



UNION SQUARE
BUSINESS IMPROVEMENT
DISTRICT

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)**

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, 2019, and the related statements of activities, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
September 30, 2019

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 925,690	\$ 1,072,337
Assessments receivable, net	5,281	97,035
Other receivables	71,414	174,895
Prepaid expenses and deposits	114,447	135,480
Investments	879,911	749,708
Furniture and equipment, net	<u>146,278</u>	<u>233,036</u>
Total Assets	<u>\$ 2,143,021</u>	<u>\$ 2,462,491</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 294,319	\$ 361,271
Accrued vacation	34,337	24,579
Deferred revenue	<u>23,675</u>	<u>39,060</u>
Total Liabilities	<u>352,331</u>	<u>424,910</u>
Net Assets		
Without donor restrictions	1,731,437	1,848,301
With donor restrictions	<u>59,253</u>	<u>189,280</u>
Total Net Assets	<u>1,790,690</u>	<u>2,037,581</u>
Total Liabilities and Net Assets	<u>\$ 2,143,021</u>	<u>\$ 2,462,491</u>

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

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)**

	Without Donor Restrictions	With Donor Restrictions	2019	2018
Revenue and Support				
Assessment revenue	\$ 3,670,175	\$ --	\$ 3,670,175	\$ 3,559,432
Contributions	1,418,284	1,720	1,420,004	1,259,869
Sponsorships	331,759	--	331,759	122,284
Contract revenue	327,263	--	327,263	88,043
Interest income	18,456	--	18,456	10,958
Net assets released from restrictions				
Satisfaction of purpose restrictions	131,747	(131,747)	--	--
Total Revenue and Support	<u>5,897,684</u>	<u>(130,027)</u>	<u>5,767,657</u>	<u>5,040,586</u>
Expenses				
Program Services:				
Clean and Safe	2,942,848	--	2,942,848	2,738,304
Holiday Safe Shopper	1,000,000	--	1,000,000	1,000,000
Marketing, Public Realm, and Advocacy	939,996	--	939,996	696,040
Security Camera	484,807	--	484,807	690,942
Total Program Services	5,367,651	--	5,367,651	5,125,286
Management and general	529,540	--	529,540	588,502
Fundraising	117,357	--	117,357	117,215
Total Expenses	<u>6,014,548</u>	<u>--</u>	<u>6,014,548</u>	<u>5,831,003</u>
Change in Net Assets	(116,864)	(130,027)	(246,891)	(790,417)
Net Assets - Beginning of Year	<u>1,848,301</u>	<u>189,280</u>	<u>2,037,581</u>	<u>2,827,998</u>
Net Assets - End of Year	<u>\$ 1,731,437</u>	<u>\$ 59,253</u>	<u>\$ 1,790,690</u>	<u>\$ 2,037,581</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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)**

	Program Services				Total Program	Supporting Services			2019 Total	2018 Total
	Clean and Safe	Holiday Safe Shopper	Marketing, Public Realm, and Advocacy	Security Camera		Management and General	Fundraising	Total Supporting Services		
10B Police services and private security	\$ 327,358	\$ 949,999	\$ --	\$ --	\$ 1,277,357	\$ --	\$ --	\$ --	\$ 1,277,357	\$ 1,270,282
Maintenance and cleaning	1,035,279	--	--	--	1,035,279	--	--	--	1,035,279	961,122
Salaries and benefits	120,577	50,001	308,675	44,762	524,015	305,125	68,230	373,355	897,370	881,906
Ambassadors and dispatch	810,745	--	--	75,889	886,634	--	--	--	886,634	865,942
Professional services	255,637	--	178,708	65,306	499,651	44,375	25,275	69,650	569,301	296,493
Depreciation	--	--	14,973	215,419	230,392	3,150	516	3,666	234,058	400,441
Operations management and supervision	232,197	--	--	--	232,197	--	--	--	232,197	220,795
Rent and utilities	54,000	--	--	63,620	117,620	65,304	6,606	71,910	189,530	182,289
Improvement projects	--	--	164,024	--	164,024	--	--	--	164,024	156,936
Public relations, sponsorships, and donations	--	--	105,600	--	105,600	--	--	--	105,600	132,550
Special events and activation	--	--	104,293	--	104,293	--	555	555	104,848	81,489
Accounting, legal, and support	23,804	--	23,804	2,310	49,918	47,610	168	47,778	97,696	112,077
Trash related projects and supplies	71,301	--	--	1,183	72,484	--	--	--	72,484	91,642
Meetings, travel, conferences, and office expenses	11,713	--	12,459	52	24,224	23,425	10,024	33,449	57,673	45,784
Insurance, permits, and fees	237	--	1,336	15,899	17,472	38,813	--	38,813	56,285	65,451
Marketing and promotion	--	--	26,124	--	26,124	--	5,983	5,983	32,107	65,801
Loss on disposition of assets	--	--	--	367	367	1,738	--	1,738	2,105	--
Total	<u>\$ 2,942,848</u>	<u>\$ 1,000,000</u>	<u>\$ 939,996</u>	<u>\$ 484,807</u>	<u>\$ 5,367,651</u>	<u>\$ 529,540</u>	<u>\$ 117,357</u>	<u>\$ 646,897</u>	<u>\$ 6,014,548</u>	<u>\$ 5,831,003</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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (246,891)	\$ (790,417)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	234,058	400,441
Loss on disposition of assets	2,105	--
Unrealized gain on investments	(142)	--
Changes in assets and liabilities:		
Assessments receivable	91,754	(85,521)
Other receivables	103,481	(130,909)
Prepaid expenses and deposits	21,033	(30,125)
Accounts payable and accrued expenses	(66,952)	(68,778)
Accrued vacation	9,758	4,511
Deferred revenue	(15,385)	38,473
Net Cash Provided By (Used In) Operating Activities	<u>132,819</u>	<u>(662,325)</u>
Cash Flows From Investing Activities		
Proceeds on sales and maturities of investments	3,250,617	3,749,661
Purchases of investments	(3,380,678)	(3,250,000)
Purchase of furniture and equipment	(149,405)	(23,987)
Net Cash Provided By (Used In) Investing Activities	<u>(279,466)</u>	<u>475,674</u>
Net Decrease In Cash and Cash Equivalents	(146,647)	(186,651)
Cash and Cash Equivalents - Beginning	<u>1,072,337</u>	<u>1,258,988</u>
Cash and Cash Equivalents - Ending	<u>\$ 925,690</u>	<u>\$ 1,072,337</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, 2019

