



Certified Public Accountants
and Financial Advisors

**SAN FRANCISCO TOURISM IMPROVEMENT
DISTRICT MANAGEMENT CORPORATION**

Financial Statements

June 30, 2020

INDEX TO FINANCIAL STATEMENTS

Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
San Francisco Tourism Improvement
District Management Corporation**

Report on the Financial Statements

We have audited the accompanying financial statements of San Francisco Tourism Improvement District Management Corporation ("SFTIDMC"), a California not-for-profit organization, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 the entity'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 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 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, 2020, and the changes in its net assets (deficit) and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that SFTIDMC will continue as a going concern. As discussed in Note 5 to the financial statements, SFTIDMC has negative working capital and net deficit as of June 30, 2020. These conditions raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinion is not modified with respect to this matter.

Report on the Summarized Comparative Information

We have previously audited San Francisco Tourism Improvement District Management Corporation's financial statements as of and for the year ended June 30, 2019, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

SQUAR MILNER LLP

San Francisco, California
October 12, 2020

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2019)

	<u>ASSETS</u>		<u>Totals</u>	
	<u>TID FUND</u>	<u>MED FUND</u>	<u>2020</u>	<u>2019</u>
	CURRENT ASSETS			
Cash and cash equivalents	\$ 1,775,900	\$ 4,200,972	\$ 5,976,872	\$ 5,569,582
Accounts receivable	-	-	-	8,808,128
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,775,900</u>	<u>\$ 4,200,972</u>	<u>\$ 5,976,872</u>	<u>\$ 14,377,710</u>

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES				
Accounts payable	\$ 22,024	\$ 2,664,364	\$ 2,686,388	\$ 9,432,578
Loan payable	-	5,000,000	5,000,000	-
Line of credit	-	-	-	3,000,000
Accrued liabilities	-	33,889	33,889	-
Retention payable	-	-	-	190,241
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current liabilities	<u>22,024</u>	<u>7,698,253</u>	<u>7,720,277</u>	<u>12,622,819</u>
NET ASSETS (DEFICIT)				
Without donor restrictions				
Designated	1,753,876	1,739,569	3,493,445	9,225,556
Undesignated	-	(5,236,850)	(5,236,850)	(7,470,665)
Total net assets (deficit)	<u>1,753,876</u>	<u>(3,497,281)</u>	<u>(1,743,405)</u>	<u>1,754,891</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets (deficit)	<u>\$ 1,775,900</u>	<u>\$ 4,200,972</u>	<u>\$ 5,976,872</u>	<u>\$ 14,377,710</u>

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restriction		Totals	
	TID FUND	MED FUND	2020	2019
SUPPORT AND REVENUES				
Assessments (Note 6)	\$ 17,262,280	\$ 21,354,024	\$ 38,616,304	\$ 59,100,812
Interest and dividends	20,672	1,059	21,731	201,255
Total support and revenues	<u>17,282,952</u>	<u>21,355,083</u>	<u>38,638,035</u>	<u>59,302,067</u>
EXPENSES				
Program services -				
Marketing and promotion	21,535,500	215,083	21,750,583	28,394,000
Moscone Center	17,264	19,231,629	19,248,893	57,264,753
Total program services	<u>21,552,764</u>	<u>19,446,712</u>	<u>40,999,476</u>	<u>85,658,753</u>
Management and general	496,026	640,829	1,136,855	862,099
Total expenses	<u>22,048,790</u>	<u>20,087,541</u>	<u>42,136,331</u>	<u>86,520,852</u>
CHANGE IN NET ASSETS (DEFICIT)	(4,765,838)	1,267,542	(3,498,296)	(27,218,785)
NET ASSETS - BEGINNING OF YEAR	<u>6,519,714</u>	<u>(4,764,823)</u>	<u>1,754,891</u>	<u>28,973,676</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 1,753,876</u>	<u>\$ (3,497,281)</u>	<u>\$ (1,743,405)</u>	<u>\$ 1,754,891</u>

