, 2013 | 1.50%         | 1.00%         |
| January 1, 2014 – December 31, 2023 | 1.00%         | 0.75%         |

The TID assessments will be collected by the City and remitted to SFTIDMC. The SFTIDMC will ensure that the TID assessments collected are used to benefit the assessed businesses by: (1) allocating them to the San Francisco Travel Association (the Association) to fund its marketing and promotional programs; and (2) keeping the Moscone Center competitive with those of other major cities.

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

***Moscone Expansion District (MED)***

On June 21, 2012, the City announced the development of a 25-year master plan for the expansion of the Moscone Center. The expansion will be funded by a public-private partnership with the SFTIDMC and the City.

On February 5, 2013, the San Francisco Board of Supervisors approved the creation of the Moscone Expansion District which will provide the majority of funding for the expansion of the City's convention center. MED began imposing assessment of fees on gross hotel room revenue on July 1, 2013 (MED assessments). The term of the MED is 32 years. The schedule of MED assessments is as follows:

| <u>Periods</u>                      | <u>Zone 1</u> | <u>Zone 2</u> |
|-------------------------------------|---------------|---------------|
| July 1, 2013 – December 31, 2013    | 0.5000%       | 0.3125%       |
| January 1, 2014 – December 31, 2045 | 1.2500%       | 0.3125%       |

The City will commit the following towards the repayment of bonds issued in connection with the expansion:

- Contribution of \$8,200,000 in fiscal year 2019 with an increase of 3% per year through fiscal year 2028 up to cap of \$10,700,000, with a continuing contribution of no less than \$10,700,000 per year for the remainder of the term of the MED.
- The City will fund shortfalls in any given year for purposes of debt service, which will be repaid from surpluses in MED assessments, as detailed in the Management District Plan.

The MED assessments will be used for the following improvements and activities, including the categories of expenses:

- Planning, design, engineering, entitlement, construction, project management and related services for expansion of the Moscone Center, including related payments for any bond, financing lease (including certificates of participation) or similar obligations of the City.

- Funding of a Moscone Center Incentive Fund, which will be used to attract significant meetings, tradeshow and conventions to San Francisco via offset of rental costs.
- Funding of a Moscone Center Sales & Marketing Fund to provide increased funding for sales and marketing of convention business, with a focus on generating increased revenues for hotels that pay the assessment.
- Funding of capital improvements and renovations, including a capital reserve fund to cover future upgrades and improvements to the Moscone Center.
- Allocation of funds to pay for District formation, operation and administration, and to establish and maintain a contingency reserve.
- In consultation with the City, funding of expenses for development and implementation of future phases of expansion, renovations or capital improvements if there are funds available in excess of those needed for the expansion.

##### **5. Line of Credit**

On July 27, 2012, SFTIDMC entered into a revolving line of credit agreement with a bank which expired on November 28, 2013. The line of credit was renewed on January 6, 2015, with a maturity date of January 15, 2016. Under the agreement, SFTIDMC may borrow up to a maximum amount of \$5,000,000. The line of credit is secured by the assets of SFTIDMC.

The line of credit bears a variable interest rate, set by the bank, based on changes in the prime rate, but under no circumstances be less than 3.00% per annum. The interest expense and the average interest rate on the line of credit were \$3,375 and 3.0%, respectively, during the year ended June 30, 2014. The maximum and average

outstanding balances on the revolving line were \$900,000 and \$112,500, respectively, during the year ended June 30, 2014. There has been no borrowing under this line of credit during the year ended June 30, 2015.

SFTIDMC was required by the bank to maintain certain financial ratios and covenants including (a) current ratio of not less than 3.25 to 1.00, (b) tangible net worth of not less than \$10,000,000, and (c) total liabilities to tangible net worth of not greater than 0.50 to 1.00.

## **6. Related Party Transactions**

SFTIDMC entered into agreements for professional and administrative services with the San Francisco Travel Association (the Association), a related party. The agreements were effective for the period June 4, 2009 to June 30, 2010, and are automatically renewed annually thereafter.

