



UNION SQUARE
BUSINESS IMPROVEMENT
DISTRICT

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

San Francisco, California
September 20, 2018

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 1,072,337	\$ 1,258,988
Assessments receivable, net	97,576	15,414
Other receivables	174,354	40,086
Prepaid expenses and deposits	135,480	105,355
Investments	749,708	1,249,369
Furniture and equipment, net	<u>233,036</u>	<u>609,490</u>
Total Assets	<u>\$ 2,462,491</u>	<u>\$ 3,278,702</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 361,271	\$ 430,049
Accrued benefits	24,579	20,068
Deferred revenue	<u>39,060</u>	<u>587</u>
Total Liabilities	<u>424,910</u>	<u>450,704</u>
Net Assets		
Unrestricted	1,629,256	1,821,765
Temporarily restricted	<u>408,325</u>	<u>1,006,233</u>
Total Net Assets	<u>2,037,581</u>	<u>2,827,998</u>
Total Liabilities and Net Assets	<u>\$ 2,462,491</u>	<u>\$ 3,278,702</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, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	Unrestricted	Temporarily Restricted	2018	2017
Revenue and Other Support				
Assessment revenue	\$ 3,559,432	\$ --	\$ 3,559,432	\$ 3,453,377
Contributions	1,221,973	49,183	1,271,156	1,642,788
Sponsorships	122,284	--	122,284	70,422
Other revenue	76,756	--	76,756	1,549
Interest income	10,958	--	10,958	7,875
Special event	--	--	--	114,642
Net assets released from restrictions	<u>647,091</u>	<u>(647,091)</u>	<u>--</u>	<u>--</u>
Total Revenue and Other Support	<u>5,638,494</u>	<u>(597,908)</u>	<u>5,040,586</u>	<u>5,290,653</u>
Expenses				
Program	5,171,106	--	5,171,106	5,150,790
Management and administrative	588,502	--	588,502	627,892
Fundraising	<u>71,395</u>	<u>--</u>	<u>71,395</u>	<u>34,598</u>
Total Expenses	<u>5,831,003</u>	<u>--</u>	<u>5,831,003</u>	<u>5,813,280</u>
Change in Net Assets	<u>(192,509)</u>	<u>(597,908)</u>	<u>(790,417)</u>	<u>(522,627)</u>
Net Assets - Beginning	<u>1,821,765</u>	<u>1,006,233</u>	<u>2,827,998</u>	<u>3,350,625</u>
Net Assets - Ending	<u><u>\$ 1,629,256</u></u>	<u><u>\$ 408,325</u></u>	<u><u>\$ 2,037,581</u></u>	<u><u>\$ 2,827,998</u></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, 2018

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

		Program	Management and Administrative	Fundraising	2018	2017
Holiday Safe Shopper and SFPD programs	\$	943,245	\$ --	\$ --	\$ 943,245	\$ 944,794
Salaries, wages, benefits and payroll taxes		557,001	304,022	20,882	881,905	849,033
Maintenance and cleaning		826,182	--	--	826,182	698,547
Ambassadors and dispatch		803,402	--	--	803,402	871,296
Depreciation		392,608	7,619	214	400,441	412,703
10B police officers		327,038	--	--	327,038	300,371
Supervision (clean and safe services)		220,795	--	--	220,795	224,238
In-kind services		193,440	8,000	--	201,440	211,440
Security Camera Program operating expenses		164,977	--	--	164,977	198,578
Public realm improvement projects		156,936	--	--	156,936	220,259
Accounting, legal and support		25,370	127,304	639	153,313	152,526
Downtown Streets Team Program		134,941	--	--	134,941	128,192
Rent and utilities		59,837	73,012	1,798	134,647	136,624
Public affairs, advocacy and Union Square Cares		122,250	--	10,300	132,550	42,928
Clean and Safe operating expenses and projects		90,667	--	--	90,667	37,576
Events and activation		44,489	--	37,000	81,489	84,882
Marketing and promotion		65,801	--	--	65,801	35,196
Insurance, permits and fees		33,395	31,988	67	65,450	47,752
Meetings, travel, conferences and office expenses		8,732	36,557	495	45,784	41,345
Security Camera Program sub-grants		--	--	--	--	175,000
Total	\$	<u>5,171,106</u>	<u>\$ 588,502</u>	<u>\$ 71,395</u>	<u>\$ 5,831,003</u>	<u>\$ 5,813,280</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, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ (790,417)	\$ (522,627)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	400,441	412,703
Loss on disposal of equipment	--	9,348
Changes in operating assets and liabilities:		
Promises to give	--	11,098
Assessments receivable	(82,162)	(9,862)
Other receivables	(134,268)	(13,214)
Prepaid expenses and deposits	(30,125)	(34,923)
Accounts payable and accrued expenses	(68,778)	130,346
Grants payable	--	(87,500)
Accrued benefits	4,511	9,821
Deferred revenue	38,473	(15,331)
Net Cash Used In Operating Activities	<u>(662,325)</u>	<u>(110,141)</u>
Cash Flows From Investing Activities		
Proceeds on sale and maturity of certificates of deposit	3,749,661	4,727,185
Purchase of certificates of deposit	(3,250,000)	(3,750,896)
Purchase of furniture and equipment	<u>(23,987)</u>	<u>(173,734)</u>
Net Cash Provided By Investing Activities	<u>475,674</u>	<u>802,555</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(186,651)	692,414
Cash and Cash Equivalents - Beginning	<u>1,258,988</u>	<u>566,574</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,072,337</u>	<u>\$ 1,258,988</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, 2018

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, 2018

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, 2018

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, 2018, 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.

