SAN FRANCISCO TOURISM IMPROVEMENT

DISTRICT MANAGEMENT CORPORATION

COMBINED FINANCIAL STATEMENTS AS OF
AND FOR THE YEARS ENDED
JUNE 30, 2013

(WITH SUMMARIZED FINANCIAL INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012)

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

louie & wong LLP
certified
public
accountants

INDEPENDENT AUDITORS' REPORT

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

Report on 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, 2013, 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

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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 auditor's 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 entity'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, 2013, 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 2012 financial statements, and our report dated October 31, 2012, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Louie + Wong LLP

San Francisco, California
October 24, 2013

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)

ASSETS

	TID	MED	Totals 2013	Totals 2012
CURRENT ASSETS:				
Cash	$ 4,646,898	$ -	$ 4,646,898	$ 7,563,366
Accounts receivable	6,456,545	-	6,456,545	5,916,572
	$ 11,103,443	$ -	$ 11,103,443	$ 13,479,938

LIABILITIES AND NET ASSETS

	TID	MED	Totals 2013	Totals 2012
CURRENT LIABILITIES:				
Accounts payable	$ 1,567,905	$ -	$ 1,567,905	$ 5,691,444
Accrued liabilities	28,000	-	28,000	25,500
Total current liabilities	1,595,905	-	1,595,905	5,716,944
COMMITMENTS AND CONTINGENCIES				
NET ASSETS				
Unrestricted	9,507,538	-	9,507,538	7,762,994
Temporarily restricted	-	-	-	-
Permanently restricted	-	-	-	-
	9,507,538	-	9,507,538	7,762,994
	$ 11,103,443	$ -	$ 11,103,443	$ 13,479,938

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, 2013

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	Unrestricted		Temporarily	Permanently	Totals	
	TID	MED	Restricted	Restricted	2013	2012
REVENUES:						
Assessments	$ 26,909,406	$ -	$ -	$ -	$ 26,909,406	$ 24,808,837
Interest income	32,008	-	-	-	32,008	18,349
Total revenues	26,941,414	-	-	-	26,941,414	24,827,186
EXPENSES:						
Program services	24,629,445	-	-	-	24,629,445	31,186,361
Management and general	567,425	-	-	-	567,425	451,516
Total expenses	25,196,870	-	-	-	25,196,870	31,637,877
CHANGE IN NET ASSETS	1,744,544	-	-	-	1,744,544	(6,810,691)
NET ASSETS - BEGINNING OF YEAR	7,762,994	-	-	-	7,762,994	14,573,685
NET ASSETS - END OF YEAR	$ 9,507,538	$ -	$ -	$ -	$ 9,507,538	$ 7,762,994

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SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	TID		MED		Totals	
	Program Services	Management and General	Program Services	Management and General	2013	2012
Marketing and promotion	$ 17,089,102	$ -	$ -	$ -	$ 17,089,102	$ 15,869,673
Moscone Convention Center -						
Repairs and improvements	5,866,951	-	-	-	5,866,951	13,278,102
Sales incentive	1,042,239	-	-	-	1,042,239	1,441,230
Expansion	631,153	-	-	-	631,153	597,356
Contractual services -						
Treasurer	-	448,223	-	-	448,223	309,603
San Francisco Travel Association	-	54,857	-	-	54,857	78,818
Professional services	-	53,435	-	-	53,435	49,640
Interest expense	-	6,458	-	-	6,458	-
Insurance and taxes	-	3,245	-	-	3,245	3,052
Member meetings	-	875	-	-	875	4,363
Other	-	332	-	-	332	6,040
	$ 24,629,445	$ 567,425	$ -	$ -	$ 25,196,870	$ 31,637,877

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, 2013

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	TID	MED	Totals 2013	Totals 2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	$ 1,744,544	$ -	$ 1,744,544	$ (6,810,691)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Accounts receivable	(539,973)	-	(539,973)	(668,148)
Accounts payable	(4,123,539)		(4,123,539)	4,130,936
Accrued liabilities	2,500		2,500	(9,500)
Total adjustments	(4,661,012)	-	(4,661,012)	3,453,288
Net cash used in operating activities	(2,916,468)	-	(2,916,468)	(3,357,403)
NET DECREASE IN CASH	(2,916,468)	-	(2,916,468)	(3,357,403)
CASH - BEGINNING OF YEAR	7,563,366	-	7,563,366	10,920,769
CASH - END OF YEAR	$ 4,646,898	$ -	$ 4,646,898	$ 7,563,366

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, 2013

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-Profits. 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 -- Cash consists of cash in checking and savings accounts.

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

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

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 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 believes that all of the positions taken in its federal and state tax exempt organization returns are more likely than not to be sustained upon examination. 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 financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Subsequent Events -- SFTIDMC has evaluated subsequent events through October 24, 2013, 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 unrestricted revenues received from assessments and other unrestricted income and expenses.

Temporarily Restricted -- This is used to account for resources that are restricted by the donor for use for a particular purpose or in a particular future period. SFTIDMC had no temporarily restricted net assets as of June 30, 2013.

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, 2013.

3. <u>Business Improvement Districts</u>

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:

Periods	Zone 1	Zone 2
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 will begin imposing assessment of fees on gross hotel room revenue beginning July 1, 2013 (MED assessments). The term of the MED is 32 years. The schedule of MED assessments is as follows:

Periods	Zone 1	Zone 2
July 1 – December 31, 2013	.5000%	.3125%
January 1, 2014 to December 31, 2045	1.2500%	.3125%

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

- Contribution of $8,200,000 million 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, tradeshows 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 will expire on July 1, 2013. On August 22, 2013, the expiration of the line of credit was extended to November 28, 2013. 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 an interest of 3.25% per annum, subject to change from time to time based on changes in the prime rate set by the bank, but under no circumstances be less than 3.00% per annum. The interest expense and the average interest rate on the line of credit were $6,458 and 3.0%, respectively, during the year ended June 30, 2013.

The maximum and average outstanding balances on the revolving line were $1,000,000 and $500,000, respectively, during the year ended June 30, 2013. There was no outstanding balance on the line of credit as of June 30, 2013.

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. SFTIDMC was not in compliance with the tangible net worth as of June 30, 2013. However, the bank has waived the breach of covenant as of and for the year ended June 30, 2013.

5. Related Party Transactions

SFTIDMC entered into agreements for professional and administrative services with the Association, a related party.

Under the professional services agreement, the Association will provide marketing and promotional services consistent with the requirements of the management plan. The Association will be compensated based on its budget, as approved by

SFTIDMC's Board of Directors, and consistent with the management plan. The agreement was effective for the period June 4, 2009 to June 30, 2010, and was automatically renewed after each year through June 30, 2013.

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

As of June 30, 2013, SFTIDMC has a payable of $12,583 to the Association for the administrative services fee per agreement. The expenditures related to the contractual services provided by the Association amounted to $166,317 for the year ended June 30, 2013.

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. Funding for expenditures on these programs commenced on July 1, 2009.

Sales incentive payable to the Moscone Center amounted to $1,042,239 as of June 30, 2013.

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. 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, 2013, for the same amount of fees plus commission on collections. The amount of fees charged by the Treasurer for the year ended June 30, 2013 amounted to $448,223, which is recorded under Contractual Services – Treasurer in the combined statement of functional expenses.

Both parties are negotiating a potential expansion of the scope of services to be provided by the Treasurer to SFTIDMC to include the collections of MED assessments which, when approved, will become effective from July 1, 2013, through June 30, 2014.