

THE EAST CUT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

THE EAST CUT COMMUNITY BENEFIT DISTRICT

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The East Cut Community Benefit District, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The East Cut Community Benefit District as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

San Francisco, California
December 3, 2018

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 2,345,066	\$ 814,501
Assessments receivable, net	34,411	40,306
Other receivable	13,062	8,671
Cash held for long term investments	790,988	563,576
Investments	234,169	1,199,141
Capital assets, net	<u>24,279</u>	<u>45,210</u>
Total Assets	<u>\$ 3,441,975</u>	<u>\$ 2,671,405</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 1,210,457</u>	<u>\$ 478,319</u>
Total Liabilities	1,210,457	478,319
Net Assets Unrestricted	<u>2,231,518</u>	<u>2,193,086</u>
Total Liabilities and Net Assets	<u>\$ 3,441,975</u>	<u>\$ 2,671,405</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Revenue, Gains, and Other Support		
Assessment revenue	\$ 3,287,636	\$ 2,422,765
Contributions	44,711	10,666
In-kind contributions	49,783	49,765
Interest and other income	<u>23,825</u>	<u>11,815</u>
Total Revenue, Gains, and Other Support	<u>3,405,955</u>	<u>2,495,011</u>
Expenses		
Program services	3,099,443	1,985,048
Supporting services:		
Management and administrative	<u>268,080</u>	<u>252,829</u>
Total Expenses	<u>3,367,523</u>	<u>2,237,877</u>
Change in Net Assets	38,432	257,134
Net Assets - Beginning	<u>2,193,086</u>	<u>1,935,952</u>
Net Assets - Ending	<u>\$ 2,231,518</u>	<u>\$ 2,193,086</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services					Supporting Services		
	Public Safety	Cleaning & Maintenance	Communication & Activation	Parks and Green Space	Total	Management and Administration	Fundraising	Total
Management personnel expenses	\$ 57,531	\$ 57,816	\$ 97,614	\$ 119,426	\$ 332,387	\$ 125,159	\$ --	\$ 457,546
Contract services	917,808	600,342	246	874,628	2,393,024	502	--	2,393,526
Accounting and audit	--	--	--	--	--	53,388	--	53,388
Legal fees	6,117	4,357	764	13,040	24,278	30,065	--	54,343
General consulting	13,160	8,580	39,473	19,296	80,509	6,581	--	87,090
Rent and utilities	26,408	17,028	2,135	35,378	80,949	6,855	--	87,804
Office equipment rental	552	352	46	755	1,705	146	--	1,851
Office equipment and supplies	3,689	3,921	1,728	188	9,526	15,249	--	24,775
Insurance - liability	3,643	2,323	300	4,977	11,243	964	--	12,207
Dues and subscriptions	--	--	--	--	--	3,105	--	3,105
Conference, convention, and meeting	220	241	43	130	634	795	--	1,429
Bank fees	--	--	--	--	--	448	--	448
Payroll fees	688	691	1,167	1,428	3,974	1,496	--	5,470
Marketing and branding	18,937	13,736	17,725	30,887	81,285	77	--	81,362
Community events	1,205	1,398	3,251	23,911	29,765	1,016	--	30,781
In-kind goods	5,447	6,161	7,149	27,937	46,694	3,089	--	49,783
Depreciation	1,125	717	92	1,536	3,470	19,145	--	22,615
Total	<u>\$ 1,056,530</u>	<u>\$ 717,663</u>	<u>\$ 171,733</u>	<u>\$ 1,153,517</u>	<u>\$ 3,099,443</u>	<u>\$ 268,080</u>	<u>\$ --</u>	<u>\$ 3,367,523</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services				Supporting Services			
	Public Safety	Cleaning & Maintenance	Communication & Activation	Parks and Green Space	Total	Management and Administration	Fundraising	Total
Management personnel expenses	\$ 60,265	\$ 65,049	\$ 64,928	\$ 48,646	\$ 238,888	\$ 131,213	\$ --	\$ 370,101
Contract services	822,122	514,337	--	48,790	1,385,249	--	--	1,385,249
Marketing and branding	--	--	151,497	--	151,497	--	--	151,497
General consulting	--	--	--	900	900	5,481	--	6,381
Legal fees	12,377	13,219	3,909	2,944	32,449	19,954	--	52,403
Accounting and audit	--	--	--	--	--	36,356	--	36,356
Rent and utilities	29,513	18,822	2,399	17,981	68,715	7,706	--	76,421
Office equipment rental	--	--	--	--	--	6,793	--	6,793
Travel and meetings	--	--	--	486	486	--	--	486
Community events	3,333	3,333	17,905	33,585	58,156	--	--	58,156
Insurance - liability	--	--	--	--	--	12,378	--	12,378
Office equipment and supplies	7,814	4,558	2,295	2,916	17,583	3,064	--	20,647
Dues and subscriptions	--	--	--	--	--	1,653	--	1,653
Conference, convention, and meeting	--	--	--	--	--	1,747	--	1,747
Start up costs	--	--	--	--	--	14,010	--	14,010
In-kind goods	--	--	5,350	3,000	8,350	5,877	--	14,227
In-kind services	--	--	22,775	--	22,775	--	--	22,775
Payroll fees	--	--	--	--	--	5,147	--	5,147
Bank fees	--	--	--	--	--	1,450	--	1,450
Total	\$ 935,424	\$ 619,318	\$ 271,058	\$ 159,248	\$ 1,985,048	\$ 252,829	\$ --	\$2,237,877