Under the Professional Services Agreement, the Association will provide marketing and promotional services consistent with the requirements of the Management District Plan. The Association will be compensated based on its budget, as approved by SFTIDMC's Board of Directors, and consistent with the management plan.

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. On July 1, 2013, the Administrative Services Agreement was revised primarily to include MED. Based on the agreement, the

Association will be compensated a fee of \$190,000 per annum, subject to an annual increase of 5%, for the performance of the above services on behalf of both TID and MED.

The expenditures related to the marketing and promotional services (professional services) and administrative services amounted to \$21,815,239 and \$199,500, respectively, during the year ended June 30, 2015. There was no payable to the Association for these services as of June 30, 2015.

From time to time, the Association also advances or pays other professional fees (e.g., legal and consulting fees) on behalf of SFTIDMC. SFTIDMC has a net payable of \$29,175 to the Association for these advances as of June 30, 2015.

#### **7. Program Services**

As discussed in Note 3 to the combined 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 Center; while the MED assessment is designed to provide the majority of funding for the expansion of the Moscone Center.

#### **8. 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. SFTIDMC shall pay the Treasurer a monthly collection fee plus commission on collection of delinquent accounts and fees for other services that the Treasurer may provide in connection of its services on behalf TID and MED. The amount of fees charged by the Treasurer for both TID and MED amounted to \$579,646 during the year ended June 30, 2015. These fees are recorded under Contractual Services – Treasurer in the combined statement of functional expenses.

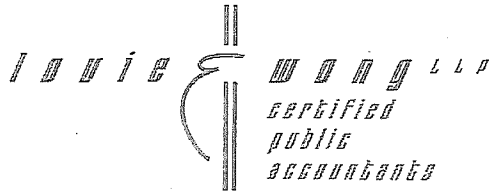
**SAN FRANCISCO TOURISM IMPROVEMENT  
DISTRICT MANAGEMENT CORPORATION**

COMBINED FINANCIAL STATEMENTS AS OF  
AND FOR THE YEAR ENDED  
JUNE 30, 2016

(WITH SUMMARIZED FINANCIAL INFORMATION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015)

TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT





## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of San Francisco Tourism Improvement District Management Corporation (SFTIDMC), a California not-for-profit organization, which comprise the combined statements of financial position as of June 30, 2016, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to combined financial statements.

### **Management's Responsibility for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the SFTIDMC's preparation and fair presentation of the combined 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 SFTIDMC'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of San Francisco Tourism Improvement District Management Corporation as of June 30, 2016, and the combined changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the SFTIDMC's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

*Louie + Wong LLP*

San Francisco, California  
October 31, 2016

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2016**

**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

**ASSETS**

|                              | TID                  | MED                  | Totals               |                      |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
|                              |                      |                      | 2016                 | 2015                 |
| <b>CURRENT ASSETS:</b>       |                      |                      |                      |                      |
| Cash and cash equivalents    | \$ 1,267,715         | \$ 5,657,009         | \$ 6,924,724         | \$ 17,076,464        |
| Short-term investments       | -                    | 18,844,625           | 18,844,625           | 10,138,739           |
| Accounts receivable          | 6,526,555            | 8,203,112            | 14,729,667           | 12,149,002           |
|                              | <u>7,794,270</u>     | <u>32,704,746</u>    | <u>40,499,016</u>    | <u>39,364,205</u>    |
| <b>LONG-TERM INVESTMENTS</b> | <u>3,677,468</u>     | <u>2,075,643</u>     | <u>5,753,111</u>     | <u>-</u>             |
|                              | <u>\$ 11,471,738</u> | <u>\$ 34,780,389</u> | <u>\$ 46,252,127</u> | <u>\$ 39,364,205</u> |

**LIABILITIES AND NET ASSETS**

|                             |               |                  |                  |                  |
|-----------------------------|---------------|------------------|------------------|------------------|
| <b>CURRENT LIABILITIES:</b> |               |                  |                  |                  |
| Accounts payable            | \$ 21,032     | \$ 2,959,046     | \$ 2,980,078     | \$ 5,592,849     |
| Accrued liabilities         | 20,025        | 24,475           | 44,500           | 40,000           |
|                             | <u>41,057</u> | <u>2,983,521</u> | <u>3,024,578</u> | <u>5,632,849</u> |
| <b>LONG-TERM LIABILITY:</b> |               |                  |                  |                  |
| Retention payable           | -             | 716,276          | 716,276          | -                |

