

THE EAST CUT

FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND THE INITIAL PERIOD FROM
JANUARY 1, 2016 TO JUNE 30, 2016

THE EAST CUT COMMUNITY BENEFIT DISTRICT

CONTENTS

Independent Auditors' Report	1-2
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Financial Statements

Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5-6
Statements of Cash Flows.....	7

Notes to Financial Statements	8-21
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The East Cut Community Benefit District

We have audited the accompanying financial statements of The East Cut Community Benefit District, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended June 30, 2017 and the initial period January 1, 2016 to June 30, 2016, 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.

Auditors' 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 auditors' 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 The East Cut Community Benefit District as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended June 30, 2017 and for the initial period from January 1, 2016 to June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

San Francisco, California
November 9, 2017

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 814,501	\$ 1,211,192
Assessments receivable, net	40,306	49,785
Other receivable	8,671	--
Cash held for long term investments	563,576	200,000
Investments	1,199,141	600,000
Capital assets	<u>45,210</u>	<u>3,175</u>
Total Assets	<u>\$ 2,671,405</u>	<u>\$ 2,064,152</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 478,319</u>	<u>\$ 128,200</u>
Total Liabilities	<u>478,319</u>	<u>128,200</u>
Net Assets		
Unrestricted	<u>2,193,086</u>	<u>1,935,952</u>
Total Net Assets	<u>2,193,086</u>	<u>1,935,952</u>
Total Liabilities and Net Assets	<u>\$ 2,671,405</u>	<u>\$ 2,064,152</u>

The accompanying notes are an integral part of these financial statements.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Revenue, Gains, and Other Support		
Assessment revenue	\$ 2,422,765	\$ 2,388,047
Contributions	60,431	1,544
Interest and other income	<u>11,815</u>	<u>4,670</u>
Total Revenue, Gains, and Other Support	<u>2,495,011</u>	<u>2,394,261</u>
Expenses		
Program services	1,978,162	123,095
Supporting services:		
Management and administrative	<u>259,715</u>	<u>335,214</u>
Total Expenses	<u>2,237,877</u>	<u>458,309</u>
Change in Net Assets	257,134	1,935,952
Net Assets - Beginning	<u>1,935,952</u>	<u>--</u>
Net Assets - Ending	<u>\$ 2,193,086</u>	<u>\$ 1,935,952</u>

The accompanying notes are an integral part of these financial statements.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services				Supporting Services			
	Public Safety	Cleaning & Maintenance	Communication & Activation	Parks and Green Space	Total	Management and Administration	Fundraising	Total
Management personnel expenses	\$ 60,265	\$ 65,049	\$ 64,928	\$ 48,646	\$ 238,888	\$ 131,213	\$ --	\$ 370,101
Contract services	822,122	514,337	--	48,790	1,385,249	--	--	1,385,249
Marketing and branding	--	--	151,497	--	151,497	--	--	151,497
General consulting	--	--	--	900	900	5,481	--	6,381
Legal fees	12,377	13,219	3,909	2,944	32,449	19,954	--	52,403
Accounting and audit	--	--	--	--	--	36,356	--	36,356
Rent and utilities	29,513	18,822	2,399	17,981	68,715	7,706	--	76,421
Office equipment rental	--	--	--	--	--	6,793	--	6,793
Travel and meetings	--	--	--	486	486	--	--	486
Events	3,333	3,333	17,905	33,585	58,156	--	--	58,156
Insurance - liability	--	--	--	--	--	12,378	--	12,378
Office equipment and supplies	7,814	4,558	2,295	2,916	17,583	3,064	--	20,647
Dues and subscriptions	--	--	--	--	--	1,653	--	1,653
Conference, convention, and meeting	--	--	--	--	--	1,747	--	1,747
Start up costs	--	--	--	--	--	14,010	--	14,010
In-kind goods and services	--	--	24,239	--	24,239	12,763	--	37,002
Payroll fees	--	--	--	--	--	5,147	--	5,147
Bank fees	--	--	--	--	--	1,450	--	1,450
Total	<u>\$ 935,424</u>	<u>\$ 619,318</u>	<u>\$ 267,172</u>	<u>\$ 156,248</u>	<u>\$ 1,978,162</u>	<u>\$ 259,715</u>	<u>\$ --</u>	<u>\$ 2,237,877</u>

The accompanying notes are an integral part of these financial statements.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE INITIAL PERIOD FROM JANUARY 1, 2016 TO JUNE 30, 2016

