



UNION SQUARE
BUSINESS IMPROVEMENT
DISTRICT

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

CONTENTS

Independent Auditors' Report	1-2
---	-----

Financial Statements

Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6

Notes to Financial Statements	7-17
--	------

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Union Square Business Improvement District

Report on the Financial Statements

We have audited the accompanying financial statements of Union Square Business Improvement District (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and 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.

Auditors' 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 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 Union Square Business Improvement District as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Union Square Business Improvement District's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

San Francisco, California
September 29, 2017

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	2017	2016
Assets		
Cash and cash equivalents	\$ 1,258,988	\$ 566,574
Promises to give	--	11,098
Assessments and accounts receivable, net	55,500	32,424
Prepaid expenses and deposits	105,355	70,432
Certificates of deposit	1,249,369	2,225,658
Furniture and equipment, net	<u>609,490</u>	<u>857,807</u>
Total Assets	<u>\$ 3,278,702</u>	<u>\$ 3,763,993</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 430,049	\$ 299,703
Grants payable	--	87,500
Accrued benefits	20,068	10,247
Deferred revenue	<u>587</u>	<u>15,918</u>
Total Liabilities	<u>450,704</u>	<u>413,368</u>
Net Assets		
Unrestricted	1,821,765	1,773,636
Temporarily restricted	<u>1,006,233</u>	<u>1,576,989</u>
Total Net Assets	<u>2,827,998</u>	<u>3,350,625</u>
Total Liabilities and Net Assets	<u>\$ 3,278,702</u>	<u>\$ 3,763,993</u>

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

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	2017	2016
Revenue and Other Support				
Assessment revenue	\$ 3,453,377	\$ --	\$ 3,453,377	\$ 3,410,053
Contributions	1,328,755	314,033	1,642,788	3,253,757
Special event	114,642	--	114,642	101,250
Other revenue	71,971	--	71,971	12,500
Interest income	7,875	--	7,875	2,389
Net assets released from restrictions	<u>884,789</u>	<u>(884,789)</u>	<u>--</u>	<u>--</u>
Total Revenue and Other Support	<u>5,861,409</u>	<u>(570,756)</u>	<u>5,290,653</u>	<u>6,779,949</u>
Expenses				
Program	5,150,790	--	5,150,790	6,595,794
Management and administrative	627,892	--	627,892	674,481
Fundraising	<u>34,598</u>	<u>--</u>	<u>34,598</u>	<u>35,638</u>
Total Expenses	<u>5,813,280</u>	<u>--</u>	<u>5,813,280</u>	<u>7,305,913</u>
Change in Net Assets	<u>48,129</u>	<u>(570,756)</u>	<u>(522,627)</u>	<u>(525,964)</u>
Net Assets - Beginning	<u>1,773,636</u>	<u>1,576,989</u>	<u>3,350,625</u>	<u>3,876,589</u>
Net Assets - Ending	<u>\$ 1,821,765</u>	<u>\$ 1,006,233</u>	<u>\$ 2,827,998</u>	<u>\$ 3,350,625</u>

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

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

		Program	Management and Administrative	Fundraising	2017	2016
Holiday Safe Shopper and SFPD programs	\$	944,794	\$ --	\$ --	\$ 944,794	\$ 2,471,157
Ambassadors and dispatch		871,296	--	--	871,296	852,967
Salaries, wages, benefits and payroll taxes		527,478	321,555	--	849,033	582,985
Maintenance and cleaning		698,547	--	--	698,547	653,848
Depreciation		403,598	9,105	--	412,703	261,015
10B police officers		300,371	--	--	300,371	316,522
Supervision (clean and safe services)		224,238	--	--	224,238	216,851
Public realm improvement projects		220,259	--	--	220,259	177,138
In-kind services		203,940	7,500	--	211,440	126,820
Security Camera Program operating expenses		198,578	--	--	198,578	146,331
Security Camera Program sub-grants		175,000	--	--	175,000	525,000
Accounting, legal and support		13,328	139,198	--	152,526	361,127
Rent and utilities		57,380	79,244	--	136,624	135,053
Downtown Streets Team Program		128,192	--	--	128,192	--
Special events and activation		50,821	--	34,061	84,882	99,315
Insurance, permits and fees		16,764	30,988	--	47,752	44,717
Public affairs, advocacy and Union Square Cares		42,928	--	--	42,928	45,961
Meetings, travel, conferences and office expenses		506	40,302	537	41,345	40,694
Clean and Safe operating expenses and projects		37,576	--	--	37,576	112,122
Marketing and promotion		35,196	--	--	35,196	136,290
Total	\$	<u>5,150,790</u>	\$ <u>627,892</u>	\$ <u>34,598</u>	\$ <u>5,813,280</u>	\$ <u>7,305,913</u>