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, 2018, the allowance for uncollectible assessments was approximately \$6,000.

INVESTMENTS

The USBID's investments in fixed income securities are carried at fair value.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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 year ended June 30, 2018.

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.

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.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

REVENUE RECOGNITION (CONTINUED)

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 fair 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, 2018.

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, 2018, the USBID recognized contributed services in the amount of \$201,440.

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.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

INCOME TAXES (CONTINUED)

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, 2018, 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

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.

Assessments Receivable

As of June 30, 2018, 94% of assessments receivable were due from one entity. The balance due was paid in full in July 2018.

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.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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, 2017, and for the year then ended, from which the summarized information was derived.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, representing the completion of the first phase of a two-phase project to amend not-for-profit ("NFP") financial reporting requirements as set out in FASB ASC 958, *Not-for-Profit Entities*.

This standard:

- Eliminates the distinction between resources with permanent restrictions and those with temporary restrictions from the face of the financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions).
- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.
- Requires NFP entities to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.
- Requires NFP entities to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

NFP entities will reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. This amendment eliminates the current option that, in the absence of explicit donor stipulations, had allowed a NFP entity to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed) rather than when placed in service.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

NEW ACCOUNTING STANDARDS (CONTINUED)

ASU 2016-14 also requires enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how a NFP entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position.
- Quantitative information and additional qualitative information in the notes as necessary, that communicates the availability of a NFP entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.
- Amounts of expenses by both their natural classification and their functional classification and the methods used to allocate costs among program and support functions.
- Underwater endowment funds.

NFP entities are required to adopt this standard for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact of this new guidance.

RECLASSIFICATIONS

Certain amounts in the summarized comparative totals for 2017 have been reclassified to conform to the 2018 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. 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.

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 during the year ended June 30, 2018.

Investments

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

The following table provides information about the USBID's financial assets measured at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ <u> --</u>	\$ <u> 749,708</u>	\$ <u> --</u>	\$ <u> 749,708</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment at June 30, 2018, consist of the following:

Security camera equipment	\$ 1,348,862
Furniture and miscellaneous equipment	<u>78,948</u>
	1,427,810
Less: accumulated depreciation	<u>(1,194,774)</u>
Total	<u>\$ 233,036</u>

NOTE 4 - LINE OF CREDIT

The USBID renewed a revolving line of credit with Wells Fargo Bank on March 12, 2018, which expires on April 5, 2019, for a maximum borrowing amount of \$500,000. Interest is payable at the greater of the prime rate plus 1.25% (6.25% at June 30, 2018) 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, 2018.

NOTE 5 - UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2018, consist of the following:

Board designated for Advocacy	\$ 32,624
Net investment in furniture and miscellaneous equipment	7,117
Undesignated	<u>1,589,515</u>
Total	<u>\$ 1,629,256</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 July 2019 (Note 10).

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018, consist of the following:

Net investment in security camera equipment	\$ 225,919
Security cameras	105,646
All others	<u>76,760</u>
Total	<u>\$ 408,325</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, 2018, as follows:

Police patrols and security cameras	\$ 240,732
Depreciation on security cameras	391,460
Other	<u>14,899</u>
Total	<u>\$ 647,091</u>

NOTE 8 - 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.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - COMMITMENTS (CONTINUED)

The following is a schedule of minimum lease commitments:

For the Years Ending June 30,	Amount
2019	\$ 54,780
2020	<u>8,590</u>
Total	<u>\$ 63,370</u>

Rent expense for the year ended June 30, 2018, was \$127,809.

NOTE 9 - 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 a company that contributed services to the USBID in the amount of approximately \$145,000 during the year ended June 30, 2018.

Union Square Foundation

The Union Square Foundation ("USF"), a separate entity exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code, is an affiliate organization of the USBID. The USF was formed to raise funds and devote resources to public realm improvement programs and homeless programs to benefit the area and greater community. The USBID's and USF's exempt purposes are closely aligned. Four members of the USBID's Board of Directors are also Board members of the USF.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

Union Square Foundation (Continued)

During the year ended June 30, 2018, the USBID and USF entered into a service agreement for a term of one year in which USF pays for administration and management of programmatic services conducted by the USBID, including the security camera program. During the year ended June 30, 2018, the USBID provided services of approximately \$77,000 to USF. At June 30, 2018, approximately \$62,000 is due from USF and is included in other receivables in the statement of financial position.

NOTE 10 - RISKS AND UNCERTAINTIES

The USBID is currently undergoing a renewal campaign as the term of the current contract with the City ends on June 30, 2019. In order for the contract to be renewed, a formal resolution must be voted on by the San Francisco Board of Supervisors in July 2019. Results of the renewal campaign indicate the majority of property owners and businesses are highly supportive of the USBID's renewal for a proposed term of 10 years. As such, management expects that the contract with the City will be renewed and the USBID will continue operations. Should the contract not be renewed, the USBID would cease operations; management believes the USBID has the resources needed to meet its future obligations as it dissolves the entity (Note 5).

NOTE 11 - SUBSEQUENT EVENTS

The USBID has evaluated all subsequent events through September 20, 2018, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.