

**YERBA BUENA COMMUNITY**  
**BENEFIT DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Yerba Buena Community Benefit District  
San Francisco, California

We have audited the accompanying statements of net assets of Yerba Buena Community Benefit District (the "District") ("YBCBD") (a California nonprofit, public benefit corporation) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011 and 2010 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 2 through 7 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

*Armanino McKenna LLP*  
ARMANINO MCKENNA LLP

September 20, 2011



YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Management's Discussion and Analysis  
June 30, 2011

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This section of Yerba Buena Community Benefit District's ("YBCBD") annual financial report includes some of management's insights and analysis of YBCBD's financial performance for the year.

Introduction to the Basic Financial Statements

The annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board ("GASB") statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This standard is applicable to YBCBD which acts as the "Owners' Association" to implement, administer and provide the property related services, improvements and activities to be funded by special assessments that the City of San Francisco (the "City") has levied on identified parcels of real property included within the property-based business improvement district. YBCBD was created based on majority vote by the residents and businesses within the district.

The financial statements include: the Statement of Net Assets, the Statement of Activities and the Statement of Cash Flows. These statements are supported in the annual report by the notes to the financial statements and this section. All sections should be considered together to obtain a complete understanding of the financial picture of YBCBD.

*Statement of Net Assets:* The statement of net assets includes all assets, liabilities and net assets. Assets and liabilities are reported on an accrual basis, as of the statement date.

*Statement of Activities:* The statement of activities presents the revenues earned and expenses incurred during the year ended on an accrual basis.

*Statement of Cash Flows:* The statement of cash flows presents the inflows and outflows of cash, summarized by operating, capital and related financing and investing activities. The statements are prepared using the direct method of cash flows, and therefore, present gross rather than net amounts for the year's operating activities.



YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Management's Discussion and Analysis  
June 30, 2011

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Analytical Overview

A summary of key financial statement information is used as a basis for reviewing current year results in comparison with the prior year.

Net Assets  
As of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	Increase (Decrease)	Percent Change
<b>ASSETS</b>				
Current assets	\$2,491,530	\$2,521,520	\$(29,990)	(1%)
Other non-current assets	2,210	2,210	-	0%
Capital assets	<u>44,102</u>	<u>2,617</u>	<u>41,485</u>	1585%
Total assets	<u>\$2,537,842</u>	<u>\$2,526,347</u>	<u>\$ 11,495</u>	0%
<b>LIABILITIES</b>				
Current liabilities	\$ 168,456	\$ 137,278	\$31,178	23%
<b>FUND BALANCE/NET ASSETS</b>				
Total liabilities and net assets	<u>\$2,537,842</u>	<u>\$2,526,347</u>	<u>\$11,495</u>	0%

Current assets at June 30, 2011 decreased to \$2,491,530 from \$2,521,520 due to a decrease in assessments receivable of \$124,000 as a result of the Districts increased collection efforts offset by an increase in cash of \$94,000. Capital assets increased due to the capitalization of website development costs offset by depreciation. The increase in liabilities is due to timing of invoices and payments. Net assets at June 30, 2011 decreased to \$2,369,386 from \$2,389,069 in 2010 due to expenses in excess of revenue of \$21,404 and interest income of \$1,721. Of note is a decrease in the total amount of assessments due to the organization as a result of parcels being reclassified, re-conveyed, and/or corrected. Refer to the statement of activities discussion below for more information on the changes in net assets.

YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Management's Discussion and Analysis  
June 30, 2011

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Operating Results  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	Increase (Decrease)	Percent Change
Revenues	\$2,289,346	\$2,299,866	\$ (10,520)	(0%)
Less expenses	<u>2,310,750</u>	<u>1,775,525</u>	<u>535,225</u>	30%
Excess of revenue over expenses (expenses over revenue)	<u>(21,404)</u>	<u>524,341</u>	<u>(545,745)</u>	(104%)
Non-operating revenue				
Interest income	<u>1,721</u>	<u>692</u>	<u>1,029</u>	149%
Change in net assets	(19,683)	525,033	(544,716)	(104%)
Net assets, beginning of year	<u>2,389,069</u>	<u>1,864,036</u>	<u>525,033</u>	28%
Net assets, end of year	<u>\$2,369,386</u>	<u>\$2,389,069</u>	<u>\$ (19,683)</u>	(1%)