	Program Services				Supporting Services		
	Public Safety	Cleaning & Maintenance	Parks and Green Space	Total	Management and Administration	Fundraising	Total
Management personnel expenses	\$ --	\$ --	\$ --	\$ --	\$ 76,215	\$ --	\$ 76,215
Contract services	74,165	40,486	8,444	123,095	--	--	123,095
Marketing and branding	--	--	--	--	144	--	144
General consulting	--	--	--	--	25,219	--	25,219
Legal fees	--	--	--	--	2,900	--	2,900
Accounting and audit	--	--	--	--	2,205	--	2,205
Rent and utilities	--	--	--	--	4,500	--	4,500
Office equipment rental	--	--	--	--	84	--	84
Insurance - liability	--	--	--	--	12,037	--	12,037
Office equipment and supplies	--	--	--	--	47	--	47
Dues and subscriptions	--	--	--	--	80	--	80
Conference, convention, and meeting	--	--	--	--	54	--	54
Start up costs	--	--	--	--	209,824	--	209,824
In-kind goods and services	--	--	--	--	1,364	--	1,364
Payroll fees	--	--	--	--	527	--	527
Bank fees	--	--	--	--	14	--	14
Total	<u>\$ 74,165</u>	<u>\$ 40,486</u>	<u>\$ 8,444</u>	<u>\$ 123,095</u>	<u>\$ 335,214</u>	<u>\$ --</u>	<u>\$ 458,309</u>

The accompanying notes are an integral part of these financial statements.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ 257,134	\$ 1,935,952
Changes in operating assets and liabilities:		
Assessments receivable	9,479	(49,785)
Other receivable	(8,671)	--
Accounts payable and accrued expenses	<u>350,119</u>	<u>128,200</u>
Net Cash Provided by Operating Activities	<u>608,061</u>	<u>2,014,367</u>
Cash Flows From Investing Activities		
Cash held for long-term investments	(363,576)	(200,000)
Purchase of investments	(599,141)	(600,000)
Purchase of capital assets	<u>(42,035)</u>	<u>(3,175)</u>
Net Cash Used by Investing Activities	<u>(1,004,752)</u>	<u>(803,175)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(396,691)	1,211,192
Cash and Cash Equivalents - Beginning	<u>1,211,192</u>	<u>--</u>
Cash and Cash Equivalents - Ending	<u>\$ 814,501</u>	<u>\$ 1,211,192</u>

The accompanying notes are an integral part of these financial statements.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

The East Cut Community Benefit District (“ECCBD”) is a nonprofit 501(c)(3) community-based organization. ECCBD was formed in 2015 and began operations in 2016. The property owners of the District formed ECCBD to improve the quality of life in the area by making the area cleaner, safer, and more vibrant. ECCBD has a contract with the City and County of San Francisco (the “City”) for a term of 15 years, expiring on June 30, 2030. ECCBD is generally 57 whole or partial blocks from approximately the east side of Second Street to the west side of the Embarcadero and from the north side of Mission Street to the north side of Harrison (the “District”). During the year ended June 30, 2017, ECCBD changed its legal name and was formerly known as The Greater Rincon Hill Association dba Greater Rincon Hill Community Benefit District.

ECCBD exists to implement programs to create a neighborhood that is safer, cleaner, greener and a better place to conduct business and live. These programs and services are funded by district property owners in the Rincon Hill and Transbay neighborhoods.

ECCBD’s mission statement is as follows:

The East Cut Community Benefit District will advance the quality of life for residents, workers, and visitors in the District by fostering a safer and more secure community, enhancing environmental quality and beauty, and reinforcing the viability of the area’s economic base.

Programs and services provided by ECCBD include:

- **Public Safety** – The daytime security Community Guides will monitor street conditions, provide crime deterrence, and evaluate quality of life issues. Community Guides may patrol the District on foot or bicycle, depending on pedestrian traffic from 7:00am to 7:00pm, daily.

The Nighttime security will be provided by private neighborhood security patrol working throughout the District as a deterrence to quality of life crimes, and connects to the San Francisco Police Department for more serious matters. They will be providing crime deterrence and enforcement from 4:00pm to 7:00am, daily.

