

THE EAST CUT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

THE EAST CUT COMMUNITY BENEFIT DISTRICT

CONTENTS

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

Financial Statements

Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8

Notes to Financial Statements	9-23
--------------------------------------------	------

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, 2020 and 2019, 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, 2020 and 2019, 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
October 2, 2020

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents including cash held for others \$12,317 and \$13,100, respectively	\$ 2,018,713	\$ 714,618
Assessments receivable	49,738	38,666
Other receivables and prepayments	25,315	7,151
Investments	3,414,064	3,818,027
Capital assets, net	<u>3,220</u>	<u>5,699</u>
Total Assets	<u>\$ 5,511,050</u>	<u>\$ 4,584,161</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 819,365	\$ 626,390
Loan payable	<u>103,100</u>	<u>--</u>
Total Liabilities	<u>922,465</u>	<u>626,390</u>
 Net Assets		
Without donor restrictions	4,553,303	3,928,261
With donor restrictions	<u>35,282</u>	<u>29,510</u>
Total Net Assets	<u>4,588,585</u>	<u>3,957,771</u>
Total Liabilities and Net Assets	<u>\$ 5,511,050</u>	<u>\$ 4,584,161</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support			
Assessments revenue	\$ 4,148,559	\$ --	\$ 4,148,559
Contributions	15,616	37,079	52,695
In-kind contributions	33,082	--	33,082
Grants	--	14,000	14,000
Net realized and unrealized investment gains	14,318	--	14,318
Investment income	65,086	--	65,086
Other income	8,937	--	8,937
Net assets released from restrictions	45,307	(45,307)	--
Total Revenue, Gains, and Other Support	<u>4,330,905</u>	<u>5,772</u>	<u>4,336,677</u>
Expenses			
Program services	3,348,933	--	3,348,933
Supporting services:			
Management and general	356,930	--	356,930
Total Expenses	<u>3,705,863</u>	<u>--</u>	<u>3,705,863</u>
Change in Net Assets	625,042	5,772	630,814
Net Assets - Beginning	<u>3,928,261</u>	<u>29,510</u>	<u>3,957,771</u>
Net Assets - Ending	<u>\$ 4,553,303</u>	<u>\$ 35,282</u>	<u>\$ 4,588,585</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support			
Assessments revenue	\$ 3,857,342	\$ --	\$ 3,857,342
Contributions	160,827	29,510	190,337
In-kind contributions	40,406	--	40,406
Investment income	52,970	--	52,970
Other income	199,872	--	199,872
Total Revenue, Gains, and Other Support	<u>4,311,417</u>	<u>29,510</u>	<u>4,340,927</u>
Expenses			
Program services	2,272,358	--	2,272,358
Supporting services:			
Management and general	342,316	--	342,316
Total Expenses	<u>2,614,674</u>	<u>--</u>	<u>2,614,674</u>
Change in Net Assets	1,696,743	29,510	1,726,253
Net Assets - Beginning	<u>2,231,518</u>	<u>--</u>	<u>2,231,518</u>
Net Assets - Ending	<u>\$ 3,928,261</u>	<u>\$ 29,510</u>	<u>\$ 3,957,771</u>

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Support Services		
	Public Safety	Clean Team and Dispatch	Communication and Development	Parks and Greenspace	Total	Management and General	Total
Contract services	\$ 631,504	\$ 841,431	\$ --	\$ 1,081,415	\$ 2,554,350	\$ --	\$ 2,554,350
Management personnel expenses	103,373	107,669	108,811	184,780	504,633	160,207	664,840
Rent and utilities	24,003	24,921	3,157	63,097	115,178	26,134	141,312
Legal fees	8,882	8,882	--	27,415	45,179	44,716	89,895
Accounting and audit	--	--	--	--	--	65,758	65,758
Marketing and branding	624	648	67,795	2,364	71,431	692	72,123
Office expense and supplies	2,299	3,580	7,047	266	13,192	2,362	15,554
Depreciation	--	--	--	--	--	2,479	2,479
In-kind goods and services	1,044	17,150	5,012	--	23,206	9,877	33,083
Community events	639	1,372	64	2,182	4,257	94	4,351
Insurance - liability	--	(80)	--	--	(80)	9,391	9,311
General consulting	--	--	--	--	--	24,273	24,273
All other expenses	3,773	3,196	362	10,256	17,587	10,947	28,534
Total	\$ 776,141	\$ 1,008,769	\$ 192,248	\$ 1,371,775	\$ 3,348,933	\$ 356,930	\$ 3,705,863

