



**COMMUNITY BENEFIT
DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

LOWER POLK COMMUNITY BENEFIT 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	7-19
--	------

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lower Polk Community Benefit District

Report on the Financial Statements

We have audited the accompanying financial statements of Lower Polk Community Benefit 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 Lower Polk Community Benefit 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 Financial Information

We have previously audited Lower Polk Community Benefit District's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 2, 2018. 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
August 5, 2019

LOWER POLK COMMUNITY BENEFIT 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	\$ 440,439	\$ 1,250,296
Assessments and other receivables	22,067	21,079
Grants receivable	240,205	--
Prepaid expenses	72,537	18,566
Restricted cash	5,000	3,604
Property and equipment, net of accumulated depreciation and amortization	<u>448,662</u>	<u>119,727</u>
Total Assets	<u>\$ 1,228,910</u>	<u>\$ 1,413,272</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 119,326	\$ 97,451
Accrued expenses	<u>94,862</u>	<u>12,644</u>
Total Liabilities	<u>214,188</u>	<u>110,095</u>
Net Assets		
Unrestricted	1,014,722	1,282,122
Temporarily restricted	<u>--</u>	<u>21,055</u>
Total Net Assets	<u>1,014,722</u>	<u>1,303,177</u>
Total Liabilities and Net Assets	<u>\$ 1,228,910</u>	<u>\$ 1,413,272</u>

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

LOWER POLK COMMUNITY BENEFIT DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

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

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
Revenue, Gains, and Other Support				
Assessment revenue	\$ 874,239	\$ --	\$ 874,239	\$ 803,205
Grant revenue	259,699	--	259,699	141,492
Contributions	--	1,500	1,500	62,000
Other income	136	--	136	3,589
Interest	753	--	753	674
Net assets released from restrictions	<u>22,555</u>	<u>(22,555)</u>	<u>--</u>	<u>--</u>
Total Revenue, Gains, and Other Support	<u>1,157,382</u>	<u>(21,055)</u>	<u>1,136,327</u>	<u>1,010,960</u>
Expenses				
Program services				
Cleaning, maintenance, and safety	736,744	--	736,744	1,077,515
Marketing, streetscape, and beautification	377,704	--	377,704	206,605
Supporting services				
Management and general	264,605	--	264,605	295,946
Fundraising	<u>45,729</u>	<u>--</u>	<u>45,729</u>	<u>15,506</u>
Total Expenses	<u>1,424,782</u>	<u>--</u>	<u>1,424,782</u>	<u>1,595,572</u>
Change in Net Assets	(267,400)	(21,055)	(288,455)	(584,612)
Net Assets - Beginning	<u>1,282,122</u>	<u>21,055</u>	<u>1,303,177</u>	<u>1,887,789</u>
Net Assets - Ending	<u>\$ 1,014,722</u>	<u>\$ --</u>	<u>\$ 1,014,722</u>	<u>\$ 1,303,177</u>

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

LOWER POLK COMMUNITY BENEFIT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

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

	Program Services			Supporting Services			2018	2017
	Cleaning, Maintenance, and Safety	Marketing, Streetscape, and Beautification	Total	Management and General	Fundraising			
Street maintenance and operations	\$ 295,973	\$ 2,176	\$ 298,149	\$ 5,850	\$ --	\$ 303,999	\$ 850,700	
Salaries and wages	184,044	120,477	304,521	82,529	30,100	417,150	318,668	
Contract services	--	104,241	104,241	--	--	104,241	89,506	
Legal, accounting, and other professional fees	51,868	60,405	112,273	54,417	3,923	170,613	108,049	
Rent and other occupancy expenses	56,275	4,690	60,965	34,798	--	95,763	87,781	
Employee benefits	27,734	20,864	48,598	17,825	4,863	71,286	37,749	
Depreciation and amortization	40,047	15,715	55,762	9,618	2,061	67,441	5,261	
Office supplies and expenses	17,644	16,713	34,357	29,681	21	64,059	25,948	
Insurance	34,877	12,553	47,430	4,379	1,712	53,521	--	
Payroll taxes	16,263	9,843	26,106	7,465	2,417	35,988	28,343	
Meeting, conference and travel	5,321	4,683	10,004	10,344	334	20,682	16,021	
Telephone and internet service	6,518	3,362	9,880	3,953	298	14,131	14,331	
Equipment, maintenance, and repairs	180	--	180	1,565	--	1,745	9,300	
Events and marketing	--	1,982	1,982	2,181	--	4,163	1,490	
Diversion of assets	--	--	--	--	--	--	2,425	
Total	<u>\$ 736,744</u>	<u>\$ 377,704</u>	<u>\$ 1,114,448</u>	<u>\$ 264,605</u>	<u>\$ 45,729</u>	<u>\$ 1,424,782</u>	<u>\$ 1,595,572</u>	