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	TID FUND		MED FUND		Totals	
	Program Services	Management and General	Program Services	Management and General	2020	2019
Marketing and promotion	\$ 21,535,500	\$ -	\$ 215,083	\$ -	\$ 21,750,583	\$ 28,394,000
Moscone Center -						
Debt service and stabilization fund	-	-	14,891,570	-	14,891,570	27,626,631
Expansion	17,264	-	1,191,638	-	1,208,902	26,403,589
Sales incentive	-	-	3,148,421	-	3,148,421	3,234,533
Contractual services -						
Treasurer fees	-	244,844	-	222,678	467,522	501,212
San Francisco Travel Association fees	-	127,107	-	127,107	254,214	297,956
Professional fees	-	120,917	-	37,828	158,745	16,740
Interest expense	-	-	-	247,493	247,493	39,375
Insurance and taxes	-	2,522	-	2,212	4,734	4,817
Office expenses	-	636	-	3,511	4,147	1,999
	<u>\$ 21,552,764</u>	<u>\$ 496,026</u>	<u>\$ 19,446,712</u>	<u>\$ 640,829</u>	<u>\$ 42,136,331</u>	<u>\$ 86,520,852</u>

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	TID FUND	MED FUND	Totals	
			2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets (deficit)	\$ (4,765,838)	\$ 1,267,542	\$ (3,498,296)	\$ (27,218,785)
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:				
Accounts receivable	7,589,557	1,218,571	8,808,128	(1,209,764)
Accounts payable	(2,860,470)	(3,885,720)	(6,746,190)	3,377,299
Accrued liabilities	-	33,889	33,889	(46,000)
Retention payable	-	(190,241)	(190,241)	(2,780,213)
Total adjustments	4,729,087	(2,823,501)	1,905,586	(658,678)
Net cash used in operating activities	(36,751)	(1,555,959)	(1,592,710)	(27,877,463)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from sale of investments	-	-	-	8,444,352
Net cash provided by investing activities	-	-	-	8,444,352
CASH FLOWS FROM FINANCING ACTIVITY				
Proceeds from line of credit	-	2,000,000	2,000,000	3,000,000
Net cash provided by financing activity	-	2,000,000	2,000,000	3,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,751)	444,041	407,290	(16,433,111)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,812,651	3,756,931	5,569,582	22,002,693
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,775,900	\$ 4,200,972	\$ 5,976,872	\$ 5,569,582
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for interest	\$ -	\$ 247,493	\$ 247,493	\$ 37,375

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

1. NATURE OF ORGANIZATION

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 (“TID”) and Moscone Expansion District (“MED”) pursuant to a management contract with the City and County of San Francisco (the “City”). Refer to Note 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The accompanying financial statements present the accounts of Tourism Improvement District Fund (“TID Fund”) and Moscone Expansion District Fund (“MED Fund”).

SFTIDMC reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The net assets are designated in accordance with the Management District Plan. Refer to Note 6.

Net assets with donor restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. All net assets of SFTIDMC were net assets without donor restrictions at June 30, 2020.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Fair Value Measurements

SFTIDMC considers the use of market-based information over entity specific information in valuing its investments, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of the financial assets, as of the measurement date.

The three levels of the fair value hierarchy are described as follows:

- Level 1 inputs to the valuation methodology - 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 - 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 - unobservable and significant to the fair value measurement. Fair value is identified as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

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 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 its valuation methods are appropriate and considerate with other practices, 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.

Accounts Receivable and Allowance for Doubtful Accounts

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. There is no outstanding accounts receivable, therefore no allowance for doubtful accounts has been provided.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 year-end are classified as long-term.

Revenue Recognition

SFTIDMC receives assessments from gross hotel room revenues which are collected by the City under the terms of the agreement between SFTIDMC and the City (refer to Note 6). Revenues from assessments, which include fines and penalties, are accounted for as support and recognized when notification of the assessments is received from the City.

Revenues from interest and dividends are recognized when earned.

Professional and Contractual Expenses

Professional and contractual services are expensed as incurred.

Allocation of Functional Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses are identified with a specific program or support service and are charged directly to that program or support service.

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 financial statements.

U.S. GAAP 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 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.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 financial statements include certain prior-year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with SFTIDMC's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Subsequent Events

SFTIDMC has evaluated subsequent events through October 12, 2020, the date which the financial statements were available to be issued.

3. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The ASU clarified and improved the scope and accounting guidance around contributions of cash and other assets received and made by all entities, including business entities. The ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional or unconditional. SFTIDMC adopted this pronouncement for the year ended June 30, 2020. The adoption of ASU 2018-08 on a modified prospective basis did not have an effect on SFTIDMC's financial position or results of operations.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION**NOTES TO FINANCIAL STATEMENTS****June 30, 2020**

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

SFTIDMC's goal is to maintain financial assets per the Management District Plans of TID and MED (the "Management District Plans"). Annually, the SFTIDMC Board of Directors approves the annual budget based on the terms of the agreements with the City.

The following represents SFTIDMC's financial assets at June 30, 2020 available for general expenditures within the following 12 months:

	<u>TID FUND</u>	<u>MED FUND</u>	<u>Totals</u>
Financial assets at year-end:			
Cash and cash equivalents	\$ 1,775,900	\$ 4,200,972	\$ 5,976,872
Total financial assets	<u>1,775,900</u>	<u>4,200,972</u>	<u>5,976,872</u>
Less - amounts designated for the following purpose in accordance with the Management Plans:			
SF Travel Association Marketing & Operations	1,541,340	-	1,541,340
Moscone Center Capital Fund	175,325	245,173	420,498
Moscone Center Incentive Fund	14,890	435,061	449,951
Contingency/Reserve	22,321	1,059,335	1,081,656
	<u>1,753,876</u>	<u>1,739,569</u>	<u>3,493,445</u>
Financial assets available for general expenditures as of June 30, 2020	<u>\$ 22,024</u>	<u>\$ 2,461,403</u>	<u>\$ 2,483,427</u>

SFTIDMC considers ongoing program, management and general expenses as general expenditures.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

5. GOING CONCERN

Pursuant to Accounting Standards Update No. 2014-15, *Presentation of Financial Statements - Going Concern* (Subtopic 205-40), management evaluates SFTIDMC's ability to continue as a going concern for one year after the date of the financial statements are available for issuance.

The financial statements have been prepared on a going concern basis, which assumes that SFTIDMC will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations, including its ability to meet the repayment terms of the note payable (refer to Note 7).

The outbreak of COVID-19 pandemic in March 2020 has impacted the hotel industry and resulting assessments revenue of SFTIDMC (refer to Note 10). During the year ended June 30, 2020, SFTIDMC had a decrease in net assets of \$3,498,296, negative cash flows from operating activities of \$1,592,710, resulting in negative working capital and a net asset deficit of \$1,743,405 as of June 30, 2020. Uncertainty also remains as to when the hotels within the Business Improvement District will re-open.

Under the terms of the MED management district plan, the MED assessment funds will be used to pay for developmental activities which includes the following:

- Planning, design, engineering, entitlement, project management and related development services for the Moscone Center expansion capital project ("the Project").
- Construction costs for the expansion of the Moscone Center as noted above.
- Financing costs related to the Project, including those associated with the payments of any bond, financing lease (including certificates of participation), or other similar obligations of the City.

Under the terms of the agreement with the City dated August 17, 2017, the City will finance the stabilization fund and debt service payments from the MED assessments in accordance with the MED Management District Plan effective April 15, 2019. SFTIDMC will collect the surplus allocated to the development activities ("surplus") that will not be needed to fund the MED contributions toward debt service.

Management acknowledges that uncertainty remains over the ability of SFTIDMC to meet its funding requirements and to refinance or repay its banking facilities as they are due. If for any reason SFTIDMC is unable to continue as a going concern, it could have an impact on SFTIDMC's ability to extinguish liabilities in the normal course of operations at the amounts stated in the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

6. BUSINESS IMPROVEMENT DISTRICT ASSESSMENTS

The following describes the assessments related to the agreements entered into by SFTIDMC with the City and County of San Francisco.

Tourism Improvement District Assessments

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 assessments”) 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 as a leisure and convention destination, and to fund repairs and improvements to the Moscone Center.

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

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

The TID assessments are 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 Assessments

On June 21, 2012, the City announced the development of a 25-year master plan for the expansion of the Moscone Center. The expansion was 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 Moscone Center.

The City began imposing assessment of fees on gross hotel room revenue on July 1, 2013 (“MED assessments”). The term of the MED is 32 years. The schedule of MED assessments is as follows:

<u>Periods</u>	<u>Zone 1</u>	<u>Zone 2</u>
July 1, 2013 – December 31, 2013	0.50%	0.3125%
January 1, 2014 – December 31, 2045	1.25%	0.3125%

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

6. BUSINESS IMPROVEMENT DISTRICT ASSESSMENTS (continued)

Moscone Expansion District Assessments (continued)

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 amount of debt service to retire the MED portion of the indebtedness shall not exceed the amount of revenue estimate to be raised from the assessment. No more than a total maximum of \$5,766,814,000 in assessment funds will be collected during the 32-year term of the MED.

