

**SAN FRANCISCO TOURISM IMPROVEMENT  
DISTRICT MANAGEMENT CORPORATION**

FINANCIAL STATEMENTS AS OF  
JUNE 30, 2011

(WITH SUMMARIZED FINANCIAL INFORMATION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010)

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:

We have audited the accompanying statement of financial position of San Francisco Tourism Improvement District Management Corporation (SFTIDMC), a California not-for-profit organization, as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the SFTIDMC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the SFTIDMC's 2010 financial statements and, in our report dated October 6, 2010, we expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Francisco Tourism Improvement District Management Corporation as of June 30, 2011, and the changes in their net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Louie + Wong LLP

San Francisco, California  
October 27, 2011

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2011**

**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2010)**

**ASSETS**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS:</b>					
Cash	\$ 10,920,769	\$ -	\$ -	\$ 10,920,769	\$ 9,820,897
Accounts receivable	5,248,424	-	-	5,248,424	4,591,544
	<u>\$ 16,169,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,169,193</u>	<u>\$ 14,412,441</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 1,560,508	\$ -	\$ -	\$ 1,560,508	\$ 1,516,586
Accrued liabilities	35,000	-	-	35,000	30,500
Total current liabilities	1,595,508	-	-	1,595,508	1,547,086

**COMMITMENTS AND CONTINGENCIES**

<b>NET ASSETS</b>	<u>14,573,685</u>	<u>-</u>	<u>-</u>	<u>14,573,685</u>	<u>12,865,355</u>
	<u>\$ 16,169,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,169,193</u>	<u>\$ 14,412,441</u>

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

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2011**

**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
<b>REVENUES:</b>					
Tourism Improvement District	\$ 20,970,337	\$ -	\$ -	\$ 20,970,337	\$ 18,817,509
Other	38,748	-	-	38,748	62,840
Total revenues	21,009,085	-	-	21,009,085	18,880,349
<b>EXPENSES:</b>					
Program services	18,803,388	-	-	18,803,388	13,281,455
Management and general	497,367	-	-	497,367	486,300
Total expenses	19,300,755	-	-	19,300,755	13,767,755
<b>CHANGE IN NET ASSETS</b>	1,708,330	-	-	1,708,330	5,112,594
<b>NET ASSETS - BEGINNING OF YEAR</b>	12,865,355	-	-	12,865,355	7,752,761
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 14,573,685</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,573,685</u>	<u>\$ 12,865,355</u>

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

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2011**

**(WITH SUMMARIZED FINANCIAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2010)**

	Program	Management	Total	
			2011	2010
Marketing and promotion	\$ 12,959,038	\$ -	\$ 12,959,038	\$ 11,530,000
Moscone Convention Center -				
Repairs and improvements	4,573,859	-	4,573,859	475,609
Sales incentive	1,270,491	-	1,270,491	1,275,276
Contractual services -				
Treasurer	-	309,603	309,603	309,603
SFCVB	-	88,432	88,432	63,820
Professional services	-	60,537	60,537	79,209
Insurance and taxes	-	2,928	2,928	3,683
Member meetings	-	6,330	6,330	2,797
Other	-	29,537	29,537	27,758
	<u>\$ 18,803,388</u>	<u>\$ 497,367</u>	<u>\$ 19,300,755</u>	<u>\$ 13,767,755</u>

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

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**(WITH SUMMARIZED FINANCIAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,708,330	\$ 5,112,594
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accounts receivable	(656,880)	3,568,440
Accounts payable	43,922	1,109,363
Accrued liabilities	4,500	30,500
	<u>(608,458)</u>	<u>4,708,303</u>
Total adjustments		
Net cash provided by operating activities	<u>1,099,872</u>	<u>9,820,897</u>
<b>NET INCREASE IN CASH</b>	1,099,872	9,820,897
<b>CASH - BEGINNING OF YEAR</b>	<u>9,820,897</u>	<u>-</u>
<b>CASH - END OF YEAR</b>	<u>\$ 10,920,769</u>	<u>\$ 9,820,897</u>

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



**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**1. Summary of Significant Accounting Policies**

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

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

The annual assessments commenced on January 1, 2009, and will continue until December 31, 2023. During the first five years, tourist hotels in Zones 1 and 2 of the TID will be assessed 1.50% and 1.00% of gross revenues from tourist rooms, respectively. During years 6-15, the assessment rate will be 1.00% and 0.75% of gross revenues from tourist rooms in Zones 1 and 2, respectively.

