



FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

YERBA BUENA COMMUNITY BENEFIT DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Yerba Buena Community Benefit District

Report on the Financial Statements

We have audited the accompanying financial statements of Yerba Buena Community Benefit District (a nonprofit organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Yerba Buena Community Benefit District as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

San Francisco, California
September 12, 2018

YERBA BUENA COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 4,248,292	\$ 3,649,343
Certificates of deposit	246,918	495,829
Assessments receivable, net	112,599	40,267
Prepaid expenses	22,090	19,871
Capital assets, net	<u>311,356</u>	<u>298,386</u>
Total Assets	<u>\$ 4,941,255</u>	<u>\$ 4,503,696</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 528,852	\$ 328,890
Accrued benefits	<u>22,697</u>	<u>16,616</u>
Total Liabilities	<u>551,549</u>	<u>345,506</u>
Net Assets		
Unrestricted	4,354,334	4,096,954
Temporarily restricted	<u>35,372</u>	<u>61,236</u>
Total Net Assets	<u>4,389,706</u>	<u>4,158,190</u>
Total Liabilities and Net Assets	<u>\$ 4,941,255</u>	<u>\$ 4,503,696</u>

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

YERBA BUENA COMMUNITY BENEFIT DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Assessment revenue	\$ 3,055,597	\$ --	\$ 3,055,597
Contributions	42,444	44,354	86,798
Other income	179,424	--	179,424
Interest	16,247	--	16,247
Net assets released from restrictions	70,218	(70,218)	--
Total Revenue, Gains and Other Support	3,363,930	(25,864)	3,338,066
Expenses			
Program services	2,727,884	--	2,727,884
Supporting services:			
Management and operations	345,594	--	345,594
Fundraising	33,072	--	33,072
Total Expenses	3,106,550	--	3,106,550
Change in Net Assets	257,380	(25,864)	231,516
Net Assets - Beginning	4,096,954	61,236	4,158,190
Net Assets - Ending	\$ 4,354,334	\$ 35,372	\$ 4,389,706

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

YERBA BUENA COMMUNITY BENEFIT DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Assessment revenue	\$ 3,075,683	\$ --	\$ 3,075,683
Contributions	32,749	123,898	156,647
Other income	164,494	--	164,494
Interest	1,065	--	1,065
Net assets released from restrictions	<u>374,010</u>	<u>(374,010)</u>	<u>--</u>
Total Revenue, Gains and Other Support	<u>3,648,001</u>	<u>(250,112)</u>	<u>3,397,889</u>
Expenses			
Program services	2,592,072	--	2,592,072
Supporting services:			
Management and operations	203,762	--	203,762
Fundraising	<u>26,567</u>	<u>--</u>	<u>26,567</u>
Total Expenses	<u>2,822,401</u>	<u>--</u>	<u>2,822,401</u>
Change in Net Assets	825,600	(250,112)	575,488
Net Assets - Beginning	<u>3,271,354</u>	<u>311,348</u>	<u>3,582,702</u>
Net Assets - Ending	<u>\$ 4,096,954</u>	<u>\$ 61,236</u>	<u>\$ 4,158,190</u>

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

YERBA BUENA COMMUNITY BENEFIT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services				Supporting Services			Total
	Cleaning and Streetscape Improvements	Safety and Security	Branding, Activation and Marketing	Sponsored Projects	Total	Management and Operations	Fundraising	
Community guides	\$ --	\$ 699,242	\$ --	\$ --	\$ 699,242	\$ --	\$ --	\$ 699,242
Cleaning contract	685,120	--	--	--	685,120	--	--	685,120
Public safety	--	473,384	--	--	473,384	--	--	473,384
Salaries and benefits	69,796	78,955	85,299	--	234,050	137,987	28,521	400,558
Consulting fees	--	--	44,637	108,758	153,395	82,562	--	235,957
Grants	11,250	20,000	125,000	--	156,250	--	--	156,250
Events	--	--	106,076	--	106,076	--	--	106,076
Greening expenses	83,727	--	--	--	83,727	--	--	83,727
Marketing and branding	--	--	56,392	--	56,392	--	--	56,392
Rent and utilities	9,504	9,936	9,720	--	29,160	18,186	4,546	51,892
In-kind goods and services	--	--	22,520	--	22,520	17,348	--	39,868
Depreciation and amortization	--	--	--	--	--	34,806	--	34,806
Other expenses	--	--	5,032	7,183	12,215	19,824	5	32,044
Office supplies and postage	--	--	3,702	--	3,702	19,509	--	23,211
Bad debt expense	--	--	--	--	--	15,372	--	15,372
Uniforms	3,065	4,210	--	--	7,275	--	--	7,275
Streetscape expenses	5,376	--	--	--	5,376	--	--	5,376
Total	<u>\$ 867,838</u>	<u>\$ 1,285,727</u>	<u>\$ 458,378</u>	<u>\$ 115,941</u>	<u>\$ 2,727,884</u>	<u>\$ 345,594</u>	<u>\$ 33,072</u>	<u>\$ 3,106,550</u>