**COMMITMENTS AND CONTINGENCIES**

|                        |                      |                      |                      |                      |
|------------------------|----------------------|----------------------|----------------------|----------------------|
| <b>NET ASSETS</b>      |                      |                      |                      |                      |
| Unrestricted           | 11,430,681           | 31,080,592           | 42,511,273           | 33,731,356           |
| Temporarily restricted | -                    | -                    | -                    | -                    |
| Permanently restricted | -                    | -                    | -                    | -                    |
|                        | <u>11,430,681</u>    | <u>31,080,592</u>    | <u>42,511,273</u>    | <u>33,731,356</u>    |
|                        | <u>\$ 11,471,738</u> | <u>\$ 34,780,389</u> | <u>\$ 46,252,127</u> | <u>\$ 39,364,205</u> |

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

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT**  
**MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2016**

**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

|                                       | Unrestricted  |               | Temporarily<br>Restricted | Permanently<br>Restricted | Totals        |               |
|---------------------------------------|---------------|---------------|---------------------------|---------------------------|---------------|---------------|
|                                       | TID           | MED           |                           |                           | 2016          | 2015          |
| <b>REVENUES:</b>                      |               |               |                           |                           |               |               |
| Assessments                           | \$ 26,158,050 | \$ 31,538,330 | \$ -                      | \$ -                      | \$ 57,696,380 | \$ 53,228,075 |
| Interest and dividends                | 37,097        | 112,672       | -                         | -                         | 149,769       | 107,971       |
| Total revenues                        | 26,195,147    | 31,651,002    | -                         | -                         | 57,846,149    | 53,336,046    |
| <b>EXPENSES:</b>                      |               |               |                           |                           |               |               |
| Program services                      | 29,605,500    | 18,610,972    | -                         | -                         | 48,216,472    | 39,855,833    |
| Management and general                | 375,787       | 473,973       | -                         | -                         | 849,760       | 853,980       |
| Total expenses                        | 29,981,287    | 19,084,945    | -                         | -                         | 49,066,232    | 40,709,813    |
| <b>CHANGE IN NET ASSETS</b>           | (3,786,140)   | 12,566,057    | -                         | -                         | 8,779,917     | 12,626,233    |
| <b>NET ASSETS - BEGINNING OF YEAR</b> | 15,216,821    | 18,514,535    | -                         | -                         | 33,731,356    | 21,105,123    |
| <b>NET ASSETS - END OF YEAR</b>       | \$ 11,430,681 | \$ 31,080,592 | \$ -                      | \$ -                      | \$ 42,511,273 | \$ 33,731,356 |

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

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT**  
**MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2016**

**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

|                                       | <u>TID</u>                  |                                   | <u>MED</u>                  |                                   | <u>Totals</u>        |                      |
|---------------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|----------------------|----------------------|
|                                       | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>2016</u>          | <u>2015</u>          |
| Marketing and promotion               | \$ 29,605,500               | \$ -                              | \$ -                        | \$ -                              | \$ 29,605,500        | \$ 21,815,239        |
| Moscone Center -                      |                             |                                   |                             |                                   |                      |                      |
| Expansion                             | -                           | -                                 | 15,295,137                  | -                                 | 15,295,137           | 16,383,424           |
| Sales incentive                       | -                           | -                                 | 3,315,835                   | -                                 | 3,315,835            | 1,350,000            |
| Capital projects                      | -                           | -                                 | -                           | -                                 | -                    | 307,170              |
| Contractual services -                |                             |                                   |                             |                                   |                      |                      |
| Treasurer fees                        | -                           | 250,987                           | -                           | 291,572                           | 542,559              | 579,646              |
| San Francisco Travel Association fees | -                           | 75,035                            | -                           | 147,689                           | 222,724              | 211,588              |
| Professional fees                     | -                           | 47,029                            | -                           | 24,963                            | 71,992               | 56,708               |
| Insurance and taxes                   | -                           | 2,043                             | -                           | 2,310                             | 4,353                | 4,103                |
| Office expenses                       | -                           | 693                               | -                           | 7,439                             | 8,132                | 1,935                |
|                                       | <u>\$ 29,605,500</u>        | <u>\$ 375,787</u>                 | <u>\$ 18,610,972</u>        | <u>\$ 473,973</u>                 | <u>\$ 49,066,232</u> | <u>\$ 40,709,813</u> |