Total revenues decreased \$10,520 and total expenses increased \$535,225. The result was a net decrease in operating results of \$545,745 from 2010. Assessment revenue decreased slightly from \$2,269,640 in 2010 to \$2,255,659 in fiscal year 2011 due to parcels being reclassified, re-conveyed, or corrected. Expenses increased significantly as several programs were put into place and up and running most of fiscal year 2011. These included a neighborhood-wide event, the neighborhood branding campaign, the development of a long-term plan to improve the streets and public space in the neighborhood, and the addition of two staff members.

YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Management's Discussion and Analysis  
June 30, 2011

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Revenues  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenues				
Assessments, net	\$2,255,659	\$2,269,640	\$(13,981)	(1%)
Contributed services	26,342	30,226	(3,884)	(13%)
Other revenues	<u>7,345</u>	<u>-</u>	<u>7,345</u>	100%
Total revenues	<u>\$2,289,346</u>	<u>\$2,299,866</u>	<u>\$(10,520)</u>	(0%)

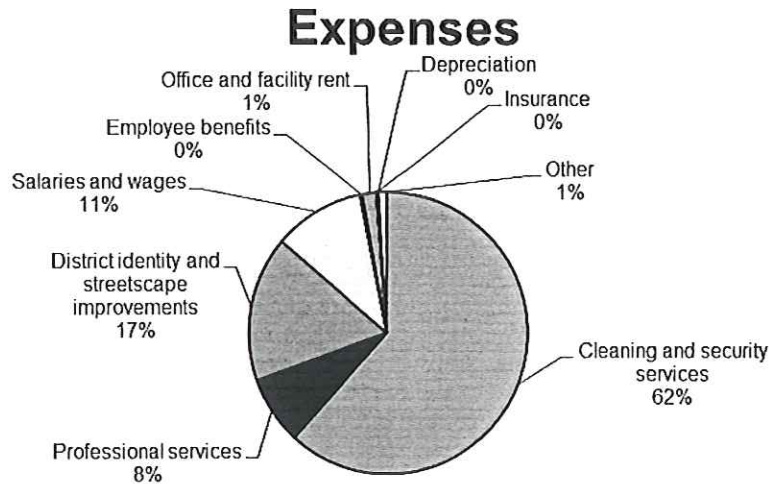
Total revenue decreased by \$10,520 from fiscal year 2010 to June 30, 2011. Assessment revenue decreased \$13,981 as a result of parcels being reclassified, re-conveyed, or corrected. All in-kind contributions in fiscal year June 30, 2011 were related to operational activities, such as donated meeting space, donated food for meetings, and donated furniture and equipment.

YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Management's Discussion and Analysis  
June 30, 2011

Expenses  
For the Years Ended June 30, 2011 and 2010

Expenses	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cleaning and security services	\$1,426,743	\$1,301,194	\$125,549	10%
District identity and streetscape improvements	385,434	121,077	264,357	218%
Salaries and wages	242,402	51,931	190,471	367%
Employee benefits	4,133	2,286	1,847	81%
Professional services	180,611	219,310	(38,699)	(18%)
Office and facility rent	37,457	50,177	(12,720)	(25%)
Insurance	4,840	5,851	(1,011)	(17%)
Depreciation	782	1,309	(527)	(40%)
Other	<u>28,348</u>	<u>22,390</u>	<u>5,958</u>	27%
<b>Total expenses</b>	<b><u>\$2,310,750</u></b>	<b><u>\$1,775,525</u></b>	<b><u>\$535,225</u></b>	<b>30%</b>

The following is a graphic illustration of expenses:



Expenses during June 30, 2011 for YBCBD were \$535,225 or 30% over 2010. The biggest change from 2010 was in District Identity as the organization developed and launched the neighborhood brand and held a neighborhood-wide one-day fair. Administratively, the organization hired two more staff.



YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Management's Discussion and Analysis  
June 30, 2011

Cash Flows  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cash provided by				
Operating activities	\$ 135,103	\$ 367,260	\$(232,157)	(63%)
Capital and related financing activities	(42,267)	(2,255)	(40,012)	(1774%)
Investing activities	<u>1,721</u>	<u>692</u>	<u>1,029</u>	149%
Net change in cash and cash equivalents	<u>94,557</u>	<u>365,697</u>	<u>(271,140)</u>	(74%)
Cash and cash equivalents				
Beginning of year	<u>1,983,140</u>	<u>1,617,443</u>	<u>365,697</u>	23%
End of year	<u>\$2,077,697</u>	<u>\$1,983,140</u>	<u>\$ 94,557</u>	5%

Cash provided by operating activities was \$232,157 or 63% below fiscal year 2010. The decrease is due to the fact that YBCBD increased its activities during fiscal year 2011 as discussed above.

Capital Assets, Net  
As of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital assets				
Equipment	\$ 1,823	\$1,823	\$ -	0%
Computer hardware	2,255	2,255	-	0%
Website development costs	<u>42,267</u>	<u>-</u>	<u>42,267</u>	100%
Total	46,345	4,078	42,267	1036%
Less accumulated depreciation	<u>(2,243)</u>	<u>(1,461)</u>	<u>(782)</u>	(54)%
Net capital assets	<u>\$44,102</u>	<u>\$2,617</u>	<u>\$41,485</u>	1585%

As of June 30, 2011, YBCBD had recorded \$46,325 in gross capital assets, \$2,243 in accumulated depreciation and \$44,102 in net capital assets. The increase in net capital assets was due to website development costs being capitalized during the current year.

YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Statements of Net Assets  
June 30, 2011 and 2010

	2011			2010		
	General Fund	Adjustments	Statement of Net Assets	General Fund	Adjustments	Statement of Net Assets
<u>ASSETS</u>						
Current assets						
Cash and cash equivalents	\$ 2,077,697	\$ -	\$ 2,077,697	\$ 1,983,140	\$ -	\$ 1,983,140
Assessment receivables, net	409,271	-	409,271	533,990	-	533,990
Prepaid expenses	4,562	-	4,562	4,390	-	4,390
Total current assets	2,491,530	-	2,491,530	2,521,520	-	2,521,520
Capital assets						
Equipment	-	1,823	1,823	-	1,823	1,823
Computer hardware	-	2,255	2,255	-	2,255	2,255
Website development	-	42,267	42,267	-	-	-
	-	46,345	46,345	-	4,078	4,078
Less accumulated depreciation	-	(2,243)	(2,243)	-	(1,461)	(1,461)
Net capital assets	-	44,102	44,102	-	2,617	2,617
Deposit	2,210	-	2,210	2,210	-	2,210
Total assets	\$ 2,493,740	\$ 44,102	\$ 2,537,842	\$ 2,523,730	\$ 2,617	\$ 2,526,347
<u>LIABILITIES</u>						
Current liabilities						
Accounts payable	\$ 163,552	\$ -	\$ 163,552	\$ 121,708	\$ -	\$ 121,708
Accrued expenses	4,904	-	4,904	15,570	-	15,570
Total liabilities	168,456	-	168,456	137,278	-	137,278
<u>FUND BALANCES AND NET ASSETS</u>						
Fund balances						
Unreserved	2,325,284	(2,325,284)	-	2,386,452	(2,386,452)	-
Total fund balances	2,325,284	(2,325,284)	-	2,386,452	(2,386,452)	-
Total liabilities and fund balances	\$ 2,493,740			\$ 2,523,730		
Net assets						
Unrestricted		2,325,284	2,325,284		2,386,452	2,386,452
Invested in capital assets		44,102	44,102		2,617	2,617
Total net assets		2,369,386	2,369,386		2,389,069	2,389,069
Total liabilities and net assets		\$ 44,102	\$ 2,537,842		\$ 2,617	\$ 2,526,347

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

YERBA BUENA COMMUNITY BENEFIT DISTRICT  
 Statements of Activities  
 For the Years Ended June 30, 2011 and 2010

