

THE EAST CUT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

THE EAST CUT COMMUNITY BENEFIT DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The East Cut Community Benefit District

Report on the Financial Statements

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, 2021 and 2020, 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 The East Cut Community Benefit District as of June 30, 2021 and 2020, 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
April 19, 2022

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents including cash held for others \$12,902 and \$12,317, respectively	\$ 2,562,300	\$ 2,018,713
Assessments receivable	90,253	49,738
Other receivables and prepayments	15,924	25,315
Investments	3,212,101	3,414,064
Capital assets, net	<u>1,240</u>	<u>3,220</u>
Total Assets	<u>\$ 5,881,818</u>	<u>\$ 5,511,050</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 582,707	\$ 819,365
PPP loan payable	<u>--</u>	<u>103,100</u>
Total Liabilities	<u>582,707</u>	<u>922,465</u>
Net Assets		
Without donor restrictions	5,268,950	4,553,303
With donor restrictions	<u>30,161</u>	<u>35,282</u>
Total Net Assets	<u>5,299,111</u>	<u>4,588,585</u>
Total Liabilities and Net Assets	<u>\$ 5,881,818</u>	<u>\$ 5,511,050</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2021

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenue, Gains, and Other Support			
Assessments revenue	\$ 4,316,674	\$ --	\$ 4,316,674
Contributions	39,788	11,089	50,877
In-kind contributions	15,886	--	15,886
Grants	--	39,927	39,927
Net realized and unrealized investment losses	(7,144)	--	(7,144)
Investment income	19,704	--	19,704
Other income	6,272	--	6,272
Net assets released from restrictions	<u>56,137</u>	<u>(56,137)</u>	<u>--</u>
Total Revenue, Gains, and Other Support	<u>4,447,317</u>	<u>(5,121)</u>	<u>4,442,196</u>
Expenses			
Program services:			
Public safety	1,026,227	--	1,026,227
Clean team and dispatch	1,037,549	--	1,037,549
Communication and development	201,837	--	201,837
Parks and greenspace	1,226,091	--	1,226,091
Supporting services:			
Management and general	<u>343,066</u>	<u>--</u>	<u>343,066</u>
Total Expenses	<u>3,834,770</u>	<u>--</u>	<u>3,834,770</u>
Income from Operations	612,547	(5,121)	607,426
Extinguishment of PPP Loan	<u>103,100</u>	<u>--</u>	<u>103,100</u>
Change in Net Assets	715,647	(5,121)	710,526
Net Assets - Beginning	<u>4,553,303</u>	<u>35,282</u>	<u>4,588,585</u>
Net Assets - Ending	<u>\$ 5,268,950</u>	<u>\$ 30,161</u>	<u>\$ 5,299,111</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenue, Gains, and Other Support			
Assessments revenue	\$ 4,148,559	\$ --	\$ 4,148,559
Contributions	15,616	37,079	52,695
In-kind contributions	33,082	--	33,082
Grants	--	14,000	14,000
Net realized and unrealized investment gains	14,318	--	14,318
Investment income	65,086	--	65,086
Other income	8,937	--	8,937
Net assets released from restrictions	<u>45,307</u>	<u>(45,307)</u>	<u>--</u>
Total Revenue, Gains, and Other Support	<u>4,330,905</u>	<u>5,772</u>	<u>4,336,677</u>
Expenses			
Program services:			
Public safety	776,141	--	776,141
Clean team and dispatch	1,008,769	--	1,008,769
Communication and development	192,248	--	192,248
Parks and greenspace	1,371,775	--	1,371,775
Supporting services:			
Management and general	<u>356,930</u>	<u>--</u>	<u>356,930</u>
Total Expenses	<u>3,705,863</u>	<u>--</u>	<u>3,705,863</u>
Change in Net Assets	625,042	5,772	630,814
Net Assets - Beginning	<u>3,928,261</u>	<u>29,510</u>	<u>3,957,771</u>
Net Assets - Ending	<u>\$ 4,553,303</u>	<u>\$ 35,282</u>	<u>\$ 4,588,585</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Program Services				Total	Support	Total
	Public Safety	Clean Team and Dispatch	Communication and Development	Parks and Greenspace		Management and General	