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

YERBA BUENA COMMUNITY BENEFIT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services				Supporting Services			Total
	Cleaning and Streetscape Improvements	Safety and Security	Branding, Activation and Marketing	Sponsored Projects	Total	Management and Operations	Fundraising	
Community guides	\$ --	\$ 673,359	\$ --	\$ --	\$ 673,359	\$ --	\$ --	\$ 673,359
Cleaning contract	687,440	--	--	--	687,440	--	--	687,440
Public safety	--	480,755	--	--	480,755	--	--	480,755
Salaries and benefits	66,158	73,488	82,944	--	222,590	111,283	26,567	360,440
Consulting fees	--	--	40,794	72,665	113,459	89,136	--	202,595
Grants	27,500	17,000	105,500	--	150,000	--	--	150,000
Events	400	--	50,841	--	51,241	--	--	51,241
Greening expenses	113,039	--	--	--	113,039	--	--	113,039
Marketing and branding	72	--	35,728	--	35,800	--	--	35,800
Rent and utilities	--	--	--	--	--	57,141	--	57,141
In-kind goods and services	3,000	--	20,000	--	23,000	8,188	--	31,188
Depreciation and amortization	--	--	--	--	--	22,261	--	22,261
Other expenses	--	--	4,813	570	5,383	22,892	--	28,275
Office supplies and postage	--	--	2,438	--	2,438	11,312	--	13,750
Bad debt recovery	--	--	--	--	--	(118,451)	--	(118,451)
Uniforms	9,920	9,620	--	--	19,540	--	--	19,540
Streetscape expenses	14,028	--	--	--	14,028	--	--	14,028
Total	<u>\$ 921,557</u>	<u>\$ 1,254,222</u>	<u>\$ 343,058</u>	<u>\$ 73,235</u>	<u>\$ 2,592,072</u>	<u>\$ 203,762</u>	<u>\$ 26,567</u>	<u>\$ 2,822,401</u>

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

YERBA BUENA COMMUNITY BENEFIT DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows Provided by (Used in) Operating Activities		
Change in net assets	\$ 231,516	\$ 575,488
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense (recovery)	15,372	(118,451)
Depreciation and amortization	34,806	22,261
Loss on disposal of capital assets	--	480
Changes in operating assets and liabilities:		
Assessments receivable	(87,704)	147,650
Promise to give	--	100,000
Prepaid expenses	(2,219)	(6,145)
Accounts payable and accrued expenses	199,962	71,778
Accrued benefits	6,081	4,201
Net Cash Provided by Operating Activities	<u>397,814</u>	<u>797,262</u>
Cash Flows Provided by (Used in) Investing Activities		
Purchase of certificates of deposit	(494,089)	(495,829)
Proceeds on maturity of certificates of deposit	743,000	-
Purchase of capital assets	<u>(47,776)</u>	<u>(292,186)</u>
Net Cash Provided by (Used in) Investing Activities	<u>201,135</u>	<u>(788,015)</u>
Net Increase in Cash and Cash Equivalents	598,949	9,247
Cash and Cash Equivalents - Beginning	<u>3,649,343</u>	<u>3,640,096</u>
Cash and Cash Equivalents - Ending	<u>\$ 4,248,292</u>	<u>\$ 3,649,343</u>

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

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

The Yerba Buena Community Benefit District (the “YBCBD”) was formed in 2008 by property owners to improve the quality of life in the neighborhood by making the area cleaner, safer, and more vibrant. The YBCBD has a contract with the City and County of San Francisco (the “City”) for a term of 15 years, expiring on December 31, 2030. The YBCBD stretches from about Second to Fifth and Market to Harrison Street in San Francisco, California.