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

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ (522,627)	\$ (525,964)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in allowance for uncollectible assessments	--	(18,910)
Depreciation	412,703	261,015
Loss on disposal of equipment	9,348	--
Changes in operating assets and liabilities:		
Promises to give	11,098	52,073
Assessments and accounts receivable	(23,076)	291,751
Prepaid expenses and deposits	(34,923)	(37,921)
Accounts payable and accrued expenses	130,346	(76,168)
Grants payable	(87,500)	87,500
Accrued benefits	9,821	5,460
Deferred revenue	(15,331)	15,918
Net Cash Provided By (Used In) Operating Activities	<u>(110,141)</u>	<u>54,754</u>
Cash Flows From Investing Activities		
Proceeds on sale/maturity of certificates of deposit	4,727,185	1,074,149
Purchase of certificates of deposit	(3,750,896)	(2,225,658)
Purchase of furniture and equipment	(173,734)	(845,314)
Net Cash Provided By (Used In) Investing Activities	<u>802,555</u>	<u>(1,996,823)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	692,414	(1,942,069)
Cash and Cash Equivalents - Beginning	<u>566,574</u>	<u>2,508,643</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,258,988</u>	<u>\$ 566,574</u>

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

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

The Union Square Business Improvement District (the USBID) was formed in 1999 by property owners and merchants to improve the image and economic vitality of the Union Square area by providing cleaning and maintenance and public safety programs to a 10 block area (the District). The USBID aims to provide services that assure a positive experience of Union Square so that Union Square will maintain its ranking as one of the top destinations in the world, that the District will be equally enjoyed by residents and workers, and that this experience will enhance the District's economic base and be reflected in positive property values for the USBID's members.

The USBID renewed its contract with the City and County of San Francisco (the City) for a ten year term on July 1, 2009. Effective with the renewal, the USBID expanded the District from the original ten blocks to twenty-seven whole or partial blocks, representing nearly 600 parcel owners in the District. The USBID also expanded services and added marketing, advocacy, beautification and capital improvement programs.

The USBID's mission statement is as follows:

The Union Square BID serves members and creates a high quality visitor experience by managing and activating public spaces, attracting new investment and advocating for the District's future success.

Major programs and services provided by the USBID are:

Clean and Safe:

- Safety and Hospitality Ambassadors – Ambassadors walk throughout the USBID to greet and assist the public with information and directions, and guide those in need of social services to appropriate resources. Ambassadors are on duty 5:30am to 11:00pm daily.
- 10B Police Officers – 10B Police Officers are on patrol in the District 10 hours daily to respond to members' needs and manage other quality of life issues in the District.
- Cleaning and Graffiti Removal – Maintenance staff are on duty daily from 5:30am to 8:30pm to clean litter from sidewalks and to remove graffiti. Each sidewalk in the District is steam cleaned every 2 weeks.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

PURPOSE AND ORGANIZATION (CONTINUED)

Silicon Valley Community Foundation:

- As a result of contributions from donor advised funds of the Silicon Valley Community Foundation, the USBID has been able to provide additional San Francisco Police Department (SFPD) patrols through the 10B program and expand the security camera project.