	2011			2010		
	General Fund	Adjustments	Statement of Activities	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>						
Assessments, net	\$ 2,255,659	\$ -	\$ 2,255,659	\$ 2,269,640	\$ -	\$ 2,269,640
Other revenue	33,687	-	33,687	30,226	-	30,226
Total revenues	<u>2,289,346</u>	<u>-</u>	<u>2,289,346</u>	<u>2,299,866</u>	<u>-</u>	<u>2,299,866</u>
<b>Expenditures/expenses</b>						
Cleaning and security services	1,426,743	-	1,426,743	1,301,194	-	1,301,194
Professional services	180,611	-	180,611	219,310	-	219,310
District identity and streetscape improvements	385,434	-	385,434	121,077	-	121,077
Salaries and wages	242,402	-	242,402	51,931	-	51,931
Employee benefits	4,133	-	4,133	2,286	-	2,286
Office and facility rent	37,457	-	37,457	50,177	-	50,177
Insurance	4,840	-	4,840	5,851	-	5,851
Capital outlay	42,267	(42,267)	-	2,255	(2,255)	-
Depreciation	-	782	782	-	1,309	1,309
Other	28,348	-	28,348	22,390	-	22,390
Total expenditures/expenses	<u>2,352,235</u>	<u>(41,485)</u>	<u>2,310,750</u>	<u>1,776,471</u>	<u>(946)</u>	<u>1,775,525</u>
Excess of revenues over expenditures (expenditures over revenue) / operating income (loss)	<u>(62,889)</u>	<u>41,485</u>	<u>(21,404)</u>	<u>523,395</u>	<u>946</u>	<u>524,341</u>
<b>Non-operating revenues</b>						
Interest income	1,721	-	1,721	692	-	692
Change in net assets	(61,168)	41,485	(19,683)	524,087	946	525,033
Fund balances/net assets, beginning of year	<u>2,386,452</u>	<u>2,617</u>	<u>2,389,069</u>	<u>1,862,365</u>	<u>1,671</u>	<u>1,864,036</u>
Fund balances/net assets, end of year	<u>\$ 2,325,284</u>	<u>\$ 44,102</u>	<u>\$ 2,369,386</u>	<u>\$ 2,386,452</u>	<u>\$ 2,617</u>	<u>\$ 2,389,069</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipts from assessments	\$ 2,402,910	\$ 2,080,514
Payments to suppliers	(2,002,738)	(1,662,634)
Payments to employees	(242,537)	(52,531)
Other cash flow	(22,532)	1,911
Net cash provided by operating activities	<u>135,103</u>	<u>367,260</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(42,267)	(2,255)
Net cash used in capital and related financing activities	<u>(42,267)</u>	<u>(2,255)</u>
Cash flows from investing activities		
Interest income	1,721	692
Net cash provided by investing activities	<u>1,721</u>	<u>692</u>
Net change in cash and cash equivalents	94,557	365,697
Cash and cash equivalents, beginning of year	<u>1,983,140</u>	<u>1,617,443</u>
Cash and cash equivalents, end of year	<u>\$ 2,077,697</u>	<u>\$ 1,983,140</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (21,404)	\$ 524,341
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	782	1,309
Changes in assets and liabilities		
Accounts receivable	124,719	(187,215)
Prepaid expenses and other	(172)	(1,786)
Accounts payable	41,844	32,297
Accrued liabilities	(10,666)	(1,686)
Net cash provided by operating activities	<u>\$ 135,103</u>	<u>\$ 367,260</u>

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



# YERBA BUENA COMMUNITY BENEFIT DISTRICT

## Notes to Financial Statements

June 30, 2011 and 2010

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### 1. Organization and Summary of Significant Accounting Policies

#### Organization

The Yerba Buena Community Benefit District (the "District") ("YBCBD") is a California nonprofit public benefit corporation whose purpose is to create an ideal place for people to live, work, study and visit the District through programs that 1) improve safety and security, 2) enhance cleanliness and neighborhood greening and 3) increase economic vitality.