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.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

6. BUSINESS IMPROVEMENT DISTRICT ASSESSMENTS (continued)

Moscone Expansion District Assessments (continued)

In June 2017, the City issued Certificates of Participation (Moscone Convention Center Expansion Project) Series 2017B amounting to \$412,355,000. For the year ended June 30, 2020, the City Treasurer and Tax Collector's Office ("TTX") withheld 86.5% of MED assessments amounting to \$22,348,520 from the TTX's cash collections from July 2019 through June 2020.

The funds apportioned by the City for the above purpose are included in the MED assessments in the statement of activities and program services in the statement of functional expenses for the year ended June 30, 2020.

7. NOTE PAYABLE

In January 2015, SFTIDMC entered into a revolving line of credit agreement with a bank with an original maturity of January 15, 2016, with subsequent renewals. On April 3, 2019, the line of credit was renewed through April 15, 2020. Under the agreement, SFTIDMC had a maximum borrowing capacity of \$5,000,000. The line of credit was secured by the assets of SFTIDMC.

The line of credit bore a variable interest rate, set by the bank, based on changes in the prime rate less 0.25%, but under no circumstances be less than 5.00% per annum.

On May 26, 2020, SFTIDMC entered into a business loan agreement with the same bank to convert the outstanding line of credit of \$5,000,000 to a term loan which will mature on May 15, 2021. The loan is secured by the assets of SFTIDMC.

The note payable bears a variable interest rate, set by the bank, based on changes in the prime rate less 0.25%, but under no circumstances be less than 5.25% per annum. The loan payable has an outstanding balance of \$5,000,000 as of June 30, 2020.

8. 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.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

8. RELATED PARTY TRANSACTIONS (continued)

Under the Administrative Services Agreement, the Association will provide the following services: (1) staff support for the operation of SFTIDMC, (2) the Chief Financial Officer (“CFO”) of the Association will serve as CFO of SFTIDMC and the Association’s staff will perform finance and accounting related functions, (3) the Association will be responsible for the tax related issues of SFTIDMC, (4) the Association will be responsible for all compliance issues of SFTIDMC, including compliance with the management plan approved by the San Francisco Board of Supervisors, and (5) the Association will be responsible for developing an appropriate investment policy and program for SFTIDMC funds. On July 1, 2013, the Administrative Services Agreement was revised primarily to include MED. Based on the agreement, the Association will be compensated a fee of \$190,000 per annum, subject to an annual increase of 5%, for the performance of the above services on behalf of both TID and MED.

The expenditures related to the marketing and promotional services (professional services) and administrative services amounted to \$21,750,583 and \$254,214, respectively, during the year ended June 30, 2020. The payable to the Association for these services amounted to \$22,024 as of June 30, 2020.

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, 2020.

9. 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 of TID and MED.

The amount of fees charged by the Treasurer for both TID and MED was \$467,522 during the year ended June 30, 2020. These fees are recorded under Contractual Services – Treasurer fees in the statement of functional expenses.

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

10. RISK FACTORS

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 (refer to Note 5).

In March 2020, the World Health Organization declared the COVID-19 outbreak as a pandemic. In addition, in March 2020, the California State Governor ordered the closure of the physical location of every business, except those identified in the "critical infrastructure sectors", for a limited period of time. The outbreak has led to severe disruptions and uncertainty to economic conditions and credit and capital markets and the hotel and tourism industries. SFTIDMC has responded to the outbreak and has developed contingency plans for operations depending on future developments. The duration and economic impact of the outbreak is uncertain but it is more than likely that operations may be negatively impacted. SFTIDMC will continue to monitor the situation closely, but given the uncertainty about the situation, management cannot estimate the impact to the financial statements.

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 financial statements.

11. CONTINGENCIES

Pursuant to the MED Management District Plan, the City will fund shortfall in any given year for purposes of debt service due from MED, which will be repaid from surpluses in MED assessments, as detailed in the Management District Plan. The City did not fund any shortfall as of June 30, 2020.