- **Clean Team** - The Clean Team works to improve the appearance and cleanliness of the district daily from 6:00am to 6:00pm, daily. They steam clean all sidewalks in the district once a month, work daily on sidewalk sweeping and trash can topping. They also remove graffiti on an on-call basis, daily.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PURPOSE AND ORGANIZATION (CONTINUED)

- **Dispatch** – All ECCBD clean and safe services are accessed through a neighborhood dispatch system available from 7:00am to 11:00pm on Sunday through Thursday and 24 hours a day Friday and Saturday.
- **Parks and Greenspace** – The Parks and Greenspace program includes irrigation systems management and repair; pest control; tree, shrub, and ground maintenance; gardening/weeding; arborist and horticultural consultation; seasonal fire fuel reduction; trash off-haul; pavement and pathway repairs/care; small capital improvements such as replacement of plant materials, fixtures, furniture, and equipment; emergency repair projects. Maintenance of Emerald Park commenced in 2016; Guy Place Park, Under-Ramp Park and Essex Hillside (beginning 2017); Transbay Park (beginning 2019); parklets, and District street trees and a portion of maintenance and operations for City Park (beginning 2017); and Park utilities (water and electric).
- **Communication and Development** – The Communication and Development program’s mission is to communicate the changes taking place in ECCBD and reinforce the public’s positive perception of the District’s parcels. A professionally-managed communication and development program will be created. This program will include newsletters, marketing materials, website development, property owner and merchant outreach programs, community liaison activities, special events, business retention and recruitment, media relations, advertising, property manager outreach, and property database development and updated.

BASIS OF ACCOUNTING

ECCBD prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred, regardless of the timing of cash flows.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CLASSIFICATION OF NET ASSETS

U.S. GAAP requires that ECCBD report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of ECCBD are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support ECCBD's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

For the year ended June 30, 2017 and for the initial period from January 1, 2016 to June 30, 2016, ECCBD did not have any net assets meeting the definition of temporarily or permanently restricted.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP 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. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

ECCBD considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

ASSESSMENTS RECEIVABLE

Assessments receivable represents obligations of local property owners due to ECCBD. Unpaid receivables do not accrue interest.

ECCBD uses the allowance method to account for uncollectible assessments. The allowance for uncollectible assessments receivable reflects management's best estimate of the amounts that will not be collected based on an evaluation of the outstanding receivables. As of June 30, 2017, management believes all assessments will be collected, and therefore, an allowance for uncollectible assessments was not needed.

INVESTMENTS

ECCBD's investments are valued at fair value based upon quoted market prices.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

ECCBD capitalizes acquisitions of capital assets with a cost or value in excess of \$1,000 and an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation on furniture and equipment is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 10 years. Website development costs are amortized using the straight-line method over 3 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities and changes in net assets.

REVENUE RECOGNITION

Assessment Revenue

ECCBD receives its support primarily from a special assessment levied by the City on properties located within the District in accordance with City Ordinance. The assessment is recorded by ECCBD when earned. The City remits the assessments to ECCBD as the assessments are collected from the property owners. Interest is not charged on late assessments; however, late penalties are charged in accordance with the City's policy.

Contributions

ECCBD recognizes all contributions when they are received or unconditionally promised. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities and changes in net assets. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions.

For the year ended June 30, 2017 and for the initial period from January 1, 2016 to June 30, 2016, ECCBD received cash contributions of \$10,666 and \$180, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Contributed Goods and Services

Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, ECCBD reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ECCBD reclassifies temporarily restricted net assets to unrestricted net assets at that time.

ECCBD records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

For the year ended June 30, 2017 and initial period from January 1, 2016 to June 30, 2016, ECCBD received contributed goods and services in the amount of \$49,765 and \$1,364, respectively.

ADVERTISING

The costs of advertising are charged to expense as incurred. Advertising expense was \$151,497 and \$144, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

ECCBD is a qualified organization exempt from federal and state income taxes under §501(c)(3) of the Internal Revenue Code and §23701f of the California Revenue and Taxation Code, respectively.

Management evaluated ECCBD's tax positions and concluded it maintained its tax exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

The 2013 through 2016 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2012 through 2016 tax years remain subject to examination by the California Franchise Tax Board. However, management is unaware of any pending examinations nor are there any in progress.

CONCENTRATIONS OF RISK

Financial Instruments

Financial instruments which potentially subject ECCBD to concentrations of credit risk consist principally of cash and cash equivalents. ECCBD maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. ECCBD has not experienced any losses in such accounts. Management believes that ECCBD is not exposed to any significant credit risk related to concentrations.

Revenue

For the year ended June 30, 2017 and the initial period from January 1, 2016 to June 30, 2016 ECCBD received 97.0% and 99.7% of its total income from the City in the form of assessments.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time by each program or activity.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNDRAISING REQUIREMENTS

The City's contract requires ECCBD to annually raise 1.40% of its clean and safe services budget and 6.79% of its neighborhood parks and green spaces services budget from sources other than the City's assessments.