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services				Total	Support	Total
	Public Safety	Clean Team and Dispatch	Communication and Development	Parks and Greenspace		Services	
						Management and General	
Contract services	\$ 788,604	\$ 784,704	\$ --	\$ 80,429	\$ 1,653,737	\$ --	\$ 1,653,737
Management personnel expenses	80,972	85,366	88,164	184,832	439,334	147,295	586,629
Rent and utilities	18,874	12,039	1,551	43,342	75,806	11,423	87,229
Legal fees	1,313	4,006	--	20,266	25,585	43,646	69,231
Accounting and audit	--	--	--	--	--	66,716	66,716
Marketing and branding	497	497	12,103	7,187	20,284	11,254	31,538
Office equipment and supplies	592	540	21,878	273	23,283	1,654	24,937
Depreciation	--	--	--	--	--	21,946	21,946
In-kind goods and services	--	182	570	13,229	13,981	3,570	17,551
Community events	984	658	4,242	6,276	12,160	278	12,438
Insurance - liability	--	--	--	--	--	12,214	12,214
General consulting	--	--	--	--	--	11,126	11,126
All other expenses	871	1,155	1,718	4,444	8,188	11,194	19,382
Total	<u>\$ 892,707</u>	<u>\$ 889,147</u>	<u>\$ 130,226</u>	<u>\$ 360,278</u>	<u>\$ 2,272,358</u>	<u>\$ 342,316</u>	<u>\$ 2,614,674</u>

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, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	\$ 630,814	\$ 1,726,253
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized investment gains	(14,318)	--
Depreciation	2,479	21,946
Changes in operating assets and liabilities:		
Assessments receivable	(11,072)	(4,255)
Other receivables and prepayments	(18,164)	5,911
Accounts payable and accrued expenses	<u>192,975</u>	<u>(584,067)</u>
Net Cash Provided by Operating Activities	<u>782,714</u>	<u>1,165,788</u>
Cash Flows From Investing Activities		
Purchase of investments	(8,006,719)	(3,960,025)
Redemption of investments	8,425,000	1,167,155
Purchase of capital assets	<u>--</u>	<u>(3,366)</u>
Net Cash Provided by (Used in) Investing Activities	<u>418,281</u>	<u>(2,796,236)</u>
Cash Flows From Financing Activities		
Proceeds from loan payable	<u>103,100</u>	<u>--</u>
Net Cash Provided by Financing Activities	<u>103,100</u>	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,304,095	(1,630,448)
Cash and Cash Equivalents - Beginning	<u>714,618</u>	<u>2,345,066</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,018,713</u>	<u>\$ 714,618</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, 2020 AND 2019

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

The East Cut Community Benefit District (“ECCBD” or the “District”) 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”).

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.

Program services provided by ECCBD include:

- **Public Safety** – The daytime security community guides 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 5:30am to 10:00pm, 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 5:30am to 10:00pm. The Clean Team steam cleans all sidewalks in the district once a month, work daily on sidewalk sweeping and trashcan topping, and also removes graffiti on an on-call basis, daily.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

PURPOSE AND ORGANIZATION (CONTINUED)

- **Dispatch** – ECCBD’s clean and safe services are accessed through a neighborhood dispatch system available twenty-four hours a day seven days a week.
- **Parks and Greenspace** – The Parks and Greenspace program includes irrigation systems management and repair; pest control; tree, shrub, and ground maintenance; gardening and weeding; arborist and horticultural consultation; seasonal fire fuel reduction; trash off-haul; pavement and pathway repairs and care; small capital improvements such as replacement of plant materials, fixtures, furniture, and equipment; emergency repair projects. Projects that the ECCBD is involved in the current year are: Emerald Park, Salesforce Park, Guy Place Park, Essex Hillside, Transbay Park, and Under-Ramp Park, as well as other Public Realm projects.
- **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. 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 update.

