

THE EAST CUT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

Opinion

We have audited the financial statements of East Cut Community Benefit District (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of East Cut Community Benefit District as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Cut Community Benefit District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Cut Community Benefit District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 East Cut Community Benefit District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Cut Community Benefit District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

Marcum LLP

San Francisco, California
January 24, 2023

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents including cash held for others of \$9,190 and \$12,902, respectively	\$ 2,431,322	\$ 2,562,300
Assessments receivable	117,878	90,253
Other receivables and prepayments	33,648	15,924
Investments	3,608,336	3,212,101
Loan receivable	20,000	--
Capital assets, net	<u>16,905</u>	<u>1,240</u>
Total Assets	<u>\$ 6,228,089</u>	<u>\$ 5,881,818</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 762,153</u>	<u>\$ 582,707</u>
Total Liabilities	<u>762,153</u>	<u>582,707</u>
Net Assets		
Without donor restrictions	5,376,880	5,268,950
With donor restrictions	<u>89,056</u>	<u>30,161</u>
Total Net Assets	<u>5,465,936</u>	<u>5,299,111</u>
Total Liabilities and Net Assets	<u>\$ 6,228,089</u>	<u>\$ 5,881,818</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, 2022

	2022		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenue, Gains, and Other Support			
Assessments revenue	\$ 4,461,134	\$ --	\$ 4,461,134
Contributions	6,984	36,780	43,764
In-kind contributions	102,642	--	102,642
Grants	--	125,915	125,915
Net realized and unrealized investment losses	(22,015)	--	(22,015)
Investment income	3,594	--	3,594
Other income	6,883	--	6,883
Net assets released from restrictions	103,800	(103,800)	--
Total Revenue, Gains, and Other Support	<u>4,663,022</u>	<u>58,895</u>	<u>4,721,917</u>
Expenses			
Program services:			
Public safety	1,144,854	--	1,144,854
Clean team and dispatch	917,959	--	917,959
Communication and development	194,564	--	194,564
Parks and greenspace	1,902,480	--	1,902,480
Supporting services:			
Management and general	385,632	--	385,632
Fundraising	9,603	--	9,603
Total Expenses	<u>4,555,092</u>	<u>--</u>	<u>4,555,092</u>
Change in Net Assets	107,930	58,895	166,825
Net Assets - Beginning	<u>5,268,950</u>	<u>30,161</u>	<u>5,299,111</u>
Net Assets - Ending	<u>\$ 5,376,880</u>	<u>\$ 89,056</u>	<u>\$ 5,465,936</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	56,137	(56,137)	--
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	343,066	--	343,066
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 FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	Program Services				Total	Support Services		Total
	Public Safety	Clean Team and Dispatch	Communication and Development	Parks and Greenspace		Management and General	Fundraising	
Contract services	\$ 998,193	\$ 782,712	\$ 430	\$ 1,553,040	\$ 3,334,375	\$ 73	\$ --	\$ 3,334,448
Management personnel expenses	112,959	112,959	142,795	194,489	563,202	224,564	--	787,766
Rent and utilities	23,824	15,198	1,932	65,154	106,108	6,217	--	112,325
Professional Services	--	--	28,688	11,573	40,261	--	--	40,261
Accounting and audit	--	--	--	--	--	68,031	--	68,031
Community events	--	55	7,595	54,877	62,527	1,560	9,603	73,690
Office expense and supplies	8,338	2,238	110	4,390	15,076	48,270	--	63,346
Legal fees	839	381	--	15,025	16,245	20,222	--	36,467
Marketing and branding	257	164	13,014	3,377	16,812	388	--	17,200
General consulting	--	--	--	--	--	12,210	--	12,210
Depreciation	--	3,795	--	--	3,795	1,239	--	5,034
All other expenses	444	457	--	555	1,456	2,858	--	4,314
Total	<u>\$ 1,144,854</u>	<u>\$ 917,959</u>	<u>\$ 194,564</u>	<u>\$ 1,902,480</u>	<u>\$ 4,159,857</u>	<u>\$ 385,632</u>	<u>\$ 9,603</u>	<u>4,555,092</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
All other expenses	1,878	1,878	2,100	--	5,856	10,980	16,836
Community events	--	--	15,195	--	15,195	--	15,195
General consulting	--	--	--	--	--	13,354	13,354
Depreciation	--	--	--	--	--	1,980	1,980
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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	\$ 166,825	\$ 710,526
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized investment losses	22,015	7,144
Depreciation	5,034	1,980
Extinguishment of PPP loan	--	(103,100)
Changes in operating assets and liabilities:		
Assessments receivable	(27,625)	(40,515)
Other receivables and prepayments	(17,724)	9,391
Accounts payable and accrued expenses	179,446	(236,658)
Net Cash Provided by Operating Activities	<u>327,971</u>	<u>348,768</u>
Cash Flows From Investing Activities		
Purchase of investments	(4,882,250)	(5,154,981)
Purchase of capital assets	(20,699)	--
Issuance of loan receivable	(20,000)	--
Redemption of investments	4,464,000	5,349,800
Net Cash (Used in) Provided by Investing Activities	<u>(458,949)</u>	<u>194,819</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(130,978)	543,587
Cash and Cash Equivalents - Beginning	<u>2,562,300</u>	<u>2,018,713</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,431,322</u>	<u>\$ 2,562,300</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, 2022 AND 2021

