

**SAN FRANCISCO TOURISM IMPROVEMENT  
DISTRICT MANAGEMENT CORPORATION**

COMBINED FINANCIAL STATEMENTS AS OF  
AND FOR THE YEAR ENDED  
JUNE 30, 2014

(WITH SUMMARIZED FINANCIAL INFORMATION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013)

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, 2014, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related combined 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 auditor considers 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, 2014, 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 2013 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 24, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Louie + Wong LLP*

San Francisco, California  
October 28, 2014

**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2014**

**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	<b><u>ASSETS</u></b>		<b>Totals</b>	
	<b><u>TID</u></b>	<b><u>MED</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>CURRENT ASSETS:</b>				
Cash	\$ 10,051,350	\$ 3,051,801	\$ 13,103,151	\$ 4,646,898
Accounts receivable	4,986,532	5,907,364	10,893,896	6,456,545
	<u>\$ 15,037,882</u>	<u>\$ 8,959,165</u>	<u>\$ 23,997,047</u>	<u>\$ 11,103,443</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 1,950,315	\$ 908,109	\$ 2,858,424	\$ 1,567,905
Accrued liabilities	20,100	13,400	33,500	28,000
Total current liabilities	<u>1,970,415</u>	<u>921,509</u>	<u>2,891,924</u>	<u>1,595,905</u>
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>NET ASSETS</b>				
Unrestricted	13,067,467	8,037,656	21,105,123	9,507,538
Temporarily restricted	-	-	-	-
Permanently restricted	-	-	-	-
	<u>13,067,467</u>	<u>8,037,656</u>	<u>21,105,123</u>	<u>9,507,538</u>
	<u>\$ 15,037,882</u>	<u>\$ 8,959,165</u>	<u>\$ 23,997,047</u>	<u>\$ 11,103,443</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, 2014**

**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	Unrestricted		Temporarily Restricted	Permanently Restricted	Totals	
	TID	MED			2014	2013
<b>REVENUES:</b>						
Assessments	\$ 26,805,332	\$ 15,703,919	\$ -	\$ -	\$ 42,509,251	\$ 26,909,406
Interest income	30,914	9,274	-	-	40,188	32,008
Total revenues	26,836,246	15,713,193	-	-	42,549,439	26,941,414
<b>EXPENSES:</b>						
Program services	22,450,584	7,433,073	-	-	29,883,657	24,629,445
Management and general	825,733	242,464	-	-	1,068,197	567,425
Total expenses	23,276,317	7,675,537	-	-	30,951,854	25,196,870
<b>CHANGE IN NET ASSETS</b>	3,559,929	8,037,656	-	-	11,597,585	1,744,544
<b>NET ASSETS - BEGINNING OF YEAR</b>	9,507,538	-	-	-	9,507,538	7,762,994
<b>NET ASSETS - END 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>

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**SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT  
MANAGEMENT CORPORATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2014**

**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	<u>TID</u>		<u>MED</u>		<u>Totals</u>	
	<u>Program Services</u>	<u>Management and General</u>	<u>Program Services</u>	<u>Management and General</u>	<u>2014</u>	<u>2013</u>
Marketing and promotion	\$ 18,500,000	\$ -	\$ -	\$ -	\$ 18,500,000	\$ 17,089,102
Moscone Center -						
Expansion	2,874,662	-	7,433,073	-	10,307,735	3,484,328
Sales incentive	1,068,781	-	-	-	1,068,781	1,042,239
Repairs and improvements	-	-	-	-	-	3,013,776
Contractual services -						
Treasurer fees	-	562,221	-	229,064	791,285	448,223
San Francisco Travel Association fees	-	190,000	-	-	190,000	54,857
Professional fees	-	71,025	-	13,400	84,425	53,435
Insurance and taxes	3,766	-	-	-	3,766	3,245
Interest expense	3,375	-	-	-	3,375	6,458
Office expenses	-	2,487	-	-	2,487	1,207
	<u>\$ 22,450,584</u>	<u>\$ 825,733</u>	<u>\$ 7,433,073</u>	<u>\$ 242,464</u>	<u>\$ 30,951,854</u>	<u>\$ 25,196,870</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, 2014**

**(WITH SUMMARIZED FINANCIAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2013)**

	<u>TID</u>	<u>MED</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ 3,559,929	\$ 8,037,656	\$ 11,597,585	\$ 1,744,544
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Accounts receivable	1,470,013	(5,907,364)	(4,437,351)	(539,973)
Accounts payable	382,410	908,109	1,290,519	(4,123,539)
Accrued liabilities	(7,900)	13,400	5,500	2,500
Total adjustments	<u>1,844,523</u>	<u>(4,985,855)</u>	<u>(3,141,332)</u>	<u>(4,661,012)</u>
Net cash provided by (used in) operating activities	<u>5,404,452</u>	<u>3,051,801</u>	<u>8,456,253</u>	<u>(2,916,468)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	5,404,452	3,051,801	8,456,253	(2,916,468)
<b>CASH - BEGINNING OF YEAR</b>	<u>4,646,898</u>	<u>-</u>	<u>4,646,898</u>	<u>7,563,366</u>
<b>CASH - END OF YEAR</b>	<u>\$ 10,051,350</u>	<u>\$ 3,051,801</u>	<u>\$ 13,103,151</u>	<u>\$ 4,646,898</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, 2014**

**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.

**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, 2013, from which the summarized information was derived.

**Reclassification** -- Certain items in the prior year summarized financial information have been reclassified to conform to the current year's presentation. Such reclassification had no effect on the previously reported change in net assets.

**Subsequent Events** -- SFTIDMC has evaluated subsequent events through October 28, 2014, 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, 2014:

	<u>TID</u>	<u>MED</u>	<u>Total</u>
Marketing and Promotions	\$ 9,409,633	\$ -	\$ 9,409,633
Moscone Center Development and Expansion	2,334,361	6,315,925	8,650,286
Moscone Center Incentive Fund	652,083	1,414,223	2,066,306
Administration and Operating Contingency Reserve	671,390	150,376	821,766
Moscone Center Capital Reserve	-	157,132	157,132
	<u>\$ 13,067,467</u>	<u>\$ 8,037,656</u>	<u>\$ 21,105,123</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, 2014.

**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, 2014.

**3. 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>
Years 1 to 5	1.50%	1.00%
Years 6 to 15	1.00%	.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 – December 31, 2013	0.5000%	0.3125%
January 1, 2014 to 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.

#### **4. 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 13, 2014, with a maturity date of January 15, 2015. 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 was no outstanding balance on the line of credit as of June 30, 2014.

SFTIDMC was required by the bank to maintain certain financial ratios and covenants including (a) current ratio of not less than 2.50 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 0.65 to 1.00.

#### **5. 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 \$18,500,000 and \$190,000, respectively, during the year ended June 30, 2014. There was no payable to the Association for these services as of June 30, 2014.

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 \$3,397 to Association for these advances as of June 30, 2014.

## **6. 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.

7. **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 \$791,285 during the year ended June 30, 2014. These fees are recorded under Contractual Services – Treasurer in the combined statement of functional expenses.