SAN FRANCISCO TOURISM IMPROVEMENT
DISTRICT MANAGEMENT CORPORATION

COMBINED FINANCIAL STATEMENTS AS OF
AND FOR THE YEAR ENDED
JUNE 30, 2018

(WITH SUMMARIZED FINANCIAL INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017)

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 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, 2018, 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

425 WASHINGTON STREET SAN FRANCISCO, CALIFORNIA 94111 FAX 415 989.9999 415 981.9999

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, 2018, 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 2017 combined financial statements, and we expressed an unmodified opinion on those audited combined financial statements in our report dated October 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 25, 2018

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT
MANAGEMENT CORPORATION

COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)

ASSETS

	TID	MED	Totals 2018	Totals 2017
CURRENT ASSETS:				
Cash and cash equivalents	$ 93,704	$ 21,908,989	$ 22,002,693	$ 6,511,500
Short-term investments	3,813,994	4,630,358	8,444,352	25,416,283
Accounts receivable	6,366,624	1,231,740	7,598,364	21,700,152
Total current assets	10,274,322	27,771,087	38,045,409	53,627,935
	$ 10,274,322	$ 27,771,087	$ 38,045,409	$ 53,627,935

LIABILITIES AND NET ASSETS

	TID	MED	Totals 2018	Totals 2017
CURRENT LIABILITIES:				
Accounts payable	$ 2,702	$ 6,052,577	$ 6,055,279	$ 5,528,364
Accrued liabilities	20,700	25,300	46,000	43,500
Retention payable	-	2,970,454	2,970,454	-
Total current liabilities	23,402	9,048,331	9,071,733	5,571,864
LONG-TERM LIABILITY:				
Retention payable	-	-	-	1,857,009
Total liabilities	23,402	9,048,331	9,071,733	7,428,873
COMMITMENTS AND CONTINGENCIES				
NET ASSETS:				
Unrestricted	10,250,920	18,722,756	28,973,676	46,199,062
Temporarily restricted	-	-	-	-
Permanently restricted	-	-	-	-
	10,250,920	18,722,756	28,973,676	46,199,062
	$ 10,274,322	$ 27,771,087	$ 38,045,409	$ 53,627,935

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, 2018

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	Unrestricted		Temporarily	Permanently	Totals	
	TID	MED	Restricted	Restricted	2018	2017
REVENUES:						
Assessments (Note 5)	$ 24,669,257	$ 29,876,236	$ -	$ -	$ 54,545,493	$ 52,380,458
Interest and dividends	49,108	160,785	-	-	209,893	409,067
Total revenues	24,718,365	30,037,021	-	-	54,755,386	52,789,525
EXPENSES:						
Program services	24,299,000	46,847,732	-	-	71,146,732	48,126,394
Management and general	418,511	415,529	-	-	834,040	975,342
Total expenses	24,717,511	47,263,261	-	-	71,980,772	49,101,736
CHANGE IN NET ASSETS	854	(17,226,240)	-	-	(17,225,386)	3,687,789
NET ASSETS - BEGINNING OF YEAR	10,250,066	35,948,996	-	-	46,199,062	42,511,273
NET ASSETS - END OF YEAR	$ 10,250,920	$ 18,722,756	$ -	$ -	$ 28,973,676	$ 46,199,062

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, 2018

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	TID		MED		Totals	
	Program Services	Management and General	Program Services	Management and General	2018	2017
Marketing and promotion	$ 24,299,000	$ -	$ -	$ -	$ 24,299,000	$ 24,605,500
Moscone Center -						
Expansion	-	-	33,175,352	-	33,175,352	20,952,398
Debt service and stabilization fund (Note 5)	-	-	10,816,173	-	10,816,173	-
Sales incentive	-	-	2,856,207	-	2,856,207	2,497,057
Capital projects	-	-	-	-	-	71,439
Contractual services -						
Treasurer fees	-	271,171	-	216,728	487,899	669,801
San Francisco Travel Association fees	-	117,000	-	167,598	284,598	234,567
Professional fees	-	28,445	-	27,578	56,023	58,563
Insurance and taxes	-	1,895	-	2,547	4,442	4,814
Office expenses	-	-	-	1,078	1,078	7,597
	$ 24,299,000	$ 418,511	$ 46,847,732	$ 415,529	$ 71,980,772	$ 49,101,736

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, 2018

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	TID	MED	Totals 2018	Totals 2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	$ 854	$ (17,226,240)	$ (17,225,386)	$ 3,687,789
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Accounts receivable	(736,444)	14,838,232	14,101,788	(6,970,485)
Accounts payable	1,564	525,351	526,915	2,548,286
Accrued liabilities	1,125	1,375	2,500	(1,000)
Retention payable	-	1,113,445	1,113,445	1,140,733
Total adjustments	(733,755)	16,478,403	15,744,648	(3,282,466)
Net cash provided (used in) by operating activities	(732,901)	(747,837)	(1,480,738)	405,323
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net proceeds from sale of investments	-	17,057,101	17,057,101	-
Net purchase of investments	(85,170)	-	(85,170)	(818,547)
Net cash provided by (used in) investing activities	(85,170)	17,057,101	16,971,931	(818,547)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(818,071)	16,309,264	15,491,193	(413,224)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	911,775	5,599,725	6,511,500	6,924,724
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 93,704	$ 21,908,989	$ 22,002,693	$ 6,511,500

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, 2018

1. Nature of Organization and Programs

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).