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, 2019

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.

The USBID began a renewal process in October 2017. The process involved surveying members and stakeholders, the formation of a Renewal Committee, and public and individual stakeholder meetings. This renewal process led to a significant increase in the USBID's budget and successful renewal of a ten year term with the members (property owners) and the City.

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.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

CLASSIFICATION OF NET ASSETS

U.S. GAAP requires that the USBID report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the USBID are classified and reported as described below:

Without Donor Restrictions: Net assets representing 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. From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion.

With Donor Restrictions: Net assets representing funds that are specifically restricted by donors for use in various programs and/or specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of the USBID or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

As of June 30, 2019, the USBID did not have any net assets required to be maintained in perpetuity.

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.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

ASSESSMENTS RECEIVABLE

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

The USBID uses the allowance method to account for uncollectible assessments. The allowance for uncollectible assessments receivable reflects management's best estimate of the amounts that will not be collected based on historical experience and an evaluation of the outstanding receivables at the end of the year. As of June 30, 2019, the allowance for uncollectible assessments was approximately \$6,000.

INVESTMENTS

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

FURNITURE AND EQUIPMENT

The USBID capitalizes acquisitions of furniture and equipment with a cost or value in excess of \$1,000 and with estimated useful lives 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.

ACCRUED VACATION

Full-time employees may accrue up to 23 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, 2019

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. Donor-restricted contributions are reported as with donor restrictions, depending on the nature of the restrictions.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing net assets without donor restrictions and decreasing net assets with donor restrictions in the statement of activities. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions. Contributions with donor-imposed restrictions that are complied with within the year of receipt are reported as without donor restrictions.

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 net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as net assets with donor restrictions. The USBID reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. For the year ended June 30, 2019, the USBID recognized contributed material and equipment in the amount of \$15,000 used in the Marketing, Public Realm and Advocacy program.

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, 2019, the USBID recognized contributed services in the amount of \$373,217 for the Marketing, Public Realm and Advocacy and Clean & Safe programs.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

INCOME TAXES

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

The USBID recognizes a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax-exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The USBID's evaluation on June 30, 2019, revealed no tax positions that would have a material impact on the financial statements. As of June 30, 2019, there was no accrual for interest or penalties.

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. As of June 30, 2019, the cash and cash equivalents balance exceeding the \$250,000 per depositor per institution Federal Deposit Insurance Corporation limit totaled approximately \$109,000. Management believes that the USBID is not exposed to any significant credit risk related to concentrations.

Assessments Receivable

As of June 30, 2019, 76% of assessments receivable were due from one entity.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses directly attributed to specific functional areas of the USBID are reported as expenses of those functional areas. Shared costs that benefit multiple functional areas have been allocated among the various functional areas. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort. Accounting, legal, and support and meetings, travel, conferences, and office expenses are allocated approximately 25% Clean and Safe, 25% Marketing, Public Realm, and Advocacy, and 50% Management and General.

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, 2018, and for the year then ended, from which the summarized information was derived.