Contract services	\$ 890,071	\$ 903,349	\$ --	\$ 911,148	\$ 2,704,568	\$ --	\$ 2,704,568
Management personnel expenses	107,681	107,681	140,049	187,885	543,296	184,684	727,980
Rent and utilities	24,883	15,873	2,018	68,043	110,817	6,509	117,326
Legal fees	76	472	2,166	54,657	57,371	24,259	81,630
Accounting and audit	--	--	--	--	--	77,564	77,564
Marketing and branding	521	405	37,643	1,125	39,694	316	40,010
Office expense and supplies	1,117	7,891	2,666	3,233	14,907	23,420	38,327
Depreciation	--	--	--	--	--	1,980	1,980
In-kind goods and services	1,878	1,878	2,100	--	5,856	10,030	15,886
Community events	--	--	15,195	--	15,195	--	15,195
General consulting	--	--	--	--	--	13,354	13,354
All other expenses	--	--	--	--	--	950	950
Total	<u>\$ 1,026,227</u>	<u>\$ 1,037,549</u>	<u>\$ 201,837</u>	<u>\$ 1,226,091</u>	<u>\$ 3,491,704</u>	<u>\$ 343,066</u>	<u>\$ 3,834,770</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Total	Support	Total
	Public Safety	Clean Team and Dispatch	Communication and Development	Parks and Greenspace		Management and General	
Contract services	\$ 631,504	\$ 841,431	\$ --	\$ 1,081,415	\$ 2,554,350	\$ --	\$ 2,554,350
Management personnel expenses	103,373	107,669	108,811	184,780	504,633	160,207	664,840
Rent and utilities	24,003	24,921	3,157	63,097	115,178	26,134	141,312
Legal fees	8,882	8,882	--	27,415	45,179	44,716	89,895
Marketing and branding	624	648	67,795	2,364	71,431	692	72,123
Accounting and audit	--	--	--	--	--	65,758	65,758
In-kind goods and services	1,044	17,150	5,012	--	23,206	9,877	33,083
All other expenses	3,773	3,196	362	10,256	17,587	10,947	28,534
General consulting	--	--	--	--	--	24,273	24,273
Office expense and supplies	2,299	3,580	7,047	266	13,192	2,362	15,554
Insurance - liability	--	(80)	--	--	(80)	9,391	9,311
Community events	639	1,372	64	2,182	4,257	94	4,351
Depreciation	--	--	--	--	--	2,479	2,479
Total	<u>\$ 776,141</u>	<u>\$ 1,008,769</u>	<u>\$ 192,248</u>	<u>\$ 1,371,775</u>	<u>\$ 3,348,933</u>	<u>\$ 356,930</u>	<u>\$ 3,705,863</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	\$ 710,526	\$ 630,814
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized investment losses (gains)	7,144	(14,318)
Depreciation	1,980	2,479
Extinguishment of PPP loan	(103,100)	--
Changes in operating assets and liabilities:		
Assessments receivable	(40,515)	(11,072)
Other receivables and prepayments	9,391	(18,164)
Accounts payable and accrued expenses	<u>(236,658)</u>	<u>192,975</u>
Net Cash Provided by Operating Activities	<u>348,768</u>	<u>782,714</u>
Cash Flows From Investing Activities		
Purchase of investments	(5,154,981)	(8,006,719)
Redemption of investments	<u>5,349,800</u>	<u>8,425,000</u>
Net Cash Provided by Investing Activities	<u>194,819</u>	<u>418,281</u>
Cash Flows From Financing Activities		
Proceeds from PPP loan payable	<u>--</u>	<u>103,100</u>
Net Cash Provided by Financing Activities	<u>--</u>	<u>103,100</u>
Net Increase in Cash and Cash Equivalents	543,587	1,304,095
Cash and Cash Equivalents - Beginning	<u>2,018,713</u>	<u>714,618</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,562,300</u>	<u>\$ 2,018,713</u>
Supplemental Information		
Non cash financing		
Extinguishment of debt	<u>\$ 103,000</u>	<u>\$ --</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

The East Cut Community Benefit District (“ECCBD” or the “District”) is a nonprofit 501(c)(3) community-based organization. ECCBD was formed in 2015 and began operations in 2016. The property owners of the catchment area 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”).

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.”

Program services provided by ECCBD include:

- **Public Safety** – The daytime security community guides 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 5:30am to 10:00pm, daily.