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

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION

COMBINED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

(WITH SUMMARIZED FINANCIAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2015)

|  | TID            | MED           | Totals       |               |
|--|----------------|---------------|--------------|---------------|
|  |                |               | 2016         | 2015          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                |               |              |               |
| Change in net assets   | \$ (3,786,140) | \$ 12,566,057 | \$ 8,779,917 | \$ 12,626,233 |
| Adjustments to reconcile change in net assets<br>to net cash provided by (used in) operating activities: |                |               |              |               |
| Accounts receivable  | (1,000,248)    | (1,580,417)   | (2,580,665)  | (1,255,106)   |
| Accounts payable   | 20,242         | (2,633,013)   | (2,612,771)  | 2,734,425     |
| Accrued liabilities  | 2,025          | 2,475         | 4,500        | 6,500         |
| Retainage payable  | -              | 716,276       | 716,276      | -             |
| Total adjustments  | (977,981)      | (3,494,679)   | (4,472,660)  | 1,485,819     |
| Net cash provided (used in) by operating activities  | (4,764,121)    | 9,071,378     | 4,307,257    | 14,112,052    |
| <b>CASH FLOW FROM INVESTING ACTIVITY:</b>  |                |               |              |               |
| Net purchase of investments  | (3,677,468)    | (10,781,529)  | (14,458,997) | (10,138,739)  |
| Net cash used in investing activity  | (3,677,468)    | (10,781,529)  | (14,458,997) | (10,138,739)  |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | (8,441,589)    | (1,710,151)   | (10,151,740) | 3,973,313     |
| <b>CASH - BEGINNING OF YEAR</b>  | 9,709,304      | 7,367,160     | 17,076,464   | 13,103,151    |
| <b>CASH - END OF YEAR</b>  | \$ 1,267,715   | \$ 5,657,009  | \$ 6,924,724 | \$ 17,076,464 |

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

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**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 and Moscone Expansion District pursuant to a management contract with the City and County of San Francisco (the City).

**Basis of Presentation** -- The accompanying combined financial statements include the accounts of Tourism Improvement District and Moscone Expansion District.

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

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



**Cash and Cash Equivalents** -- Cash consists of cash in checking and savings accounts. Cash equivalents consist of short-term and highly liquid investments with original maturities of three months from the date of acquisition.

**Accounts Receivable and Allowance for Doubtful Accounts** -- The accounts receivable represent 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. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for doubtful accounts has been provided.

**Investments** -- Investments consist of corporate bonds and mutual funds which are carried at market value. Investments with maturities of less than one year as of the statement of financial position date are classified as short-term. Investments with maturities of more than one year as of the statement of financial position date are classified as long-term.

SFTIDMC invest in high quality obligations in order to achieve the maximum yield consistent with safety of principal and maintenance of liquidity. The primary objective is the preservation of capital and the assurance of appropriate liquidity, by limiting default risk and market risk, to meet the needs of SFTIDMC. The secondary objective is to maximize the current and expected yield on the fund assets, so as to provide additional income for operating purposes. The investment policy also requires the management to maintain a reasonable relationship between short-term and long-term investments.

**Retention Payable** -- Retention payable represents retention provisions of up to 5% which is withheld from each progress payment as retainage until the contract work has been completed and approved. Retention related to contracts that are expected to be completed more than one year from the statement of financial position date are classified as long-term.

**Revenues** -- Actual revenues from assessments, which include fines and penalties, are recognized when the assessments from hotels become due and measurable and when collectability is reasonably assured.

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

**Tax Status** -- SFTIDMC is exempt from federal and state income taxation under Section 501(c)(6) of the Internal Revenue Code (IRC) and under Section 23701(e) of the California Revenue and Taxation Code, respectively. Accordingly, no provision for income tax has been made in the accompanying combined financial statements.