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, 2022 AND 2021

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, 2022 AND 2021

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, 2022, 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, 2022 AND 2021

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, 2022 and 2021, 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.

LOAN RECEIVABLE

The loan receivable is unsecured and stated at the principal amount. Management evaluates the collectability of the note receivable annually.

ECCBD considers various factors as of the date of the financial statements in evaluating the credit quality, including historical collection experience and ECCBD's assessment of the counterparty's ability to repay its obligation. To date, ECCBD has not experienced any losses with respect to the loan receivable and believes it will be recovered; therefore, an allowance for uncollectible amounts has not been recorded.

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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

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.

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, 2022 and 2021, ECCBD received unconditional financial contributions of \$43,764 and \$50,877, 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

REVENUE RECOGNITION (CONTINUED)

In-Kind Contributions (continued)

The following provides information about the in-kind contributions received, during the year ended June 30, 2022:

ECCBD received \$31,328 in contributed goods related to management and personnel expenses and \$21,450 in contributed goods related to office expenses and supplies to support management and general functions. The estimated value of the contributed goods was based on the estimate of wholesale values that would be received for selling similar products in the United States.

ECCBD received \$40,261, in contributed professional services to support program services. The estimated value of the contributed services was based on the current rates charged for similar services in the region.

ECCBD received \$9,603 in auction items for fundraising. The estimated value of the contributed auction items was based on the estimate of wholesale values that would be received for selling similar products.

There were no associated donor-imposed restrictions on in-kind contributions received, during the year ended June 30, 2022.

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, 2022 and 2021, ECCBD recognized \$125,915 and \$39,937, respectively, of grant whose conditions have been met.

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, 2022 and 2021, were \$17,200 and \$40,010, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

INCOME TAXES

ECCBD is a qualified organization exempt from federal and state income taxes under §501(c)(3) of the Internal Revenue Code and §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, 2022, 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 62% and 59% of total expenses incurred were provided by two vendors during the years ended June 30, 2022 and 2021, 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.

Contributions

For the years ended June 30, 2022 and 2021, three donors represented 84% and three donors represented 47%, of total contributions, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

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.

RECLASSIFICATIONS

Certain amounts in the summarized comparative totals for 2021 have been reclassified to conform to the current year's presentation. These reclassifications have no effect on the previously reported net assets or change in net assets.

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, 2022 and 2021, ECCBD has satisfied these requirements.

ADOPTED ACCOUNTING PRONOUNCEMENT

On September 17, 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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:

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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

ADOPTED ACCOUNTING PRONOUNCEMENT (CONTINUED)

- 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;
- 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 was applied on a retrospective basis. ECCBD adopted ASU 2020-07 as of July 1, 2021.

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.

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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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.

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. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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 EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables provide information about ECCBD's financial assets measured at fair value on a recurring basis as of June 30, 2022 and 2021:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Fixed income securities	\$ --	3,580,163	\$ --	\$ 3,580,163
Equity securities	<u>28,173</u>	<u>--</u>	<u>--</u>	<u>28,173</u>
Total Assets at Fair Value	<u>\$ 28,173</u>	<u>\$ 3,580,163</u>	<u>\$ --</u>	<u>\$ 3,608,336</u>
	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>

NOTE 3 - LOAN RECEIVABLE

Loan receivable consists of a loan, dated April 25, 2022, in the amount of \$20,000 at June 30, 2022, that was made to an organization to use for capital expenditures, general operating expenditures, and certain other purposes as deemed necessary.