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 5:30am to 10:00pm. The Clean Team steam cleans all sidewalks in the district once a month, work daily on sidewalk sweeping and trashcan topping, and also removes graffiti on an on-call basis, daily.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

PURPOSE AND ORGANIZATION (CONTINUED)

- **Dispatch** – ECCBD’s clean and safe services are accessed through a neighborhood dispatch system available twenty-four hours a day seven days a week.
- **Parks and Greenspace** – The Parks and Greenspace program includes irrigation systems management and repair; pest control; tree, shrub, and ground maintenance; gardening and weeding; arborist and horticultural consultation; seasonal fire fuel reduction; trash off-haul; pavement and pathway repairs and care; small capital improvements such as replacement of plant materials, fixtures, furniture, and equipment; emergency repair projects. Projects that the ECCBD is involved in the current year are: Emerald Park, Transbay Park, and Under-Ramp Park, as well as other Public Realm projects.
- **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. 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 update.

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.

CLASSIFICATION OF NET ASSETS

U.S. GAAP requires that ECCBD report information regarding its financial position and activities into two classes of net assets: without donor restrictions and with donor restrictions.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

CLASSIFICATION OF NET ASSETS (CONTINUED)

Accordingly, the net assets are classified and reported as described below:

Without Donor Restrictions

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.

With Donor Restrictions

Net assets representing funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be expendable in purpose in that they will be met by actions of ECCBD or by the passage of time. Other donor restrictions are permanent in purpose, whereby the donor has stipulated that the funds be maintained in perpetuity. At June 30, 2021, there were no net assets that were required to be held in perpetuity.

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.

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires that management 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.

CASH HELD FOR OTHERS

ECCBD serves as a fiscal sponsor for another organization. ECCBD receives cash and other sources of income and makes payments on behalf of the organization. These transactions are not considered revenue or expenses of ECCBD. There is a corresponding liability that equals the residual cash within accounts payable and accrued expenses.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

ASSESSMENTS RECEIVABLE

Assessments receivable represent obligations of local property owners due to ECCBD. Unpaid assessments 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, 2021 and 2020, management believes all assessments will be collected, and therefore, an allowance for uncollectible assessments was not needed.

INVESTMENTS

Investments in marketable securities and fixed income securities are carried at fair value based upon quoted market prices.

CAPITAL ASSETS

ECCBD 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 and donated assets are recorded at estimated fair value or appraised value at the date of donation. Depreciation of capital assets is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 10 years. Maintenance and repairs are charged to expense as incurred and 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.

ACCRUED ANNUAL LEAVE

Full-time employees may accrue up to 5 weeks per year depending on the number of years employed. Employees can accrue a maximum of 180 vacation hours.

REVENUE RECOGNITION

Assessments Revenue

ECCBD receives its revenue primarily from special assessments levied by the City on properties located within the District in accordance with City Ordinance. The assessments are 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

REVENUE RECOGNITION (CONTINUED)

Contributions

ECCBD recognizes all unconditional contributions when they are received or unconditionally promised. Contributions are recognized based on the existence or absence of donor-imposed restrictions.

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 years ended June 30, 2021 and 2020, ECCBD received unconditional contributions of \$50,877 and \$52,695, respectively.

In-Kind Contributions

Donated material and equipment are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as without donor-restrictions support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as with donor restrictions 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 with donor-restrictions net assets to without donor-restrictions net assets at that time.

ECCBD records in-kind 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, 2021 and 2020, ECCBD received contributed goods and services in the amount of \$15,886 and \$33,082 respectively.

Grants

Unconditional grant awards are recognized when the award is received or unconditionally promised. Grants awarded with conditions that depend on specified future and uncertain events are not recognized until the conditions on which they depend are substantially met.

For the years ended June 30, 2021 and 2020, ECCBD recognized \$39,927 and \$14,000, respectively, of grant whose conditions have been met. Conditional grant awards are recognized when the conditions are substantially met.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

MARKETING AND BRANDING

The costs of marketing and branding are charged to expense as incurred. Marketing and branding expenses for the years ended June 30, 2021 and 2020, were \$40,010 and \$72,123, respectively.

INCOME TAXES

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

U.S. GAAP requires management to evaluate the tax positions taken and recognize a tax liability (or asset) if ECCBD has taken an uncertain tax position that more-likely-than-not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition of a tax liability (or asset) or disclosure in the financial statements. ECCBD is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or 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 accounts which, at times, may exceed federally insured limits. ECCBD has not experienced any losses in such accounts.