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, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 38,432	\$ 257,134
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	22,615	--
Changes in operating assets and liabilities:		
Assessments receivable	5,895	9,479
Other receivable	(4,391)	(8,671)
Accounts payable and accrued expenses	<u>732,138</u>	<u>350,119</u>
Net Cash Provided by Operating Activities	<u>794,689</u>	<u>608,061</u>
Cash Flows From Investing Activities		
Purchase of investments	(2,000,000)	(599,141)
Redemption of investment	2,964,972	--
Purchase of capital assets	<u>(1,684)</u>	<u>(42,035)</u>
Net Cash Used in Investing Activities	<u>963,288</u>	<u>(641,176)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,757,977	(33,115)
Cash and Cash Equivalents - Beginning	<u>1,378,077</u>	<u>1,411,192</u>
Cash and Cash Equivalents - Ending	<u>\$ 3,136,054</u>	<u>\$ 1,378,077</u>
Balance Sheet Presentation		
Cash and cash equivalents	\$ 2,345,066	\$ 814,501
Cash held for long-term investment	<u>790,988</u>	<u>563,576</u>
	<u>\$ 3,136,054</u>	<u>\$ 1,378,077</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, 2018 AND 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

The East Cut Community Benefit District (“ECCBD”) 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”). During the year ended June 30, 2017, ECCBD changed its legal name and was formerly known as The Greater Rincon Hill Association dba Greater Rincon Hill Community Benefit 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.

Programs and services provided by ECCBD include:

- **Public Safety** – The daytime security Community Guides will 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 6:00am to 8:00pm, 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 6:00am to 8:00pm. The Clean Team steams clean all sidewalks in the district once a month, work daily on sidewalk sweeping and trash can topping. They also remove graffiti on an on-call basis, daily.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

PURPOSE AND ORGANIZATION (CONTINUED)

- **Dispatch** – All ECCBD clean and safe services are accessed through a neighborhood dispatch system available from 7:00am to 11:00pm on Sunday through Thursday and 24 hours a day Friday and Saturday.
- **Parks and Greenspace** – The Parks and Greenspace program includes irrigation systems management and repair; pest control; tree, shrub, and ground maintenance; gardening/weeding; arborist and horticultural consultation; seasonal fire fuel reduction; trash off-haul; pavement and pathway repairs/care; small capital improvements such as replacement of plant materials, fixtures, furniture, and equipment; emergency repair projects. Projects that the ECCBD is involved in are; Guy Place Park, Under-Ramp Park and Essex Hillside (beginning 2017); Transbay Park (beginning 2019); Parklets, and District street trees and a portion of maintenance and operations for City Park (in 2018); and Park utilities (water and electric).
- **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. A professionally-managed communication and development program will be created. 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 updated.

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 according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of ECCBD are classified and reported as described below:

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

CLASSIFICATION OF NET ASSETS (CONTINUED)

Unrestricted: 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.

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 and 2017, the ECCBD did not have any net assets meeting the definition of temporarily or permanently restricted.

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 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

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

ASSESSMENTS RECEIVABLE

Assessments receivable represents obligations of local property owners due to ECCBD. Unpaid receivables 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, 2018 and 2017, management believes all assessments will be collected, and therefore, an allowance for uncollectible assessments was not needed.