The YBCBD 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 Yerba Buena neighborhood.

The YBCBD’s mission statement is as follows:

The Yerba Buena Community Benefit District will advance the quality of life for residents and visitors in the Yerba Buena Neighborhood and San Francisco on an ongoing basis by fostering a safer and more secure community, enhancing environmental quality and beauty, and reinforcing the viability of our economic base.

Programs and services provided by the YBCBD include:

- **Clean Team** - The Clean Team (“Team”) works to improve the appearance and cleanliness of the district daily from 6:00am to 9:00pm. The Team steam cleans all sidewalks in the district once or twice a month, works daily on sidewalk cleaning and gutter sweeping, and removes trash on a frequent basis. The Team also pulls weeds, cleans tree wells, removes graffiti, and paints poles, mailboxes, and fire plugs.
- **Community Guides Program** - The Community Guides (“Guides”) serve as goodwill ambassadors in the neighborhood. Guides provide information, directions, and connect those who need help to the right social services. Guides report maintenance issues such as areas in need of cleaning. Guides do not provide emergency response, but will call emergency dispatch to report issues. Up to six guides work 6:00am to midnight, seven days a week. The YBCBD also engages two Social Services Specialists to work with the street population and connect them to services.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

PURPOSE AND ORGANIZATION (CONTINUED)

- **SFPD 10B Officer** - In addition to existing police services, the San Francisco Police Department (“SFPD”) provides officers to the YBCBD under City Administrative Code Section 10B. These officers are funded by the YBCBD and work 12 hours a day, 7 days a week. The 10B Officer primarily addresses quality of life issues within the neighborhood and within the purview of SFPD, such as issuing citations for drinking, trespassing, permit violations, littering, and pedestrian safety infractions. The additional police presence adds 84 hours per week of police time to the 5,000 hours a week already provided by the Southern District Police Station.
- **Marketing and Branding** - Marketing programs help strengthen the area’s economic viability to make it more inviting to businesses and visitors. The YBCBD established a name and brand for the neighborhood, along with a neighborhood website that lists all businesses, events, and neighborhood news. The YBCBD also coordinates events that bring people to the neighborhood.
- **Streetscape Improvements** - Guided by the Yerba Buena Street Life Plan, the YBCBD invests in public realm improvements including greening, public art, pedestrian and bicycle improvements as well as advocates for real public benefits related to neighborhood development projects.
- **Community Benefit Fund** - The YBCBD Community Benefit Fund supports district initiatives by providing small grants to organizations in the neighborhood that help to achieve the mission of the YBCBD.
- **Sponsored Projects** - The YBCBD continues to serve as the sponsor for two projects related to its mission. One is focused on a neighborhood public art project that aims to locate public art and programming in seven Yerba Buena alleyways, known as Sites Unseen. The other is a coalition of neighborhood organizations advocating for the long-term maintenance and preservation of the Yerba Buena Gardens, also known as The Yerba Buena Gardens Conservancy. As the Yerba Buena Gardens Conservancy transition from a former Redevelopment Agency holding to a City asset, the coalition is collaborating with all stakeholders to secure a vibrant future for the Yerba Buena Gardens. YBCBD was granted variance power over such contributions and, accordingly, they are recognized as YBCBD contributions. The Yerba Buena Gardens Conservancy obtained exempt status from federal income taxes under §501(c)(3) of the Internal Revenue Code in July 2018.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

BASIS OF ACCOUNTING

The YBCBD 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.

CLASSIFICATION OF NET ASSETS

U.S. GAAP requires that YBCBD 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 the YBCBD 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 YBCBD’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.

As of June 30, 2018 and 2017, the YBCBD did not have any net assets meeting the definition of 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, certificates of deposit, receivables, and accounts payable approximate fair value because of the short-term maturity of these instruments.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

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

CERTIFICATES OF DEPOSIT

The YBCBD's certificates of deposit are valued at fair value based upon quoted prices.

ASSESSMENTS RECEIVABLE

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

The YBCBD 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 historical experience and an evaluation of the outstanding receivables at the end of the year. As of June 30, 2018 and 2017, the allowance for uncollectible assessments was \$205,417 and \$201,840, respectively.