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 into two classes of net assets: without donor restrictions and with donor restrictions.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

CLASSIFICATION OF NET ASSETS (CONTINUED)

Accordingly, the net assets are classified and reported as described below:

Without Donor Restrictions

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.

With Donor Restrictions

Net assets representing funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be expendable in nature in that they will be met by actions of ECCBD or by the passage of time. Other donor restrictions are permanent in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. At June 30, 2020, there were no net assets that were required to be held in perpetuity.

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 that management 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.

CASH HELD FOR OTHERS

ECCBD serves as a fiscal sponsor for another organization. ECCBD receives cash and other sources of income and makes payments on behalf of the organization. These transactions are not considered revenue or expenses of ECCBD. There is a corresponding liability that equals the residual cash within accounts payable and accrued expenses.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

ASSESSMENTS RECEIVABLE

Assessments receivable represent obligations of local property owners due to ECCBD. Unpaid assessments 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, 2020 and 2019, management believes all assessments will be collected, and therefore, an allowance for uncollectible assessments was not needed.

INVESTMENTS

Investments in marketable securities and fixed income securities are carried at fair value based upon quoted market prices.

CAPITAL ASSETS

ECCBD capitalizes acquisitions of capital assets with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost and donated assets are recorded at estimated fair value or appraised value at the date of donation. Depreciation of capital assets is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 10 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.

ACCRUED ANNUAL LEAVE

Full-time employees may accrue up to 5 weeks per year depending on the number of years employed. Employees can accrue a maximum of 180 vacation hours.

REVENUE RECOGNITION

Assessments Revenue

ECCBD receives its revenue primarily from special assessments levied by the City on properties located within the District in accordance with City Ordinance. The assessments are 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

REVENUE RECOGNITION (CONTINUED)

Contributions

ECCBD recognizes all unconditional contributions when they are received or unconditionally promised. Contributions are recognized based on the existence or absence of donor-imposed 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 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, 2020 and 2019, ECCBD received unconditional contributions of \$52,695 and \$190,337, respectively.

In-Kind Contributions

Donated material and equipment are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as without donor-restrictions support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as with donor restrictions 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 with donor-restrictions net assets to without donor-restrictions net assets at that time.

ECCBD records in-kind 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 years ended June 30, 2020 and 2019, ECCBD received contributed goods and services in the amount of \$33,082 and \$40,406 respectively.

Grants

Unconditional grant awards are recognized when the award is received or unconditionally promised. Grants awarded with conditions that depend on specified future and uncertain events are not recognized until the conditions on which they depend are substantially met.

For the year ended June 30, 2020, ECCBD recognized \$14,000 of a \$28,000 conditional grant.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

MARKETING AND BRANDING

The costs of marketing and branding are charged to expense as incurred. Marketing and branding expenses for the years ended June 30, 2020 and 2019, were \$72,123 and \$31,538, respectively.

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.

U.S. GAAP requires management to evaluate the tax positions taken and recognize a tax liability (or asset) if ECCBD has taken an uncertain tax position that more-likely-than-not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a tax liability (or asset) or disclosure in the financial statements. ECCBD is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or 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 67% of total expenses incurred were provided by two vendors and 52% of total expenses incurred were provided by one vendor during the years ended June 30, 2020 and 2019, respectively, and were attributed to safety and cleaning services. Management believes that ECCBD is not exposed to any significant credit risk related to this concentration.

