

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Discover Polk Community Benefit District
San Francisco, California

We have audited the accompanying financial statements of Discover Polk Community Benefit District (DPCBD) (a California nonprofit public benefit corporation) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, statement of functional expenses and statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discover Polk Community Benefit District as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

August 31, 2020

Bunker & Company LLP

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
June 30, 2020

	2020
ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	\$ 654,681
Assesment and other receivables	7,320
Prepaid expenses	308
Total current assets	<u>662,309</u>
Equipment, net of accumulated depreciation of \$622 in 2020 (Notes 2 and 3)	<u>1,679</u>
Total assets	<u><u>\$ 663,988</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	<u>10,200</u>
Total current liabilities	<u>10,200</u>
Net assets:	
Net assets without restrictions	646,468
Net assets with restrictions (Note 4)	7,320
Total net assets	<u>653,788</u>
Total liabilities and net assets	<u><u>\$ 663,988</u></u>

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

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

	Net Assets without Donor Restrictions	Net Assets with Temporary Donor Restrictions	Total
REVENUE AND SUPPORT			
Assessment revenue	\$ 136,007	\$ 494,933	\$ 630,940
Grant revenue	-	-	-
Contributions	4,250	-	4,250
In-kind contributions	-	18,355	18,355
Fiscal agent fee	-	-	-
Interest	-	-	-
Loss on assets disposal	-	-	-
Total Revenue, gains and other support	140,257	513,288	653,545
Net assets released from restrictions	508,431	(508,431)	-
	648,688	4,857	653,545
EXPENSES			
Program			
Cleaning, maintenance, and safety	294,666	-	294,666
Community events	36,172	-	36,172
Total program services	330,838	-	330,838
Supporting services			
Management and general	89,416	-	89,416
Fundraising	3,698	-	3,698
Total supporting services	93,114	-	93,114
Total expenses	423,952	-	423,952
Change in net assets	224,736	4,857	229,593
Net assets, beginning of year	421,732	2,463	424,195
Net assets, end of year	\$ 646,468	\$ 7,320	\$ 653,788

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

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
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STATEMENT OF CASH FLOWS
For the year ended June 30, 2020

	2020
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	<u>\$ 229,593</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	460
Changes in assets and liabilities:	
Assessments and other receivables	(4,858)
Deposit with grantee	24,795
Prepaid expenses	789
Prepaid grant expense	4,340
Accounts payable	7,211
Total adjustments	<u>32,737</u>
Net cash (used) provided by operating activities	<u>262,330</u>
Net change in cash and cash equivalents	262,330
Cash and cash equivalents, beginning of year	<u>392,351</u>
Cash and cash equivalents, end of year	<u><u>\$ 654,681</u></u>

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

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
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STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020

	Program Services			Support Services		Total
	Environmental Enhancements	Economic Enhancements	Total Programs	Management and General	Fundraising	
Grant Expenses	\$ 103,672	\$ 28,430	\$ 132,102	\$ 33,284	\$ 3,698	\$ 169,084
Cleaning and janitorial	140,237	-	140,237	-	-	140,237
Professional services	28,170	6,050	34,220	43,304	-	77,524
Rent, utilities, occupancy	18,470	819	19,289	10,364	-	29,653
Travel and meals	-	-	-	73	-	73
Supplies, tools, postage, printing, software	4,117	873	4,990	597	-	5,587
Dues, licenses, advertising	-	-	-	1,301	-	1,301
Bank fees and interest	-	-	-	33	-	33
Depreciation and amortization	-	-	-	460	-	460
Total Expenses	<u>\$ 294,666</u>	<u>\$ 36,172</u>	<u>\$ 330,838</u>	<u>\$ 89,416</u>	<u>\$ 3,698</u>	<u>\$ 423,952</u>
Percent of Total	70%	9%	78%	21%	1%	100%

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

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Discover Polk Community Benefit District (DPCBD) is a not-for-profit community-based organization, whose mission is to improve the quality of life for all residents, businesses and visitors to the Polk Street neighborhood, centered along the Polk Street corridor from California Street to Broadway Street. The Polk Street neighborhood contains an eclectic mix of unique small and independent businesses, and DPCBD aims to support and provide funding for enhanced maintenance, hospitality, beautification and business support programs, above and beyond those provided by the City of San Francisco.

DPCBD will advance the quality of life for residents, workers and visitors by fostering a safer and more secure community, enhancing environmental quality and beauty, and reinforcing the viability of the area’s economic base.

DPCBD exists to implement programs to create a neighborhood that is safer, cleaner and a better place to conduct business and live. These programs and services are funded by district property owners in the Discover Polk neighborhood, contributions from donors, and various grants.

Programs and services provided by DPCBD include:

Environmental Enhancements – includes litter and graffiti removal, pressure washing sidewalks, spot or detailed cleaning of public areas, safety patrols, outreach and case management with the homeless, landscaping, planters, seasonal decorations, cosmetic improvements, lighting, signage, and similar items.

Economic Enhancements – includes support for businesses within the district including dining, shopping, and services to promote a healthy and vibrant mixed use environment; marketing and communications to support all components of the DPCBD’s Management Plan; local events such as pop-up art galleries, outdoor concerts or movies, farmers’ markets, community events, or similar programs.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting – The financial statements of the DPCBD are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, which reflects revenue when earned and expenses as incurred.

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Basis of Presentation – The DPCBD is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net assets without donor restrictions - Net assets that are not subject to any donor-imposed restrictions.

Net assets with temporary donor restrictions - Net assets resulting (a) from contributions and other inflows of assets whose use by the DPCBD is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the DPCBD pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets.