CAPITAL ASSETS

The YBCBD capitalizes acquisitions of capital assets with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value at the date of acquisition. Depreciation on furniture and equipment and public art are 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.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisal, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. No impairment losses were incurred during the years ended June 30, 2018 and 2017.

ACCRUED VACATION

Full-time employees may accrue up to 13.33 hours per month depending on the number of years employed. Part-time employees accrue vacation on a prorated basis. Employees can accrue a maximum of 160 vacation hours.

REVENUE RECOGNITION

Assessment Revenue

The YBCBD receives its support primarily from a special assessment levied by the City on properties located within the YBCBD in accordance with City Ordinance. The assessment is recorded by the YBCBD when assessed by the City. The City remits the assessments to the YBCBD 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

The YBCBD recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. 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 statements of activities and changes in net assets. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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, the YBCBD reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The YBCBD reclassifies temporarily restricted net assets to unrestricted net assets at that time. For the years ended June 30, 2018 and 2017, the YBCBD did not receive donated material and equipment.

The YBCBD 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 years ended June 30, 2018 and 2017, the YBCBD received contributed goods and services in the amounts of \$39,868 and \$31,188, respectively.

ADVERTISING

The costs of advertising are charged to expense as incurred. Advertising expense for the years ended June 30, 2018 and 2017, was \$31,250 and \$19,709, respectively.

INCOME TAXES

The YBCBD is a qualified organization exempt from federal and state income taxes under §501(c)(3) of the Internal Revenue Code (“IRC”) and §23701d of the California Revenue and Taxation Code, respectively.

The YBCBD recognizes a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The YBCBD’s evaluation on June 30, 2018 and 2017, revealed no tax positions that would have a material impact on the financial statements.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

INCOME TAXES (CONTINUED)

The YBCBD's tax returns are subject to examination by federal and state taxing authorities. However, management is unaware of any pending examinations nor are there any in progress.

CONCENTRATIONS OF RISK

Financial Instruments

Financial instruments which potentially subject the YBCBD to concentrations of credit risk consist principally of cash and cash equivalents. The YBCBD maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. At June 30, 2018 and 2017, the YBCBD exceeded Federal Deposit Insurance Corporation coverage by approximately \$640,000 and \$471,000, respectively. The YBCBD has not experienced any losses in such accounts. Management believes that the YBCBD is not exposed to any significant credit risk related to concentrations.

Assessments Receivable

As of June 30, 2018, 77% of assessments receivable were due from three property owners. As of June 30, 2017, 57% of assessments receivable were due from three property owners.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statements 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 estimates made by management.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("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 the 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).

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

NEW ACCOUNTING STANDARDS (CONTINUED)

- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.
- Requires NFP entities to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.
- Requires NFP entities 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.

NFP entities 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 entity 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-imposed 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 entity 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 entity'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.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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.

RECLASSIFICATIONS

Certain amounts in the 2017 financial statements have been reclassified to confirm to the 2018 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

NOTE 2 - FAIR VALUE MEASUREMENTS

YBCBD'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. 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 YBCBD's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the valuation methodologies during the years ended June 30, 2018 and 2017.

Certificates of deposit: The fair value is based on market price. These securities are classified within Level 2 of the fair value hierarchy.

The following table provides information about YBCBD's financial assets measured at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ --	\$ 246,918	\$ --	\$ 246,918

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

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ --	\$ 495,829	\$ --	\$ 495,829

YBCBD'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. YBCBD had no transfers into or out of levels of the fair value hierarchy during the years ended June 30, 2018 and 2017.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 3 - CAPITAL ASSETS

Capital assets at June 30, consist of the following:

	2018	2017
Public art	\$ 337,447	\$ 209,836
Website development	75,012	75,012
Street furniture	40,424	40,424
Furniture and equipment	<u>10,773</u>	<u>9,433</u>
	463,656	334,705
Less: accumulated depreciation and amortization	<u>(152,300)</u>	<u>(117,495)</u>
	311,356	217,210
Construction in progress	<u>--</u>	<u>81,176</u>
Total	<u>\$ 311,356</u>	<u>\$ 298,386</u>