NEW ACCOUNTING STANDARDS

On August 18, 2016, the Financial Accounting Standards Board issued ASU 2016-14, *Not-for-Profit Entities (Topic 952): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The USBID has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

The major changes of the ASU affecting the USBID include (a) requiring the representation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions" and expanding the disclosures; (b) requiring the disclosure of qualitative and quantitative information regarding the liquidity and availability of resources; and (c) requiring recognition of capital gifts for construction as net assets without donor restrictions when the associated long-lived asset is placed in service.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

NEW ACCOUNTING STANDARDS

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

Net Assets Classifications	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 1,629,256	\$ --	\$ 1,629,256
Temporarily Restricted	--	408,325	408,325
Net assets as previously presented	1,629,256	408,325	2,037,581
Reclassifications to implement ASU 2016-14:			
Capital gifts placed in service	219,045	(219,045)	--
Net assets, as reclassified	<u>\$ 1,848,301</u>	<u>\$ 189,280</u>	<u>\$ 2,037,581</u>

RECLASSIFICATIONS

Certain amounts in the summarized comparative totals for 2018 have been reclassified to conform to the 2019 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, 2019

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 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, 2019.

Investments

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

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides information about the USBID's financial assets measured at fair value on a recurring basis as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Certificates of deposit	<u>\$ --</u>	<u>\$ 879,911</u>	<u>\$ --</u>	<u>\$ 879,911</u>

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment at June 30, 2019, consist of the following:

Security camera equipment	\$ 1,428,643
Furniture and miscellaneous equipment	<u>144,922</u>
	1,573,565
Less: accumulated depreciation	<u>(1,427,287)</u>
Total	<u>\$ 146,278</u>

NOTE 4 - LINE OF CREDIT

The USBID renewed a revolving line of credit with Wells Fargo Bank on March 12, 2018, which expired on June 30, 2019, for a maximum borrowing amount of \$500,000. Interest was payable at the greater of the prime rate plus 1.25% (5.50% at June 30, 2019) or the floor rate of 5.00%. The line of credit was secured by the USBID's receivables and equipment. The USBID did not borrow from the line of credit during the year ended June 30, 2019. The line of credit was renewed on September 3, 2019 under the same terms, which expires on February 5, 2020.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 5 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at June 30, 2019, consist of the following:

Board designated for advocacy	\$	17,334
Net investment in furniture and miscellaneous equipment		124,439
Undesignated		<u>1,589,664</u>
Total	\$	<u>1,731,437</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 six 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.

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019, consist of the following:

Campton Place grant	\$	40,000
Security cameras		17,532
All others		<u>1,721</u>
Total	\$	<u>59,253</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, 2019, as follows:

Police patrols and security cameras	\$	94,987
Other		<u>36,760</u>
Total	\$	<u>131,747</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 8 - COMMITMENTS

Effective September 1, 2019, the USBID renewed a non-cancelable lease agreement for equipment through August 31, 2022. Payment terms require full one-time payment in advance of \$94,440. In August 2019, the USBID entered into a non-cancelable lease agreement for additional equipment requiring monthly payments of \$461 through October 31, 2022.

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

The following is a schedule of minimum lease commitments:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 99,972
2021	5,532
2022	5,532
2023	<u>1,383</u>
Total	<u>\$ 112,419</u>

Rent expense for the year ended June 30, 2019, was \$127,765.

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 \$192,000 during the year ended June 30, 2019.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

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.

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, 2019, the USBID provided services of approximately \$277,000 to USF. At June 30, 2019, approximately \$15,000 is due from USF and is included in other receivables in the statement of financial position.

NOTE 10 – LIQUIDITY AND AVAILABILITY

The following represents USBID’s financial assets at June 30, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 925,690
Assessments receivable, net	5,281
Other receivables	71,414
Investments	<u>879,911</u>
Total financial assets	\$ 1,882,296
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>59,253</u>
Financial assets available to meet general expenditures over the next twelve months:	<u>\$ 1,823,043</u>

The USBID’s primary source of revenue is assessments. The USBID’s cash flows have variations during the year as the assessments collected and paid to the USBID by the City are primarily paid in two payments in January and May. It has been the policy of the USBID to maintain at least six months of operating reserves at the end of each fiscal year. To help manage liquidity and as a safeguard, the USBID maintains a \$500,000 line of credit that can be drawn upon if needed to manage cash flow. See Note 4 for further description of this line of credit.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 11 - SUBSEQUENT EVENTS

The USBID's contract with the City ended on June 30, 2019. A formal resolution to renew and expand the USBID was voted on and approved by the San Francisco Board of Supervisors in July 2019. The new contract with the City ends on June 30, 2029.

The USBID has evaluated all subsequent events through September 30, 2019, the date the financial statements were available to be issued. Except for the matter discussed above and in Note 4, no events requiring recognition or disclosure in the financial statements were identified.