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

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

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

**Cash** -- Cash consists of cash in bank accounts.

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

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

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

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

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

**Estimates Included in the Financial Statements** -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and information that is available to management about current events and actions SFTIDMC may take in the future. Actual results could differ from those estimates.

**Comparative Financial Statements** -- The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SFTIDMC's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

**Subsequent Events** -- SFTIDMC has evaluated subsequent events through October 27, 2011, the date the financial statements were available to be issued.

## 2. **Description of Net Assets**

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

**Temporarily Restricted** -- This is used to account for revenues that are temporarily restricted for a specified purpose or are available to be used in later period. There were no temporarily restricted net assets as of June 30, 2011.



**Permanently Restricted** -- This is used to account for revenues that are permanently restricted as specified by the Board. There were no permanently restricted net assets as of June 30, 2011.

**3. Related Party Transactions**

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

Under the professional services agreement, SFCVB will provide marketing and promotional services consistent with the requirements of the management plan. SFCVB will be compensated based on its budget, as approved by SFTIDMC's Board of Directors, and consistent with the management plan. The agreement was effective for the period June 4, 2009 to June 30, 2010 and was automatically renewed for another year through June 30, 2011.

Under the administrative services agreement, SFCVB will provide the following services: (1) staff support for the operation of SFTIDMC, (2) the Chief Financial Officer (CFO) of SFCVB will serve as CFO of SFTIDMC and SFCVB staff will perform finance and accounting related functions, (3) SFCVB will be responsible for the tax related issues of SFTIDMC, (4) SFCVB will be responsible for all compliance issues of SFTIDMC, including compliance with the management plan approved by the San Francisco Board of Supervisors, and (5) SFCVB will be responsible for developing an appropriate investment policy and program for SFTIDMC funds. SFCVB will be compensated based on hours worked by SFCVB employees.

SFTIDMC has a payable of \$12,659 to SFCVB for the operating expenses paid by SFCVB on behalf of SFTIDMC as of June 30, 2011.

**4. Program Expenditures**

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

Expenditures related to marketing and promotional programs of SFCVB amounted to \$12,959,038 and sales incentive granted to convention groups related to the rent of the Moscone Convention Center amounted to \$1,270,491 during the year ended June 30, 2011. Repairs and improvements to the Moscone Convention Center amounted to \$4,573,859 during the year ended June 30, 2011.

Sales incentive payable to the San Francisco Convention Facilities, an operating unit of the City & County of San Francisco, amounted to \$1,270,491 as of June 30, 2011.

**5. Commitments**

Pursuant to the establishment of the TID as approved by the Board of Supervisors in December, 2008, the Office of the Treasurer and Tax Collector for the City and County of San Francisco (the Treasurer) was mandated to collect the TID Assessments on behalf of the SFTIDMC. In August, 2009, an administration agreement was entered into between the Treasurer and SFTIDMC wherein the Treasurer agreed to provide the following services: (a) collect assessments in accordance to the management plan, (b) provide quarterly reports indicating the amount of penalties, fees, assessment and interest collected, and (c) provide a list of delinquent accounts on a quarterly basis. In exchange for the collection services, SFTIDMC agreed to pay the Treasurer a total of \$309,603 each year through June 30, 2010. In January 2011, both the Treasurer and

SFTIDMC agreed to extend the administration agreement through June 30, 2011 for the same amount of fees of \$309,603.

Both parties are negotiating a potential expansion of the scope of services to be provided by the Treasurer to SFTIDMC which, when approved, will become effective from July 1, 2011 through June 30, 2014.