Service Provider

Approximately 59% and 67% of total expenses incurred were provided by two vendors during the years ended June 30, 2021 and 2020, respectively, and were attributed to safety and cleaning services, respectively. Management believes that ECCBD is not exposed to any significant credit risk related to this concentration.

Revenue

For the years ended June 30, 2021 and 2020, ECCBD received 97% and 96%, respectively, of its total income from the City in the form of assessments.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

CONCENTRATIONS OF RISK (CONTINUED)

Contributions

For the years ended June 30, 2021 and 2020, three donors represented 47% and one donor represented 31%, respectively, of total contributions.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and other supporting activities have been summarized on a functional basis in the statements of activities and change in net assets and functional expenses. Certain expenses have been allocated between program and management and general based on direct identification when possible, and allocation if a single expense benefits more than one program or function. Management and personnel are allocated based on the estimated time and efforts of involvement in different activities. Other expenses that require allocation, including depreciation, facilities, and insurance are allocated to the respective function based on square footage, and headcount.

FUNDRAISING REQUIREMENTS

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

For the years ended June 30, 2021 and 2020, ECCBD has satisfied these requirements.

ADOPTED ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to provide guidance concerning 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. On June 3, 2020, the FASB issued ASU 2020-05, which allows any organization who has not yet adopted Topic 606 and issued their financial statements to defer implementation of Topic 606 for one year in light of delays created by the novel coronavirus ("COVID-19") pandemic. ECCBD adopted ASC 606 as of July 1, 2019 using the modified retrospective transition method, and had minimal impact.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

ADOPTED ACCOUNTING PRONOUNCEMENT (CONTINUED)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. ECCBD adopted ASU 2018-13 on April 1, 2020, and it did not have a material impact on ECCBD's financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued its lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2020-05 also delayed the effective date of this ASU by another year. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2021. Early application is permitted. Management is evaluating the impact of this guidance.

On September 17, 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 provides guidance concerning presentation and disclosure for contributed nonfinancial assets for nonprofit organizations, including additional presentation and disclosure rules for recognized contributed services. It does not change the recognition and measurement requirements for contributed nonfinancial assets.

This ASU requires the nonprofit organization to present donated nonfinancial assets separately in the statement of activities and changes in net assets from contributions of cash or other financial assets.

The additional disclosure rules require disclosure of nonfinancial assets by category and for each category; the disclosure is required to include the following:

- Qualitative information about whether contributed nonfinancial assets were either monetized or used during the reporting period. If used, a description of the programs or other activities in which those assets were used;
- The nonprofit organization's policy (if any) for monetizing rather than using contributed nonfinancial assets;

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- A description of any associated donor-imposed restrictions;
- A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition.
- The principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the recipient nonprofit is prohibited by donor-imposed restrictions from selling or using the contributed nonfinancial asset.

The guidance should be applied on a retrospective basis, and is applicable for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. Management is evaluating the impact of this new guidance.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. The standard is effective for fiscal years beginning after December 31, 2022. 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. 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

Equity Securities

Equity securities listed on national markets are valued at the quoted price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. Such securities are in active markets and are classified within Level 1 of the fair value hierarchy.

Fixed Income Securities

Valued at cost plus accrued interest which approximates fair value. These securities are classified within Level 2 of the fair value hierarchy.

The following tables provide information about ECCBD's financial assets measured at fair value on a recurring basis as of June 30, 2021 and 2020:

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Fixed income securities	\$ --	3,184,531	\$ --	\$ 3,184,531
Equity securities	<u>27,570</u>	<u>--</u>	<u>--</u>	<u>27,570</u>
Total Assets at Fair Value	<u>\$ 27,570</u>	<u>\$ 3,184,531</u>	<u>\$ --</u>	<u>\$ 3,212,101</u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Fixed income securities	\$ --	3,406,996	\$ --	\$ 3,406,996
Equity securities	<u>7,068</u>	<u>--</u>	<u>--</u>	<u>7,068</u>
Total Assets at Fair Value	<u>\$ 7,068</u>	<u>\$ 3,406,996</u>	<u>\$ --</u>	<u>\$ 3,414,064</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 years ended June 30, 2021 and 2020.