The loan is unsecured and calls for a single repayment at the earliest of 1.) One hundred and eighty days 2.) the first date by which the borrowing organization has received in hand at least \$150,000 in support. The loan also includes certain other commitments by the borrowing organization. The loan is discounted and reported at its face value.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 4 - CAPITAL ASSETS

Capital assets at June 30, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Computers	\$ 11,055	\$ 11,055
Furniture and equipment	24,288	3,588
Leasehold improvements	<u>35,618</u>	<u>35,618</u>
	70,961	50,261
Less: accumulated depreciation	<u>(54,056)</u>	<u>(49,021)</u>
Total	<u><u>\$ 16,905</u></u>	<u><u>\$ 1,240</u></u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$5,034 and \$1,980, respectively.

NOTE 5 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at June 30, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 5,376,880	\$ 5,112,828
Board Designated - Strategic Investment	<u>--</u>	<u>156,122</u>
Total	<u><u>\$ 5,376,880</u></u>	<u><u>\$ 5,268,950</u></u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2022 and 2021, net assets with donor restrictions are as follows:

	2022	2021
Subject to Expenditure for Specific Purpose		
Big Belly Grant	\$ 42,588	\$ --
Lunch Fund	29,906	--
Guy Lansing Neighbors	15,911	29,510
Service Team Wish List	<u>651</u>	<u>651</u>
Total Net Assets with Donor Restrictions	<u>\$ 89,056</u>	<u>\$ 30,161</u>

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, 2022 and 2021, net assets released were as follows:

	2022	2021
Big Belly Grant	\$ 58,540	\$ 45,380
Essex Park	24,788	--
Guy Lansing Neighbors	13,598	--
Problem Library	5,000	5,000
Lunch Fund	1,874	4,966
Service Team Wish List	<u>--</u>	<u>791</u>
Total	<u>\$ 103,800</u>	<u>\$ 56,137</u>

NOTE 8 - RETIREMENT PLAN

ECCBD established a 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 9 - COMMITMENTS

ECCBD has a three-year office lease agreement, which expires on June 30, 2024. 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
2023	\$ 81,716
2024	84,168
Total	\$ 165,883

For the years ended June 30, 2022 and 2021, the rent expense was \$112,325 and \$117,326, respectively.

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, 2022 and 2021, were as follows:

	2022	2021
Financial Assets		
Cash and cash equivalents	\$ 2,431,322	\$ 2,562,300
Assessments receivable	117,878	90,253
Investments	3,608,336	3,212,101
Loan receivable	20,000	--
Total Financial Assets	6,177,536	5,864,654
Cash held for others	(9,190)	(12,902)
Donor imposed restrictions	(89,056)	(30,161)
Board designated net assets	--	(156,122)
Financial Assets Available to Meet General Expenditures Within One Year	\$ 6,079,290	\$ 5,665,469

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 10 - LIQUIDITY AND AVAILABILITY (CONTINUED)

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 year ended June 30, 2020, ECCBD received a conditional grant of \$28,000 that is directed to the Big Belly pilot. During the year ended June 30, 2022, all conditions on which it depends have been satisfied. During the year ended June 30, 2021, ECCBD received a conditional grant for \$65,000, which has been amended to \$165,600 for the year ended June 30, 2022, that is directed to the Big Belly pilot and pressure washing project. During the year ended June 30, 2022, \$125,289, was recognized as the conditions on which it depends has been satisfied. At June 30, 2022, the remaining conditional grant balance is \$40,311. Management anticipates that the conditions on the remaining balance will be met during the year ended June 30, 2023.

NOTE 12 - RISK AND UNCERTAINTY

The global economy has been impacted by events such as the outbreak of the COVID-19 virus and international conflicts. This has resulted in many businesses temporarily closing or working in remote environments. ECCBD does not yet know the full extent of the potential impact, if any, these events may have on its business operations. No specific material adverse matters have been identified. ECCBD will continue to monitor the impact of global events closely and revise its estimates in future periods, as necessary.

NOTE 13 - SUBSEQUENT EVENTS

ECCBD has evaluated all subsequent events through January 24, 2023, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.