The District entered into an agreement with the City and County of San Francisco ("City") by and through the Office of Economic and Workforce Development ("OEWD") and pursuant to Sections 36614.5 and 36651 of the California Streets and Highways Code, to implement, administer and provide the property-related services, improvements and activities to be funded by special assessments the City has levied on identified parcels of real property included within the property-based business improvement district known as the Yerba Buena Community Benefit District.

The agreement commenced with the levy and collection of assessments on the properties located within the district with the fiscal year 2008-2009 and will terminate with the fiscal year 2014-2015.

#### Basis of presentation

The financial statement presentation, required by the Governmental Accounting Standards Board ("GASB") Statements No. 34, 37 and No. 38 provides a full accrual basis, comprehensive, entity-wide perspective of the District's assets and liabilities, results of operations and cash flows. YBCBD follows the single governmental program reporting requirements of GASB Statement No. 34 and as such presents a combined institutional wide and governmental fund statement of net assets.

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those are reported as expenditures in the general fund. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

#### Assessment revenue recognition

The District's operating revenue consists primarily of special assessments levied by the City. In accordance with GASB 33, revenue is recognized on the assessment date, net of any uncollectable amounts and refunds. The estimated uncollectable amount charged to revenue was \$106,227 and \$145,224 for the years ended June 30, 2011 and 2010, respectively.

YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Notes to Financial Statements  
June 30, 2011 and 2010

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1. Organization and Summary of Significant Accounting Policies (continued)

Contributed services

As allowed under GASB, contributed services are donated goods and services that would typically need to be purchased if not donated and are recognized in the accompanying financial statements as contributed service revenue at their estimated fair value. The District's 2011 and 2010 contributed service revenue primarily relates to the donated use of facilities.

Use of estimates

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 certain assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates and estimates can change in light of new circumstances.

Cash and cash equivalents

The District considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The District places its cash and temporary cash investments with high credit quality institutions. Periodically, such investments may be in excess of federally insured limits.

Assessment receivables

Assessment receivables are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained, based on past experiences and other circumstances. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was \$267,916 and \$290,448 at June 30, 2011 and 2010, respectively.

Capital assets

Furniture, fixtures and equipment are recorded at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of three years. Depreciation and amortization expense amounted to \$782 and \$1,309 for June 30, 2011 and 2010, respectively.



YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Notes to Financial Statements  
June 30, 2011 and 2010

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1. Organization and Summary of Significant Accounting Policies (continued)

Advertising and promotion expenses

The District expenses advertising costs as incurred. Advertising expense totaled \$52,512 and \$513 for the years ended June 30, 2011 and 2010, respectively.

Income taxes

The District is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3) and from California Franchise taxes under Revenue and Taxation Code Section 23701d. The District has evaluated its current tax positions and has concluded that as of June 30, 2011 and 2010, the District does not have any significant uncertain tax positions for which a reserve would be necessary.

2. Commitments

The District has entered into operating leases for its office space that expire in August 2015. Rent under the agreements is expensed as incurred to operations over the terms of the leases. Future minimum lease payments under these leases are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 23,728
2013	24,622
2014	25,569
2015	<u>26,516</u>
	<u>\$100,435</u>

3. Contributed Services

The corresponding expenses relate to donated services for the year ended June 30:

	<u>2011</u>	<u>2010</u>
Facility rental	\$16,547	\$26,151
Accounting services	9,795	-
Legal consultation	<u>-</u>	<u>4,075</u>
Total	<u>\$26,342</u>	<u>\$30,226</u>

YERBA BUENA COMMUNITY BENEFIT DISTRICT  
Notes to Financial Statements  
June 30, 2011 and 2010

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4. Grants Expense

The District's Management Plan requires the distribution of annual grants to community organizations providing services in the District that support the improvement and activities of the YBCBD. The District awards up to \$175,000 per year to projects that benefit the neighborhood and support the goals of the YBCBD. The District recognizes the expense in the period the grant becomes unconditional. The District recognized grants expense of \$165,000 and \$0 during the years ended June 30, 2011 and 2010, respectively, and is included in district identity and streetscape improvements expense in the statements of activities.