CERTIFICATES OF DEPOSIT

The ECCBD certificates of deposit are valued at fair value based upon quoted prices.

CAPITAL ASSETS

ECCBD capitalizes acquisitions of capital assets with a cost or value in excess of \$1,000 and 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 acquisition. Depreciation on furniture and equipment is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 10 years. Website development costs are amortized using the straight-line method over 3 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.

REVENUE RECOGNITION

Assessment Revenue

ECCBD receives its support primarily from a special assessment levied by the City on properties located within the District in accordance with City Ordinance. The assessment is 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 contributions when they are received or unconditionally promised. 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

REVENUE RECOGNITION (CONTINUED)

Contributions (continued)

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, 2018 and 2017, ECCBD received cash contributions of \$44,711 and \$10,666, respectively.

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, ECCBD reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ECCBD reclassifies temporarily restricted net assets to unrestricted net assets at that time.

ECCBD 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, ECCBD received contributed goods and services in the amount of \$49,783 and \$0, respectively. For the year ended June 30, 2017, ECCBD received contributed goods and services in the amount of \$22,775 and \$14,227 respectively. Additionally, during the year ended June 30, 2017, ECCBD received a fixed asset contribution for \$12,763.

ADVERTISING

The costs of advertising are charged to expense as incurred. Advertising expense for the years ended June 30, 2018 and 2017, was \$81,362 and \$151,497, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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.

Management evaluated ECCBD's tax positions and concluded it maintained its tax exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

The 2014 through 2017 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2013 through 2017 tax years remain subject to examination by the California Franchise Tax Board. However, management is unaware of any pending examinations nor are there any 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 23% of total expenses incurred during the year ended June 30, 2018 were attributed to safety and cleaning services provided by one vendor. Management believes that ECCBD is not exposed to any significant credit risk related to concentrations.

Revenue

For each of the years ended June 30, 2018 and 2017, ECCBD received 97% of its total income from the City in the form of assessments.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statement 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 an analysis of personnel time by each program or activity.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

FUNDRAISING REQUIREMENTS

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

For the years ended June 30, 2018 and 2017, ECCBD has satisfied these requirements.

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 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 date.
- 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 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

For example, a 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.

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.

Certificates of deposit: Certificates of deposits are valued at cost plus accrued interest which approximates fair value. These securities are classified within Level 2 of the fair value hierarchy.

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

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ --	\$ 1,199,141	\$ --	\$ 1,199,141

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ --	\$ --	\$ --	\$ --

ECCBD's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. ECCBD had no transfers into or out of levels of the fair value hierarchy during the years ended June 30, 2018 and 2017.

NOTE 3 - CAPITAL ASSETS

Capital assets at June 30, 2018 and 2017, consist of the following:

	2018	2017
Computers	\$ 7,688	\$ 6,004
Furniture and equipment	3,588	3,588
Construction-in-progress	--	35,618
Leasehold improvements	35,618	--
Less: accumulated depreciation and amortization	<u>(22,615)</u>	<u>--</u>
Total	<u>\$ 24,279</u>	<u>\$ 45,210</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$22,615 and \$0, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 4 - UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 1,749,434	\$ 1,996,651
Board Designated - Strategic Investment	<u>482,084</u>	<u>196,435</u>
Total	<u>\$ 2,231,518</u>	<u>\$ 2,193,086</u>

NOTE 5 - RETIREMENT PLAN

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

NOTE 6 - COMMITMENTS

ECCBD has a three year office lease agreement expiring on June 30, 2019. The lessor is represented by a Board member. ECCBD also has a five year office equipment lease expiring on June 30, 2021.

The following is a schedule of minimum lease commitments:

For the Years Ending			
June 30,	Office Lease	Copier Lease	Total
2019	\$ 54,323	\$ 1,572	\$ 55,895
2020	--	1,572	1,572
2021	--	<u>1,572</u>	<u>1,572</u>
Total	<u>\$ 54,323</u>	<u>\$ 4,716</u>	<u>\$ 59,039</u>

For the years ended June 30, 2018 and 2017, the rent expense was \$82,435 and \$69,637, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 7 - SUBSEQUENT EVENTS

ECCBD has evaluated all subsequent events through December 3, 2018, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.