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

LOWER POLK COMMUNITY BENEFIT DISTRICT

STATEMENT OF CASH FLOWS

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

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (288,455)	\$ (584,612)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	67,441	5,261
(Increase) decrease in assets		
Assessments and other receivables	(988)	(10,552)
Grants receivable	(240,205)	--
Promises to give	--	500,000
Prepaid expenses	(53,971)	22,274
Increase in liabilities:		
Accounts payable	21,875	9,889
Accrued expenses	<u>82,218</u>	<u>5,681</u>
Net Cash Used in Operating Activities	(412,085)	(52,059)
Cash Flows From Investing Activities		
Purchase of capital assets	<u>(396,376)</u>	<u>(105,007)</u>
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(808,461)	(157,066)
Cash, Cash Equivalents and Restricted Cash - Beginning	<u>1,253,900</u>	<u>1,410,966</u>
Cash, Cash Equivalents and Restricted Cash - Ending	<u>\$ 445,439</u>	<u>\$ 1,253,900</u>
Balance Sheet Presentation		
Cash and cash equivalents	\$ 440,439	\$ 1,250,296
Restricted cash	<u>5,000</u>	<u>3,604</u>
	<u>\$ 445,439</u>	<u>\$ 1,253,900</u>

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

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lower Polk Community Benefit District (the “LPCBD”) is a not-for-profit community-based organization. LPCBD was formed in 2014 and began operations in 2016. The property owners of the business district formed the LPCBD to improve the quality of life in the area by making the area cleaner, safer, and well maintained. The LPCBD has a contract with the City and County of San Francisco (the “City”) for a term of 15 years, expiring on June 30, 2029. LPCBD is generally 22 whole or partial blocks from approximately the south side of California Street to the east side of Van Ness Avenue and from the north side of Myrtle Street to the west side of Larkin Street.

LPCBD exists to implement programs to create a neighborhood that is safer, cleaner, and a better place to conduct business and live. These programs and services are funded by district property owners in the Lower Polk neighborhood.

LPCBD’s mission statement is as follows:

Lower Polk Community Benefit District will advance the quality of life for residents, workers, and visitors, 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 the LPCBD include:

- **Cleaning and Maintenance** – Includes regular sidewalk sweeping, alley cleaning, refuse removal, regularly scheduled steam cleanings, pressure washing, graffiti removal, tree pruning and watering, tree well weeding with crushed granite replenishment. On April 30, 2018, LPCBD terminated its contract with an outside vendor to provide the majority of these services and hired a work force to bring these services in-house.
- **Safety Ambassadors** – The program works with residents, merchants and youth on a variety of safety programs and strategies. Safety Ambassadors on Foot Patrol provide a reassuring presence, whom continually engage members of the public, interact with merchants to share safety related information, and report any observed illegal behaviors to the police.
- **Marketing, Streetscape and Beautification Program** – This program is designed to augment existing City services to ensure new marketing initiatives designed to promote both the stability and growth within the area.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

BASIS OF ACCOUNTING

LPCBD 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 the accrual method of 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 LPCBD 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 LPCBD 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 LPCBD’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 the year then ended, LPCBD did not have any net assets meeting the definition of 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.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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

LPCBD considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of checking and money market accounts.

ASSESSMENTS AND OTHER RECEIVABLES

Assessments and other receivables represent amounts due from the City for obligations of local property owners collected on LPCBD's behalf and other amounts due to LPCBD for City hiring programs. Unpaid receivables do not accrue interest.

LPCBD 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, management believes all assessments will be collected, and therefore, an allowance for uncollectible assessments was not required.

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.

LPCBD uses the allowance method to account for uncollectible unconditional promises to give. The allowance is based on past experience and management's analysis of promises to give. As of June 30, 2018, management did not have any uncollected promises to give.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

PROPERTY AND EQUIPMENT

LPCBD capitalized acquisitions of property and equipment with a cost or value in excess of \$1,000 and an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation of vehicles, furniture, and equipment is calculated using the straight-line method based upon estimated useful lives ranging from 5 to 7 years. Depreciation on leasehold improvements is calculated using the straight-line method over the term of the respective lease. Website costs are amortized using the straight-line method over estimated useful life of 3 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation and amortization of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities and changes in net assets.