Other:

- Public Realm Improvements, Marketing, and Events – Promoting the Union Square area and its interests through events, digital and traditional marketing programs and public relations, public realm improvements, décor and other programs to beautify the area.
- Public Affairs Advocacy – Advocating public policy and services to ensure the economic vitality of the District.
- Union Square Cares – A program to provide homeless services and outreach and member education to help alleviate homelessness in Union Square.

BASIS OF ACCOUNTING

The USBID 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 the USBID report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the USBID are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support the USBID's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

CLASSIFICATION OF NET ASSETS (CONTINUED)

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2017, the USBID did not have any net assets meeting the definition of permanently restricted.

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

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

PROMISES TO GIVE

Unconditional promises to give are recognized as revenues in the period such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give which are scheduled to be received after one year are discounted at rates commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor imposed restrictions, if any.

The USBID uses the allowance method to account for uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

ASSESSMENTS RECEIVABLE

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

The USBID uses the allowance method to account for uncollectible assessments. The allowance for uncollectible assessments receivable reflects management's best estimate of the amounts that will not be collected based on historical experience and an evaluation of the outstanding receivables at the end of the year. As of June 30, 2017, the allowance for uncollectible assessments was approximately \$6,000.

CERTIFICATES OF DEPOSIT

The USBID's investments in certificates of deposit are carried at fair value.

FURNITURE AND EQUIPMENT

The USBID capitalizes acquisitions of furniture and equipment with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value at the date of acquisition. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities and changes in net assets.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisal, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. No impairment losses were incurred during the years ended June 30, 2017 and 2016.

ACCRUED VACATION

Full-time employees may accrue up to 13 hours per month depending on the number of years employed. Part-time employees accrue vacation on a prorated basis. Employees can accrue a maximum of 150% of their annual vacation accrual.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

REVENUE RECOGNITION

Assessment Revenue

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

Contributions

The USBID recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction. Contributions with donor-imposed restrictions that are complied with within the year of receipt are reported as unrestricted support.

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.

Contributed Goods and Services

Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the USBID reports expirations of donor restrictions over the estimated useful lives of the donated assets. The USBID reclassifies temporarily restricted net assets to unrestricted net assets at that time. There were no donations of material and equipment for the year ended June 30, 2017.

The USBID records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

For the year ended June 30, 2017, the USBID recognized contributed goods and services in the amount of \$211,440.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

INCOME TAXES

The USBID is a qualified organization exempt from federal and state income taxes under §501(c)(4) of the Internal Revenue Code and §23701d of the California Revenue and Taxation Code, respectively.

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

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

CONCENTRATIONS OF RISK

Financial instruments which potentially subject the USBID to concentrations of credit risk consist principally of cash and cash equivalents. The USBID maintains its cash in various bank deposit accounts. The USBID has a policy requiring all funds be fully insured. Management believes that the USBID is not exposed to any significant credit risk related to concentrations.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on estimates made by management.

COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the USBID's financial statements as of June 30, 2016 and for the year then ended, from which the summarized information was derived.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

RECLASSIFICATIONS

Certain amounts in the summarized comparative totals for 2016 have been reclassified to conform to the 2017 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

NOTE 2 - FAIR VALUE MEASUREMENTS

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 USBID'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). The levels of the fair value hierarchy are as follows:

Level 1

Inputs are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2

Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Level 3

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the USBID's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - FAIR VALUE MEASUREMENTS

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

Certificates of Deposit

The fair value of fixed income securities is estimated using recently executed transactions or market price quotations (where observable).

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

	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Certificates of deposit	\$ --	\$ 1,249,369	\$ --	\$ 1,249,369

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment at June 30, 2017, consist of the following:

Security camera equipment	\$ 1,331,421
Furniture and miscellaneous equipment	<u>75,112</u>
	1,406,533
Less: accumulated depreciation	<u>(797,043)</u>
Total	<u>\$ 609,490</u>

NOTE 4 - LINE OF CREDIT

The USBID renewed a revolving line of credit with Wells Fargo on January 17, 2017, which expires on February 5, 2018, for a maximum borrowing amount of \$500,000. Interest is payable at the greater of the prime rate plus 1.25% (5.50% at June 30, 2017) or the floor rate of 5.00%. The line of credit is secured by the USBID's receivables and equipment. The USBID did not borrow from the line of credit during the year ended June 30, 2017.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2017, consist of the following:

Board designated:	
Streetscape projects	\$ 121,698
Advocacy	50,124
Net investment in furniture and miscellaneous equipment	12,262
Undesignated	<u>1,637,681</u>
Total	<u>\$ 1,821,765</u>

The USBID does not receive the first assessment payment for its fiscal year until January, thus it is incumbent on the USBID to maintain approximately eight months of operating capital at the end of each fiscal year to support operations until the first payment is received in the next fiscal year. This policy will also provide for the USBID to dissolve the entity in a timely manner should its contract with the City to provide services not be renewed in June 2019.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017, consist of the following:

Net investment in security camera equipment	\$ 597,228
Security cameras	354,106
Others	<u>54,899</u>
Total	<u>\$ 1,006,233</u>

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses which satisfied the restricted purposes during the year ended June 30, 2017, as follows:

Police patrols and security cameras	\$ 502,238
Depreciation on security cameras	380,595
Other	<u>1,956</u>
Total	<u>\$ 884,789</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 8 - GRANTS

On June 16, 2015, the USBID entered into a sub-grant agreement for \$350,000 with the Central Market Community Benefit District (the CMCBD) for the purpose of purchasing, installing, operating, and maintaining security cameras and related equipment in the CMCBD. The term of the agreement was July 1, 2015 through June 30, 2017. The USBID advanced payment to the CMCBD based on evidence of progress on the project.

On November 2, 2015, the USBID entered into a sub-grant agreement for \$350,000 with the North of Market/Tenderloin Community Benefit District (the TLCBD) for the purpose of purchasing, installing, operating, and maintaining security cameras and related equipment in the TLCBD. The term of the agreement was November 2, 2015 through June 30, 2017. The USBID advanced payment to the TLCBD based on evidence of progress on the project.

The conditions associated with these sub-grants were satisfied during the year ended June 30, 2017, and as a result, no amounts are due to the sub-grantees.

NOTE 9 - COMMITMENTS

The USBID leases equipment under an agreement with a term from November 20, 2015 through February 20, 2019 requiring monthly payments of \$360. In September 2017, the USBID entered into a non-cancelable lease agreement for additional equipment requiring monthly payments of \$4,295 through August 31, 2019.

The USBID also leases its office, operations office, conference room, and storage on a month-to-month basis.

The following is a schedule of minimum lease commitments:

	For the Years Ending June 30,	Amount
	2018	\$ 55,860
	2019	54,780
	Thereafter	<u>8,590</u>
	Total	<u>\$ 119,230</u>

Rent expense for the year ended June 30, 2017, was \$126,254.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 - RELATED PARTY TRANSACTIONS

The USBID has a written conflict of interest policy that requires, among other things, that no member of the Board of Directors may participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each Board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the USBID does business with an entity in which a Board member has a material financial interest.

When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the USBID. When a conflict of interest does exist, all affected parties (Board members or staff) must refrain from the decision-making process and abstain from the voting process.

A member of the USBID's Board of Directors is also associated with an organization that received a sub-grant during the year ended June 30, 2016, in the amount of \$350,000 from the USBID (Note 8). \$87,500 was paid to the organization during the year ended June 30, 2017.

A member of the USBID's Board of Directors is also associated with a company that contributed services to the USBID in the amount of approximately \$132,000 during the year ended June 30, 2017.

NOTE 11 - SUBSEQUENT EVENTS

In July 2017, the Union Square Foundation, a separate entity, was formed to raise funds and devote resources to public realm improvement programs and homeless programs to benefit the area and greater community. As of the date of this report, there have been no transactions between the Union Square Foundation and the USBID. The Union Square Foundation applied for 501(c)(3) status with the Internal Revenue Service in August 2017.

The USBID has evaluated all subsequent events through September 29, 2017, the date the financial statements were available to be issued. Other than the disclosure above, no other events requiring recognition or disclosure in the financial statements were identified.