Revenue

For the years ended June 30, 2020 and 2019, ECCBD received 96% and 92%, respectively, of its total income from the City in the form of assessments.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

CONCENTRATIONS OF RISK (CONTINUED)

Contributions

For the years ended June 30, 2020 and 2019, one donor represented 31% and 79%, respectively, of total contributions.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting services have been summarized on a functional basis in the accompanying statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited based on an analysis of personnel time by each program or activity.

FUNDRAISING REQUIREMENTS

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

For the years ended June 30, 2020 and 2019, ECCBD has satisfied these requirements.

RECLASSIFICATIONS

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation. These reclassifications have no effect on the previously reported total net assets or total change in net assets.

ADOPTED ACCOUNTING PRONOUNCEMENT

On June 21, 2018, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

ADOPTED ACCOUNTING PRONOUNCEMENT (CONTINUED)

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. 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 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.

ECCBD adopted the recipient and disbursement portions of ASU 2018-08 as of July 1, 2018, on a modified prospective basis and had minimal impact on ECCBD's financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to provide guidance 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. On June 3, 2020, the FASB issued ASU 2020-05 which allows any organization who has not yet adopted Topic 606 and issued their financial statements to defer implementation of Topic 606 for one year in light of delays created by the novel coronavirus ("COVID-19") pandemic. The guidance is applicable for annual reporting periods beginning after December 15, 2019. Management is evaluating the impact of this new guidance.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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. ASU 2020-05 also delayed the effective date of this ASU by another year. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2021. Early application is permitted. Management is evaluating the impact of this guidance.

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. 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 EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodology used for assets measured at fair value.

Equity Securities

Equity securities listed on national markets are valued at the quoted price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. Such securities are in active markets and are classified within Level 1 of the fair value hierarchy.

Fixed Income Securities

Valued at cost plus accrued interest which approximates fair value. These securities are classified within Level 2 of the fair value hierarchy.

The following tables provide information about ECCBD's financial assets measured at fair value on a recurring basis as of June 30, 2020 and 2019:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Fixed income securities	\$ --	\$ 3,406,996	\$ --	\$ 3,406,996
Equity securities	7,068	--	--	7,068
Total Assets				
at Fair Value	\$ 7,068	\$ 3,406,996	\$ --	\$ 3,414,064
	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Fixed income securities	\$ --	\$ 3,818,027	\$ --	\$ 3,818,027

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, 2020 and 2019.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 3 - CAPITAL ASSETS

Capital assets at June 30, 2020 and 2019, consist of the following:

	2020	2019
Computers	\$ 11,055	\$ 11,055
Furniture and equipment	3,588	3,588
Leasehold improvements	<u>35,618</u>	<u>35,618</u>
	50,261	50,261
Less: accumulated depreciation	<u>(47,041)</u>	<u>(44,562)</u>
Total	<u>\$ 3,220</u>	<u>\$ 5,699</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$2,479 and \$21,946, respectively.

NOTE 4 - LOAN PAYABLE

ECCBD entered into a promissory note in April 2020 with JP Morgan Chase Bank, N.A. as the lender (the "Lender"), pursuant to which the Lender agreed to make a loan to ECCBD under the Paycheck Protection Program (the "PPP Loan") offered by the U.S. Small Business Administration (the "SBA") in a principal amount of \$103,100 pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP Loan proceeds, which are intended to be forgiven, are available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, group health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt. The amount that will be forgiven will be calculated in part with reference to ECCBD's full time headcount during a twenty-four week period following the funding of the PPP Loan. The interest rate on the PPP Note is a fixed rate of 1% per annum. To the extent that the amounts owed under the PPP Loan, or a portion of them, are not forgiven, ECCBD will be required to make principal and interest payments in monthly installments beginning six months from April 2020. The PPP Note matures in two years.