NOTE 3 - CAPITAL ASSETS

Capital assets at June 30, 2021 and 2020, consist of the following:

	2021	2020
Computers	\$ 11,055	\$ 11,055
Furniture and equipment	3,588	3,588
Leasehold improvements	<u>35,618</u>	<u>35,618</u>
	50,261	50,261
Less: accumulated depreciation	<u>(49,021)</u>	<u>(47,041)</u>
Total	<u>\$ 1,240</u>	<u>\$ 3,220</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$1,980 and \$2,479, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 4 - PPP LOAN PAYABLE

ECCBD entered into a promissory note in April 2020 with JP Morgan Chase Bank, N.A. as the lender (the “Lender”), pursuant to which the Lender agreed to make a loan to ECCBD under the Paycheck Protection Program (the “PPP Loan”) offered by the U.S. Small Business Administration (the “SBA”) in a principal amount of \$103,100 pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). The PPP Loan proceeds, which were fully forgiven during the year ended June 30, 2021, were available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, group health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt.

NOTE 5 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at June 30, 2021 and 2020, consist of the following:

	2021	2020
Undesignated	\$ 5,112,828	\$ 4,217,298
Board Designated - Strategic Investment	<u>156,122</u>	<u>336,005</u>
Total	<u><u>\$ 5,268,950</u></u>	<u><u>\$ 4,553,303</u></u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2021 and 2020, net assets with donor restrictions are as follows:

	2021	2020
Subject to Expenditure for Specific Purpose		
Guy Lansing Neighbors	\$ 29,510	\$ 29,510
Service Team Wish List	651	--
Big Belly Grant	--	5,452
Lunch Fund	<u>--</u>	<u>320</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 30,161</u></u>	<u><u>\$ 35,282</u></u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. During the years ended June 30, 2021 and 2020, net assets released were as follows:

	2021	2020
Big Belly Grant	\$ 45,380	\$ 8,548
Problem Library	5,000	--
Lunch Fund	4,966	2,801
Service Team Wish List	791	--
Resiliency Fund	--	33,958
	<u> </u>	<u> </u>
Total	<u>\$ 56,137</u>	<u>\$ 45,307</u>

NOTE 8 - RETIREMENT PLAN

ECCBD established a noncontributory defined contribution retirement plan (the “Plan”) for its employees. The Plan allows eligible employees to make voluntary contributions by salary reduction to the Plan, up to the limit allowed by law.

NOTE 9 - COMMITMENTS

ECCBD has a three-year office lease agreement, which expired on June 30, 2019 and was renewed through June 30, 2020 with a renewal option through June 30, 2024. ECCBD executed the renewal option during the year ended June 30, 2020. The lessor is the employer of an ECCBD’s board member.

The following is a schedule of minimum lease commitments:

	For the Years Ending	
	June 30,	Total
	<u> </u>	
	2022	\$ 79,333
	2023	81,716
	2024	<u>84,168</u>
Total		<u>\$ 245,217</u>

For the years ended June 30, 2021 and 2020, the rent expense was \$117,326 and \$124,519, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 10 - LIQUIDITY AND AVAILABILITY

ECCBD's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2021 and 2020, were as follows:

	2021	2020
Financial Assets		
Cash and cash equivalents	\$ 2,562,300	\$ 2,018,713
Assessments receivable	90,253	49,738
Investments	<u>3,212,101</u>	<u>3,414,064</u>
Total Financial Assets	5,864,654	5,482,515
Cash held for others	(12,902)	(12,317)
Donor imposed restrictions	(30,161)	(35,282)
Board designated net assets	<u>(156,122)</u>	<u>(336,005)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 5,665,469</u>	<u>\$ 5,098,911</u>

ECCBD's goal is generally to maintain financial assets to meet 180 days of operating expenses (approximately \$2 million). As part of its liquidity and availability plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

NOTE 11 - CONDITIONAL GRANTS

During the years ended June 30, 2021 and 2020, ECCBD received conditional grants of \$65,000 and \$28,000 respectively that are directed to the Big Belly pilot and pressure washing projects. During the years ended June 30, 2021 and 2020, \$39,927 and \$14,000 was recognized, respectively as the conditions on which they depend have been satisfied. At June 30, 2021 and 2020, the remaining conditional grants balance is \$39,073 and \$14,000, respectively. Management anticipates that the conditions on the remaining balance will be met during the year ending June 30, 2022.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 12 - RISK AND UNCERTAINTY

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. ECCBD has been able to continue most of its operations in a remote environment; however, at this point, the extent to which COVID-19 may impact ECCBD's financial condition or results of operations is uncertain.

NOTE 13 - SUBSEQUENT EVENTS

ECCBD has evaluated all subsequent events through April 19, 2022, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.