ACCRUED VACATION

Full-time employees may accrue up to 16.67 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 300 hours of vacation and are entitled to payment of all unused time upon separation from employment.

REVENUE RECOGNITION

Assessment Revenue

LPCBD receives its support primarily from a special assessment levied by the City on properties located within the business district in accordance with City Ordinance. The assessment is recorded by LPCBD when earned. The City remits the assessments to LPCBD 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 and Grant Revenue

LPCBD recognizes all contributions when they are received or unconditionally promised. Revenues from cost-reimbursement programs are recognized over the grant or contract period as costs are incurred. 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 donor-imposed restriction.

LOWER POLK COMMUNITY BENEFIT 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 and Grant Revenue (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.

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

LPCBD 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, LPCBD did not recognize any contributed goods and services.

Other Income

Other income represents income from City programs and fiscal fees. This revenue is recognized when earned in accordance with program guidelines.

ADVERTISING

The costs of advertising are charged to expense as incurred. Advertising expense for the year ended June 30, 2018 was \$2,650.

INCOME TAXES

LPCBD is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code ("IRC") and §23701d of the California Revenue and Taxation Code. Accordingly, LPCBD is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

LOWER POLK COMMUNITY BENEFIT 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)

U.S. GAAP requires management to evaluate the tax positions taken and recognize a tax liability (or asset) if LPCBD has taken an uncertain position that more-likely-than-not would not be sustained upon examination by taxing authorities. Management evaluated LPCBD's tax positions and concluded that as of June 30, 2018, 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 these financial statements.

During the year ended June 30, 2018, the Internal Revenue Service ("IRS") incorrectly placed LPCBD on the auto-revocation list, which denied its tax-exempt status. The IRS acknowledged the error in a letter dated February 14, 2018, and restored its tax-exempt status. LPCBD is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods pending or in progress.

CONCENTRATIONS OF RISK

Financial Instruments

Financial instruments which potentially subject LPCBD to concentrations of credit risk consist principally of cash and cash equivalents. LPCBD maintains its cash in various bank deposit accounts, which, at times, may exceed federally insured limits. LPCBD has not experienced any losses in cash and cash equivalents and management believes that LPCBD is not exposed to any significant credit risk related to concentrations.

Revenue

During the year ended June 30, 2018, LPCBD received 99.8% of its total income from the City in the form of assessments and revenue from other programs.

FUNCTIONAL EXPENSE ALLOCATIONS

The costs of providing various programs and supporting services have been summarized on a functional basis in the 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 management's estimates and analysis of personnel time spent on each program or activity.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

SUMMARIZED COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative financial 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 LPCBD's financial statements as of June 30, 2017, and for the year then ended from which the summarized information was derived.

Certain prior year summarized comparative information has been reclassified to conform to the current year's presentation.

FUNDRAISING REQUIREMENTS

The City's contract requires LPBCD to annually raise not less than 5.55% of its annual budget from sources other than the City's assessments. For the year ended June 30, 2018, LPCBD satisfied this requirement.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued new guidance, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, concerning recognition and measurement of revenue. In addition, significant additional disclosures are required about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and will replace virtually all existing revenue guidance, including most industry-specific guidance. The FASB also issued ASU 2015-14, which deferred the effective date of ASU 2014-09. The guidance is applicable for annual reporting periods beginning after December 15, 2018. Management does not expect this guidance to materially impact LPCBD's financial statements.

On August 18, 2016, the 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).

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- 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.

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.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

NFP entities are required to adopt this standard for annual reporting periods beginning after December 15, 2017. Management expects this guidance to change the presentation of the financial statements but not to materially impact the accounting for LPCBD.

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities.

On July 17, 2019, FASB voted to issue proposals to delay the effective date of this ASU by at least one year. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2022 under the proposed delay. Early application is permitted. Management is evaluating the impact of this new guidance.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 applies to all entities, including business entities that receive or make contributions of cash and other assets (except for transfers of assets from government entities to business entities). ASU 2018-08 provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. Making this determination is important because distinguishing between contributions and exchange transactions determines which guidance is applied. For contributions, an entity should follow the guidance in FASB ASC 958-605, *Not-for-Profit Entities—Revenue Recognition*, whereas, for exchange transactions, an entity should follow other guidance (for example, FASB ASC 606, *Revenue from Contracts with Customers*).