For the year ended June 30, 2017, ECCBD has satisfied these requirements. For the initial period from January 1, 2016 to June 30, 2016, the City waived these requirements as ECCBD has been in operation for half the year.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, concerning the recognition and measurement of revenue. In addition, significant additional disclosures are required about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and will replace virtually all existing revenue guidance, including most industry-specific guidance. The FASB also issued ASU 2015-14, which deferred the effective date of ASU 2014-09. The guidance is applicable for annual reporting periods beginning after December 15, 2018. Management has not evaluated the impact of this new guidance.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Entities that hold equipment and real estate leases, in particular those with operating leases, will be most affected by the new guidance. The amendments in ASU 2016-02 are expected to impact the statement of financial position by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants. The main difference between the existing guidance on accounting for leases and the new standard is that operating leases will now be recorded in the statement of financial position as assets and liabilities. Current U.S. GAAP requires only capital (finance) leases to be recognized in the statement of financial position and amounts related to operating leases largely are reflected in the statement of activities and changes in net assets as rent expense and in disclosures to the financial statements.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARDS (CONTINUED)

For operating leases, a lessee is required to do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis
- Classify all cash payments within operating activities in the statement of cash flows

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that start before the effective date in accordance with previous U.S. GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous U.S. GAAP. Management is evaluating the impact of this new guidance.

The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. Early application is permitted for all entities.

On August 18, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, representing the completion of the first phase of a two-phase project to amend not-for-profit (NFP) financial reporting requirements as set out in FASB ASC 958, *Not-for-Profit Entities*.

This standard eliminates:

- The distinction between resources with permanent restrictions and those with temporary restrictions from the face of NFP financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions).
- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARDS (CONTINUED)

- Requires NFPs to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.
- Requires NFPs to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

NFPs will reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. This amendment eliminates the current option that, in the absence of explicit donor stipulations, had allowed a NFP to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed) rather than when placed in service.

ASU 2016-14 also requires enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor restrictions as of the end of the period.
- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position.
- Quantitative information and additional qualitative information in the notes, as necessary, that communicates the availability of a NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.
- Amounts of expenses by both their natural classification and their functional classification and the methods used to allocate costs among program and support functions.
- Underwater endowment funds.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARDS (CONTINUED)

NFP entities are required to adopt this standard for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of this new guidance.

NOTE 2 - FAIR VALUE MEASUREMENTS

ECCBD's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1

Inputs are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2

Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Level 3

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect ECCBD's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodology used for assets measured at fair value.

Certificates of deposit: The fair value is based on market price. These securities are classified within Level 1 of the fair value hierarchy.

The following table provides information about ECCBD's financial assets measured at fair value on a recurring basis as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	<u>\$ 1,199,141</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,199,141</u>

The following table provides information about ECCBD's financial assets measured at fair value on a recurring basis as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	<u>\$ 600,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 600,000</u>

ECCBD's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. ECCBD had no transfers into or out of levels of the fair value hierarchy during the year ended June 30, 2017 and the initial period from January 1, 2016 to June 30, 2016.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 3 - CAPITAL ASSETS

Capital assets, at June 30, 2017 and 2016, consist of the following:

	2017	2016
Computers	\$ 6,004	\$ 3,175
Furniture and equipment	3,588	--
Construction-in-progress	<u>35,618</u>	<u>--</u>
Total	<u><u>\$ 45,210</u></u>	<u><u>\$ 3,175</u></u>

NOTE 4 - UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2017 and 2016, consist of the following:

	2017	2016
Unrestricted	\$ 1,996,651	\$ 1,935,952
Unrestricted - Board Designated - Strategic Investment	<u>196,435</u>	<u>--</u>
Total	<u><u>\$ 2,193,086</u></u>	<u><u>\$ 1,935,952</u></u>

NOTE 5 - RETIREMENT PLAN

ECCBD established a noncontributory defined contribution retirement plan (the "Plan") for employees during the year then ended June 30, 2017. The Plan will allow eligible employees to make voluntary contributions by salary reduction to the Plan, up to the limit allowed by law.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED JUNE 30, 2017 AND FOR THE INITIAL PERIOD
FROM JANUARY 1, 2016 TO JUNE 30, 2016

NOTE 6 - COMMITMENTS

ECCBD has a three year office lease agreement expiring on June 30, 2019. The lessor is represented by a Board member. ECCBD also has a five year office equipment lease expiring on June 30, 2021.

The following is a schedule of minimum lease commitments:

For the Years Ending				
June 30,	Office Lease	Copier Lease	Total	
2018	\$ 52,736	\$ 1,572	\$ 54,308	
2019	54,323	1,572	55,895	
2020	--	1,572	1,572	
2021	--	1,572	1,572	
Total	<u>\$ 107,059</u>	<u>\$ 6,288</u>	<u>\$ 113,347</u>	

NOTE 7 - SUBSEQUENT EVENTS

ECCBD has evaluated all subsequent events through November 9, 2017 the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.