Generally accepted accounting provides disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and does not believe that SFTIDMC has any uncertain tax positions that require adjustment or disclosure in the combined financial statements. SFTIDMC's returns are subject to examination by federal and state taxing authorities, generally for three to four years, respectively, after they are filed.

**Allocation of Functional Expenses** -- The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

**Estimates Included in the Combined Financial Statements** -- The preparation of combined 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 combined 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 combined 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 combined financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**New Accounting Pronouncement** -- In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The core principle of the guidance is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new guidance to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this new guidance will require significantly expanded revenue recognition disclosures. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2018. SFTIDMC is currently evaluating the provisions of this ASU.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities. The amendments in the ASU made several improvements to current reporting requirements that address net asset classes, investment return, expenses, liquidity and availability of resources and

presentation of operating cash flows. The ASU is effective for financial statements beginning after December 15, 2017. SFTIDMC is currently evaluating the provisions of this ASU.

**Subsequent Events** -- SFTIDMC has evaluated subsequent events through October 31, 2016, the date the combined financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the combined financial statements would be required.

## 2. Description of Net Assets

The combined financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

**Unrestricted** -- This is used to account for resources that are available to support SFTIDMC's operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the purposes specified in the Management District Plan, the nature of the organization, the environment in which it operates, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

The unrestricted net assets are limited for the following purposes as provided in the Management District Plan as of June 30, 2016:

|  | <u>TID</u>           | <u>MED</u>           | <u>Total</u>         |
|--|----------------------|----------------------|----------------------|
| Moscone Convention Center<br>Development and Expansion       | \$ -                 | \$ 27,750,446        | \$ 27,750,446        |
| San Francisco Travel Association<br>Marketing and Operations | 7,758,049            | -                    | 7,758,049            |
| Moscone Convention Center<br>Incentive Fund                  | 654,721              | 2,190,688            | 2,845,409            |
| Moscone Convention Center<br>Capital Fund                    | 2,343,805            | 260,337              | 2,604,142            |
| Contingency/Reserve  | <u>674,106</u>       | <u>879,121</u>       | <u>1,553,227</u>     |
|  | <u>\$ 11,430,681</u> | <u>\$ 31,080,592</u> | <u>\$ 42,511,273</u> |

**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, 2016.

**Permanently Restricted** -- This is used to account for resources whose use is limited by donor-imposed restrictions that neither expire 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, 2016.

### 3. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB Accounting Standards Codification (ASC) 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SFTIDMC has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy. There has been no change in the methodology used at June 30, 2016 and 2015.

**Corporate Bonds** -- Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

**Mutual Funds** -- Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by SFTIDMC are open-end mutual funds that

are registered with the Securities & Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by SFTIDMC are deemed actively traded.

The assets measured at fair value, as of June 30, 2016, are as follows:

|                           | <u>Level 1</u>    | <u>Level 2</u>       | <u>Level 3</u> | <u>Total</u>         |
|---------------------------|-------------------|----------------------|----------------|----------------------|
| Cash equivalents -        |                   |                      |                |                      |
| Corporate bonds           | \$ -              | \$ 2,508,990         | \$ -           | \$ 2,508,990         |
|                           | <u>-</u>          | <u>2,508,990</u>     | <u>-</u>       | <u>2,508,990</u>     |
| Investments -             |                   |                      |                |                      |
| Corporate bonds           | -                 | 23,995,347           | -              | 23,995,347           |
| Money market mutual funds | 602,389           | -                    | -              | 602,389              |
|                           | <u>602,389</u>    | <u>23,995,347</u>    | <u>-</u>       | <u>24,597,736</u>    |
| Assets at fair value      | <u>\$ 602,389</u> | <u>\$ 26,504,337</u> | <u>\$ -</u>    | <u>\$ 27,106,726</u> |

The return from these investments reported in the statement of activities consisted of interest income and dividends which amounted to \$121,734 during the year ended June 30, 2016.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SFTIDMC believe their valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

4. **Business Improvement Districts**

*Tourism Improvement District (TID)*

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, and assessments on gross room revenues (TID assessment) on hotels within the TID, which are categorized as Zone 1 or Zone 2 depending on their location. The TID assessments were designed to generate funds dedicated to promoting and marketing the City of San Francisco as a leisure and convention destination in an increasingly competitive world, and to fund repairs and improvements to the Moscone Center.