NOTE 4 - UNRESTRICTED NET ASSETS

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

	2018	2017
Board designated:		
Cleaning and Streetscape Improvements	\$ 1,961,012	\$ 1,546,612
Management and operations	1,182,487	1,037,993
Safety and Security	707,302	860,970
Branding, Activation, and Marketing	192,177	231,758
Sponsored projects:		
Sites Unseen	--	102,399
Yerba Buena Gardens	--	18,836
Invested in capital assets	<u>311,356</u>	<u>298,386</u>
Total	<u>\$ 4,354,334</u>	<u>\$ 4,096,954</u>

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, may be expended for:

	<u>2018</u>	<u>2017</u>
Sponsored projects:		
Sites Unseen	\$ 33,872	\$ 49,899
Yerba Buena Gardens	--	8,837
Other	<u>1,500</u>	<u>2,500</u>
Total	<u>\$ 35,372</u>	<u>\$ 61,236</u>

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes during the year ended June 30, as follows:

	<u>2018</u>	<u>2017</u>
Sponsored projects:		
Sites Unseen	\$ 57,881	\$ 367,635
Yerba Buena Gardens	8,837	6,375
Other	<u>3,500</u>	<u>--</u>
Total	<u>\$ 70,218</u>	<u>\$ 374,010</u>

NOTE 7 - GRANTS

The YBCBD distributes annual grants called Community Benefit Fund grants to community organizations providing services, within the district, that support the improvements and activities of the YBCBD. Grant expense for the years ended June 30, 2018 and 2017, was \$156,250 and \$150,000, respectively. Grants payable at June 30, 2018 and 2017, was \$18,750 and \$12,500, respectively.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 8 - RETIREMENT PLAN

The YBCBD established an employer non-contributory defined contribution retirement plan (the “Plan”) for employees. Eligible employees may make voluntary contributions by salary reduction to the Plan, up to the limit allowed by IRC regulations.

NOTE 9 - COMMITMENTS

The YBCBD is obligated under a non-cancelable operating lease agreement for office space in San Francisco, California which expires on December 31, 2018. The lease provides the landlord the option to terminate the lease with a written notice, six months in advance.

The YBCBD also leases office equipment that requires monthly lease payments; the lease was renewed in January 2016 and expires on January 14, 2021.

The following is a schedule of minimum lease commitments:

For the Years Ending	
June 30,	Amount
2019	23,736
2020	2,268
2021	1,229
Total	\$ 27,233

Rent expense for the years ended June 30, 2018 and 2017, was \$49,268 and \$48,950, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

The property owner of the building the YBCBD leases for office space is a member of YBCBD’s Board of Directors (the “Board”). Rent paid for the office lease during the years ended June 30, 2018 and 2017, was \$44,281 and \$43,794, respectively.

Members of the Board are also associated with organizations that received Community Benefit Fund grants from the YBCBD. Pursuant to the YBCBD’s conflict of interest policy, all conflicted YBCBD Board members refrain from the decision-making process and abstain from the voting process.

YERBA BUENA COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 10 - RELATED PARTY TRANSACTIONS (CONTINUED)

The YBCBD has a written conflict of interest policy that requires, among other things, that no member of the Board can participate in any decision in which the member (or an immediate family member) has a material financial interest. Each Board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the YBCBD does business with an entity in which a Board member has a material financial interest. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the YBCBD.

Community Benefit Fund grants paid to organizations of related parties for the years ended June 30, 2018 and 2017, totaled \$73,750 and \$22,000, respectively. At June 30, 2018 and 2017, no amounts were due to related parties.

NOTE 11 - SUBSEQUENT EVENTS

The YBCBD has evaluated all subsequent events through September 12, 2018, the date the financial statements were available to be issued. Except as described below, no events requiring recognition or disclosure in the financial statements have been identified.

The YBCBD approved an interest free, unsecured loan to the Yerba Buena Gardens Conservancy (formerly a fiscally sponsored project that obtained exempt status from federal income taxes under §501(c)(3) of the Internal Revenue Code) for up to \$300,000 to help fund start-up costs. The loan will be paid in increments based on need. During July 2018 and August 2018, two separate amounts have been funded for a total of \$97,000. The total loan amount is due in full one year from the commencement date of a lease between the City and the Yerba Buena Gardens Conservancy.