Description of Programs -- The Tourism Improvement District (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. The Moscone Expansion District (MED) assessment is designed to provide the majority of funding for the expansion of the Moscone Center. See Note 5.

2. Summary of Significant Accounting Policies

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 or less from the dates 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 fair 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 invests 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 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. Revenues from interest and dividends are recognized when earned.

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 statements of activities and 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 Combined 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, 2017, from which the summarized information was derived.

New Accounting Pronouncements -- 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 will adopt the ASU effective July 1, 2019.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2019. SFTIDMC is currently evaluating the provision of this update.

In August 2016, FASB issued ASU No. 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 will adopt the ASU effective July 1, 2018.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU No. 2016-15), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2018. SFTIDMC will adopt the ASU effective July 1, 2019.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this Update clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. ASU No. 2018-08 is effective for resource recipients for periods beginning after December 15, 2018, and periods beginning after December 15, 2019, for resource providers. SFTIDMC is currently evaluating the provision of this update.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which SFTIDMC will adopt, as applicable, SFTIDMC does not believe any of these accounting pronouncements will have a material impact on its financial position or results of operation.

Subsequent Events -- SFTIDMC has evaluated subsequent events through October 25, 2018, 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.

3. 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, 2018:

	TID	MED	Total
Moscone Convention Center Development and Expansion	$ -	$ 14,746,811	$ 14,746,811
San Francisco Travel Association Marketing and Operations	6,408,821	-	6,408,821
Moscone Convention Center Capital Fund	2,477,212	487,032	2,964,244
Moscone Convention Center Incentive Fund	672,751	2,090,870	2,763,621
Contingency/Reserve	692,136	1,398,043	2,090,179
	$ 10,250,920	$ 18,722,756	$ 28,973,676

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, 2018.

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, 2018.

4. **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 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 primary use of fair value measures in SFTIDMC's combined financial statements is the recurring measurement of short-term investments.

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, 2018.

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 -- Money market funds are determined by the published net asset value per unit at the end of the last trading day of the year, which is the basis for transactions at that date.

The assets measured at fair value, as of June 30, 2018, are as follows:

	Level 1	Level 2	Level 3	Total
Investments -				
Money market mutual funds	$ 6,653,329	$ -	$ -	$ 6,653,329
Corporate bonds	-	1,791,023	-	1,791,023
Assets at fair value	$ 6,653,329	$ 1,791,023	$ -	$ 8,444,352

The return from these investments reported in the combined statement of activities consisted of interest income and dividends which amounted to $141,697 during the year ended June 30, 2018.

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 believes 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.

5. **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:

Periods	Zone 1	Zone 2
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:

Periods	Zone 1	Zone 2
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, 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.

In June 2017, the City issued Certificates of Participation (Moscone Convention Center Expansion Project) Series 2017B amounting to $412,355,000. The City withheld $4,118,478 from MED assessments as of June 30, 2018, in accordance with the Management District Plan necessary to fund the Stabilization Fund. In addition, the City will withhold approximately $6,697,695 from the assessment period ended June 30, 2018, that will be collected thereafter, to pay debt service and fund repayment of the City's contribution toward service costs. The funds apportioned by the City for the above purpose are included in the MED assessments in the combined statement of activities and program services in the combined statement of functional expenses for the year ended June 30, 2018.

6. **Line of Credit**

In January 2015, SFTIDMC entered into a revolving line of credit agreement with a bank with an original maturity of January 15, 2016. On February 15, 2018, the line of credit was renewed through February 15, 2019. 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 was no borrowing under this line of credit during the year ended June 30, 2018.

7. **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 $24,299,000 and $284,598, respectively, during the year ended June 30, 2018. The payable to the Association for these services amounted to $2,700 as of June 30, 2018.

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 no payable to the Association for these advances as of June 30, 2018.

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 was $487,899 during the year ended June 30, 2018. These fees are recorded under Contractual Services – Treasurer fees 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. <u>Concentrations of Risk</u>

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.

10. Contingencies

The SFTIDMC is a party to certain claims in the normal course of business. While the results of these claims cannot be predicted with certainty, management believes that the final outcome of these matters will not have a material adverse effect on the combined financial statements.