The annual TID assessments commenced on January 1, 2009, and will continue until December 31, 2023. The schedule of TID assessments is as follows:

| <u>Periods</u>                      | <u>Zone 1</u> | <u>Zone 2</u> |
|-------------------------------------|---------------|---------------|
| January 1, 2009 – December 31, 2013 | 1.50%         | 1.00%         |
| January 1, 2014 – December 31, 2023 | 1.00%         | 0.75%         |

The TID assessments will be collected by the City and remitted to SFTIDMC. The SFTIDMC will ensure that the TID assessments collected are used to benefit the assessed businesses by: (1) allocating them to the San Francisco Travel Association (the Association) to fund its marketing and promotional programs; and (2) keeping the Moscone Center competitive with those of other major cities.

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



*Moscone Expansion District (MED)*

On June 21, 2012, the City announced the development of a 25-year master plan for the expansion of the Moscone Center. The expansion will be funded by a public-private partnership with the SFTIDMC and the City.

On February 5, 2013, the San Francisco Board of Supervisors approved the creation of the Moscone Expansion District which will provide the majority of funding for the expansion of the City's convention center. MED began imposing assessment of fees on gross hotel room revenue on July 1, 2013 (MED assessments). The term of the MED is 32 years. The schedule of MED assessments is as follows:

| <u>Periods</u>                      | <u>Zone 1</u> | <u>Zone 2</u> |
|-------------------------------------|---------------|---------------|
| July 1, 2013 – December 31, 2013    | 0.5000%       | 0.3125%       |
| January 1, 2014 – December 31, 2045 | 1.2500%       | 0.3125%       |

The City will commit the following towards the repayment of bonds issued in connection with the expansion:

- Contribution of \$8,200,000 in fiscal year 2019 with an increase of 3% per year through fiscal year 2028 up to cap of \$10,700,000, with a continuing contribution of no less than \$10,700,000 per year for the remainder of the term of the MED.
- The City will fund shortfalls in any given year for purposes of debt service, which will be repaid from surpluses in MED assessments, as detailed in the Management District Plan.

The MED assessments will be used for the following improvements and activities, including the categories of expenses:

- Planning, design, engineering, entitlement, construction, project management and related services for expansion of the

Moscone Center, including related payments for any bond, financing lease (including certificates of participation) or similar obligations of the City.

- Funding of a Moscone Center Incentive Fund which will be used to attract significant meetings, tradeshow and conventions to San Francisco via offset of rental costs.
- Funding of a Moscone Center Sales & Marketing Fund to provide increased funding for sales and marketing of convention business, with a focus on generating increased revenues for hotels that pay the assessment.
- Funding of capital improvements and renovations, including a capital reserve fund to cover future upgrades and improvements to the Moscone Center.
- Allocation of funds to pay for District formation, operation and administration, and to establish and maintain a contingency reserve.
- In consultation with the City, funding of expenses for development and implementation of future phases of expansion, renovations or capital improvements if there are funds available in excess of those needed for the expansion.

##### **5. Line of Credit**

In January 2015, SFTIDMC entered into a revolving line of credit agreement with a bank with maturity of January 15, 2016. On January 12, 2016, the line of credit was renewed with expiration of February 1, 2017. Under the agreement, SFTIDMC may borrow up to a maximum amount of \$5,000,000. The line of credit is secured by the assets of SFTIDMC.

The line of credit bears a variable interest rate, set by the bank, based on changes in the prime rate, but under no circumstances be less than 3.00% per annum. There has been no borrowing under this line of credit during the year ended June 30, 2016.

**6. Related Party Transactions**

SFTIDMC entered into agreements for professional and administrative services with the San Francisco Travel Association (the Association), a related party. The agreements were effective for the period June 4, 2009 to June 30, 2010, and are automatically renewed annually thereafter.