ASU 2018-08 could result in more grants and contracts being accounted for as contributions (often-conditional contributions) than under current U.S. GAAP. Accounting for the grant or contract as a contribution is expected to be less costly than applying FASB ASC 606 (including the additional disclosure requirements). ASU 2018-08 also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The ASU requires entities to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

Additionally, ASU 2018-08 modifies the simultaneous release option currently in U.S. GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions, if the restriction is met in the same period that the revenue is recognized. This election may now be made for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns.

A not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market would apply the new standard for transactions in which the entity serves as a resource recipient to annual reporting periods beginning after June 15, 2018, including interim periods within that annual period. Other organizations would apply the standard to annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is evaluating the impact of this new guidance.

NOTE 2 - RESTRICTED CASH

On September 16, 2017, the Board authorized LPCBD to enter into a fiscal sponsorship agreement with Middle Polk Community Benefit District's ("MPCBD") Steering Committee. Restricted cash represents amounts received to support MPCBD in accordance with this agreement.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - PROPERTY AND EQUIPMENT

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

Computers and office equipment	\$	19,370
Furniture and fixtures		5,136
Machinery and equipment		69,984
Leasehold improvements		366,704
Vehicles		25,000
Website		<u>37,660</u>
Total property and equipment		523,854
Less: accumulated depreciation and amortization		<u>(75,192)</u>
Property and Equipment, Net	\$	<u>448,662</u>

During the year ended June 30, 2018, depreciation and amortization expense was \$67,441.

NOTE 4 - UNRESTRICTED NET ASSETS

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

Capital assets, net	\$	448,662
Undesignated		<u>566,060</u>
Total	\$	<u>1,014,722</u>

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 5 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended June 30, 2018, net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donor as follows:

Hemlock Mural Project	\$ 14,055
Alley Cat Bench Project	7,000
Back to School Project	<u>1,500</u>
Total	<u><u>\$ 22,555</u></u>

NOTE 6 - RETIREMENT PLAN

Effective January 1, 2016, LPCBD established a defined contribution retirement plan (the "Plan") for employees over 18 years of age. All employees employed on April 27, 2016, are considered eligible. The Plan allows eligible employees to make voluntary contributions by salary reduction up to 92% of compensation but not to exceed the limits allowed by the IRC.

Any eligible employee who does not make a voluntary contribution election or elects out of the Plan, will be automatically enrolled in the Plan with a salary reduction of 3% for the first year, with 1% increases annually up to 6% of compensation. LPCBD will match employee's contributions 100% up to 1% of compensation and 50% from 2% up to 6% of compensation. LPCBD may also make discretionary profit sharing contributions.

During the year ended June 30, 2018, LPCBD made \$10,576 in matching contributions, included in management and general, salaries and wages expenses on the statement of functional expenses. During the year ended June 30, 2018, LPCBD did not make a profit sharing contribution.

NOTE 7 - COMMITMENTS

FUNDING

LPCBD's revenue, which is derived from government grants and contracts, is subject to audit by the governmental agencies. In accordance with the terms of the City's contracts, an audit may be performed by an authorized City representative. Should such an audit disclose any unallowable costs, LPCBD may be liable to the City for reimbursement of such costs.

LOWER POLK COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - COMMITMENTS (CONTINUED)

FUNDING (CONTINUED)

In the opinion of LPCBD's management the effect of any disallowed costs would be insignificant to the financial statements as of June 30, 2018, and for the year then ended.

LEASE

LPCBD leases office space in San Francisco, California, under an operating lease that commenced on November 1, 2016 and expires October 31, 2021. The lease calls for monthly payments at \$4,200 that escalate to \$8,439 during the fifth year.

The following is a schedule of minimum lease commitments:

For the Years Ending	Office Lease
June 30,	
2019	\$ 94,087
2020	96,901
2021	99,799
2022	<u>33,757</u>
Total	<u>\$ 324,544</u>

During the year ended June 30, 2018, LPCBD paid rent in the amount of \$94,923.

NOTE 8 - RELATED PARTY TRANSACTION

The Board President of LPCBD is married to the office manager of LPCBD. During the year ended June 30, 2018, the office manager received compensation of approximately \$59,000.

NOTE 9 - SUBSEQUENT EVENTS

LPCBD has evaluated all subsequent events through August 5, 2019, the date the financial statements were available to be issued and has determined there are no material subsequent events that are required to be disclosed.