Net assets with permanent donor restrictions - Net assets resulting (a) from contributions and other inflows of assets whose use by the DPCBD is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the DPCBD, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Fair Value Measurements – The DPCBD carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received if selling an asset or paid if transferring a liability in an orderly transaction between market participants at the measurement date. Fair value measurement standards also require the DPCBD to classify these financial instruments into a three-level hierarchy. The DPCBD classifies its financial assets and liabilities according to the below three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 – Quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities, without adjustment.

Level 2 – Quoted prices in markets that are not considered to be active for identical or similar assets or liabilities, quoted prices in active markets of similar assets or liabilities, and inputs other than quoted prices that are observable or can be corroborated by observable market data.

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Level 3 – Inputs that are both significant to the fair value measurement and unobservable, including inputs that are not derived from market data or cannot be corroborated by market data.

The DPCBD's carrying amounts of its assets and liabilities, approximate fair value under Level 1 for the year ended June 30, 2020.

As of June 30, 2020, there were no permanently restricted net assets.

Property, Equipment, and Leasehold Improvements - The DPCBD records property, equipment, and leasehold improvements at cost of acquisition, or, if donated, the fair market value at the date of donation. Depreciation is recognized using the straight-line method over the useful lives of the assets, which range from three to five years. The DPCBD capitalizes all property, equipment, and improvements with a cost in excess of \$2,500.

Contributions, Revenue Recognition, and Accounts Receivable – Assessments and other receivables represent amounts due from the City and County of San Francisco (CCSF) for obligations of local property owners collected on the behalf of DPCBD, and other amounts due to DPCBD for city hiring programs. Unpaid receivables do not accrue interest.

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

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Multi-year pledges are recorded at present value, if applicable.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to net assets without donor restrictions.

Advertising Costs – It is the policy of the DPCBD to expense advertising costs as incurred.

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
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NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses - The costs of providing the various programs, supporting services and other activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates and analysis of personnel time spent on each program and activity.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual future results could differ from those estimates.

Income Taxes - The DPCBD is exempt from federal and state taxes under Section 501(c) (3) of the Internal Revenue Code (IRC) and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be a Corporation other than a private Foundation. In the opinion of management, there is no unrelated business income.

Recent Accounting Pronouncements –

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*, amending the ASC 958. This update changes the presentation of certain information in the financial statements and footnote disclosures of not-for-profit entities. The update also changes the way that not-for-profit entities classify net assets. The new guidance is effective for the DPCBD for the year beginning July 1, 2019.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for the Corporation's year beginning July 1, 2019, with early adoption permitted.

Discover Polk Community Benefit District is in full compliance with both of the above pronouncements.

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2020</u>
Computer and office equipment	\$ 2,301
Accumulated depreciation and amortization	<u>(622)</u>
Property and equipment, net	<u>\$ 1,679</u>

Depreciation and amortization expense was \$460 for the year ended June 30, 2020.

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2020, consisted of the following:

	<u>2020</u>
Assessment receivable (FYE 2019)	<u>\$ 7,320</u>

NOTE 5 COMMITMENTS

DPCBD subleases storage space in San Francisco, California under an operating lease that commenced on February 1, 2020 and expires June 30, 2021, with opportunity to renegotiate at that time. The lease calls for monthly payments at \$3,000 with estimated future payments as follows:

Fiscal year ended,	
<u>June 30</u>	
2021	<u>\$ 36,000</u>

During the year ended June 30, 2020, DPCBD paid rent in the amount of \$13,345.

DPCBD contracts with two entities to help with management, governance, and executing the mission of DPCBD.

DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020

NOTE 5 COMMITMENTS (continued)

Tonic Nightlife LLC, a management company that performs functions of governance for DPCBD is in contract for \$100,000 through June 30, 2020 and renews on a perpetual basis until cancelled by either party with a 60 day written notice.

DPCBD contracts annually with Streetplus for \$339,422 to perform activities including daily sidewalk cleaning, graffiti abatement, and pressure washing of trouble spots. This contract expires November 30, 2020 and thereafter is extendable for 1 year with 60 days written notice from DPCBD to Streetplus.

NOTE 6 LIQUIDITY MANAGEMENT

As part of DPCBD's liquidity management strategy, the Corporation structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Corporation's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of assessments and grants. The Corporation has sufficient cash and cash equivalents to meet its current needs.

NOTE 7 CORONA VIRUS

The novel coronavirus (COVID-19) pandemic continues to spread around the globe rapidly. The virus has taken its toll on not just human life, but financial markets, businesses and nonprofit organizations as well, the extent of which is currently indeterminate. DPCBD is closely monitoring its liquidity, and is actively working to minimize the impact of the economic disruption and other factors effecting its cash-flows.

NOTE 8 FUNDRAISING REQUIREMENTS

The CCSF's contract requires DPCBD to annually raise not less than 3.375% of its annual budget from sources other than CCSF's assessments. For the year ended June 30, 2020, DPCBD satisfied this requirement.

**DISCOVER POLK COMMUNITY BENEFIT DISTRICT
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020**

NOTE 9 CONCENTRATION OF RISK

Revenue concentration of risk – During the year ended June 30, 2020, DPCBD received 96.5% of its total income from the City and County of San Francisco in the form of assessments and revenue from other programs.

As of June 30, 2020, DPCBD had cash balances with financial institutions which exceeded the Federal Deposit Insurance Corporation insured limit of \$250,000 by approximately \$483,300.

NOTE 10 SUBSEQUENT EVENTS

Management has evaluated all material subsequent events through the Auditor's Report date, the date the financial statements were available to be issued, and are asserting there are none.