The PPP Loan includes events of default. Upon the occurrence of an event of default, the Lender will have the right to exercise remedies against ECCBD, including the right to require immediate payment of all amounts due under the PPP Loan.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 4 - NOTE PAYABLE (CONTINUED)

The principal payments are due as follows:

For the Years Ending June 30,	Amount
2021	\$ 45,344
2022	<u>57,756</u>
Total	<u>\$ 103,100</u>

NOTE 5 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at June 30, 2020 and 2019, consist of the following:

	2020	2019
Undesignated	\$ 4,217,298	\$ 3,446,177
Board Designated - Strategic Investment	<u>336,005</u>	<u>482,084</u>
Total	<u>\$ 4,553,303</u>	<u>\$ 3,928,261</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020 and 2019, net assets with donor restrictions are as follows:

	2020	2019
Subject to Expenditure for Specific Purpose		
Guy Lansing Neighbors	\$ 29,510	\$ 29,510
Big Belly Grant	5,452	--
Lunch Fund	<u>320</u>	<u>--</u>
Total Net Assets with Donor Restrictions	<u>\$ 35,282</u>	<u>\$ 29,510</u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. During the year ended June 30, 2020, net assets released were as follows:

Resiliency Fund	\$	33,958
Big Belly Grant		8,548
Lunch Fund		<u>2,801</u>
Total	\$	<u>45,307</u>

There were no net assets released for during the year ended June 30, 2019.

NOTE 8 - RETIREMENT PLAN

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

NOTE 9 - COMMITMENTS

ECCBD has a three-year office lease agreement which expired on June 30, 2019 and was renewed through June 30, 2020 with a renewal option through June 30, 2024. ECCBD executed the renewal option during the year ended June 30, 2020. The lessor is an employer of ECCBD’s 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	
2021	\$ 77,020	\$ 1,572	\$ 78,592	
2022	79,333	--	79,333	
2023	81,716	--	81,716	
2024	<u>84,168</u>	<u>--</u>	<u>84,168</u>	
Total	<u>\$ 322,237</u>	<u>\$ 1,572</u>	<u>\$ 323,809</u>	

For the years ended June 30, 2020 and 2019, the rent expense was \$124,519 and \$83,710, respectively.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 10 - LIQUIDITY AND AVAILABILITY

ECCBD's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2020 and 2019, were as follows:

	2020	2019
Financial Assets		
Cash and cash equivalents	\$ 2,018,713	\$ 714,618
Assessments receivable	49,738	38,666
Investments	<u>3,414,064</u>	<u>3,818,027</u>
Total Financial Assets	5,482,515	4,571,311
Cash held for others	(12,317)	(13,100)
Donor imposed restrictions	(35,282)	--
Board designated net assets	<u>(336,005)</u>	<u>(482,084)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 5,098,911</u>	<u>\$ 4,076,127</u>

ECCBD's goal is generally to maintain financial assets to meet 180 days of operating expenses (approximately \$2.4 million). As part of its liquidity and availability plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

NOTE 11 - CONDITIONAL GRANT

During the year ended June 30, 2020, ECCBD received a conditional grant totaling \$28,000 to install 10 Big Belly trash receptacles within the Districts' catchment area. During the year ended June 30, 2020, ECCBD installed five such receptacles and recognized \$14,000. ECCBD anticipates that it will install the remaining five receptacles during the year ending June 30, 2021.

NOTE 12 - RISK AND UNCERTAINTY

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which continues to spread throughout the United States. ECCBD has been actively evaluating the impact of the COVID-19 virus as it relates to the District's operations and have concluded that it does not expect it will have a material impact on its results of operations. ECCBD believes that no disclosures in or adjustments to the financial statements are required as a result of these matters, except for obtain the PPP Loan pursuant to the CARES Act as discussed in Note 4.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 13 - SUBSEQUENT EVENTS

ECCBD has evaluated all subsequent events through October 2, 2020, the date the financial statements were available to be issued. No further events requiring recognition or disclosure in the financial statements were identified.