Under the Professional Services Agreement, the Association will provide marketing and promotional services consistent with the requirements of the Management District Plan. The Association will be compensated based on its budget, as approved by SFTIDMC's Board of Directors, and consistent with the management plan.

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. On July 1, 2013, the Administrative Services Agreement was revised primarily to include MED. Based on the agreement, the Association will be compensated a fee of \$190,000 per annum, subject to an annual increase of 5%, for the performance of the above services on behalf of both TID and MED.

The expenditures related to the marketing and promotional services (professional services) and administrative services amounted to \$29,605,500 and \$209,400, respectively, during the year ended June 30, 2016. There was no payable to the Association for these services as of June 30, 2016.

From time to time, the Association also advances or pays other professional fees (e.g., legal and consulting fees) on behalf of SFTIDMC. SFTIDMC has a net payable of \$17,194 to the Association for these advances as of June 30, 2016.

**7. Program Services**

As discussed in Note 3 to the combined 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 Center; while the MED assessment is designed to provide the majority of funding for the expansion of the Moscone Center.

**8. 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. SFTIDMC shall pay the Treasurer a monthly collection fee plus commission on collection of delinquent accounts and fees for other services that the Treasurer may provide in connection of its services on behalf TID and MED. The

amount of fees charged by the Treasurer for both TID and MED amounted to \$542,559 during the year ended June 30, 2016. These fees are recorded under Contractual Services – Treasurer in the combined statement of functional expenses.

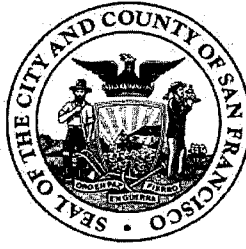
SFTIDMC provides for retention related to the Moscone Center expansion. The retention will be due upon completion of the contracts and acceptance, or earlier, as provided by the contract. The contract work is expected to be completed by December 2018.

#### **9. Concentrations of Risk**

The majority of SFTIDMC's revenues are from TID and MED assessments. As such, SFTIDMC's ability to generate resources is dependent upon the assessments collected by hotels from gross hotel room revenues in the City and County of San Francisco.

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's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to SFTIDMC's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the combined financial statements. SFTIDMC periodically reviews its cash and investment policy and believes that any potential loss is not material to the combined financial statements.

BOARD of SUPERVISORS



City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. 554-5184  
Fax No. 554-5163  
TDD/TTY No. 554-5227

## MEMORANDUM

TO: Ben Rosenfield, City Controller, Office of the Controller  
Todd Rufo, Director, Office of Economic and Workforce Development

FROM: Erica Major, Assistant Clerk, Government Audit and Oversight Committee,  
Board of Supervisors

DATE: May 24, 2017

SUBJECT: LEGISLATION INTRODUCED

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The Board of Supervisors' Government Audit and Oversight Committee has received the following proposed legislation, introduced by Mayor Lee on May 16, 2017:

**File No. 170604**

**Resolution receiving and approving annual reports for the Moscone Expansion District for FYs 2014-2015 and 2015-2016, submitted as required by the Property and Business Improvement District Law of 1994 (California Streets and Highways Code, Sections 36600, et seq.), Section 36650, and the District's management agreement with the City, Section 3.4.**


If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Todd Rydstrom, Office of the Controller  
Ken Rich, Office of Economic and Workforce Development  
Lisa Pagan, Office of Economic and Workforce Development

OFFICE OF THE MAYOR  
SAN FRANCISCO



EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors  
FROM: *for* Mayor Edwin M. Lee   
RE: Moscone Expansion District – Annual Report to the City – FYs 2014-2015  
and 2015-2016  
DATE: May 16, 2017

---

Attached for introduction to the Board of Supervisors is a resolution receiving and approving annual report for the Moscone Expansion District for FYs 2014-2015 and 2015-2016, submitted as required by the Property and Business Improvement District Law of 1994 (California Streets and Highways Code, Sections 36600, *et seq.*), Section 36650, and the District's management agreement with the City, Section 3.4.

I respectfully request this item be heard in Government Audit & Oversight Committee on June 7, 2017.

Should you have any questions, please contact Mawuli Tugbenyoh (415) 554-5168.

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