

THE EAST CUT

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

THE EAST CUT COMMUNITY BENEFIT DISTRICT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash and cash equivalents including cash held for others of \$52,811 and \$25,636, respectively	\$ 1,022,225	\$ 355,733
Assessments receivable, net of allowance for credit losses of \$0 for both years	202,813	150,775
Grant receivable	134,700	--
Promises to give	170,000	--
Other receivables and prepaid expenses	126,729	111,125
Investments	4,800,934	5,944,953
Investment in East Cut Landing Partners, LLC	415,685	103,561
Operating right-of-use asset, net	1,034,189	73,745
Related party loan receivable	--	20,000
Capital assets, net	<u>128,702</u>	<u>15,723</u>
Total Assets	<u>\$ 8,035,977</u>	<u>\$ 6,775,615</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,546,619	\$ 1,010,780
Operating lease liability	<u>1,052,858</u>	<u>74,869</u>
Total Liabilities	<u>2,599,477</u>	<u>1,085,649</u>
Net Assets		
Without donor restrictions	4,846,624	5,481,620
With donor restrictions	<u>589,876</u>	<u>208,346</u>
Total Net Assets	<u>5,436,500</u>	<u>5,689,966</u>
Total Liabilities and Net Assets	<u>\$ 8,035,977</u>	<u>\$ 6,775,615</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, 2024

	2024		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenue, Gains (Losses), and Other Support			
Assessments revenue	\$ 4,728,232	\$ --	\$ 4,728,232
Contributions	11,776	315,008	326,784
In-kind contributions	35,985	--	35,985
Grants	--	284,700	284,700
Net realized and unrealized investment gains	33,977	--	33,977
Investment income	236,019	--	236,019
Other income	72,787	--	72,787
Net assets released from restrictions	218,178	(218,178)	--
Total Revenue, Gains, and Other Support	<u>5,336,954</u>	<u>381,530</u>	<u>5,718,484</u>
Expenses			
Program services:			
Public safety	1,256,318	--	1,256,318
Clean team and dispatch	1,030,530	--	1,030,530
Communication and development	366,316	--	366,316
Parks and greenspace	2,266,589	--	2,266,589
The Crossing	298,948	--	298,948
Total program expenses	5,218,701	--	5,218,701
Supporting services:			
Management and general	715,373	--	715,373
Total Expenses	<u>5,934,074</u>	<u>--</u>	<u>5,934,074</u>
(Loss) Income from Operations	<u>(597,120)</u>	<u>381,530</u>	<u>(215,590)</u>
Non-Operating			
Loss from equity method investment	(37,876)	--	(37,876)
Total Non-Operating	<u>(37,876)</u>	<u>--</u>	<u>(37,876)</u>
Change in Net Assets	(634,996)	381,530	(253,466)
Net Assets - Beginning	<u>5,481,620</u>	<u>208,346</u>	<u>5,689,966</u>
Net Assets - Ending	<u>\$ 4,846,624</u>	<u>\$ 589,876</u>	<u>\$ 5,436,500</u>

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THE EAST CUT COMMUNITY BENEFIT DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2023

	2023		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenue, Gains (Losses), and Other Support			
Assessments revenue	\$ 4,596,127	\$ --	\$ 4,596,127
Contributions	12,855	44,911	57,766
In-kind contributions	27,880	--	27,880
Grants	--	291,772	291,772
Net realized and unrealized investment losses	(1,229)	--	(1,229)
Investment income	136,471	--	136,471
Other income	30,368	--	30,368
Net assets released from restrictions	217,393	(217,393)	--
Total Revenue, Gains, and Other Support	<u>5,019,865</u>	<u>119,290</u>	<u>5,139,155</u>
Expenses			
Program services:			
Public safety	1,082,784	--	1,082,784
Clean team and dispatch	1,107,009	--	1,107,009
Communication and development	223,830	--	223,830
Parks and greenspace	2,042,677	--	2,042,677
The Crossing	26,295	--	26,295
Total program expenses	4,482,595	--	4,482,595
Supporting services:			
Fundraising	391,091	--	391,091
Total Expenses	<u>4,873,686</u>	<u>--</u>	<u>4,873,686</u>
Income from Operations	<u>146,179</u>	<u>119,290</u>	<u>265,469</u>
Non-Operating			
Loss from equity method investment	(41,439)	--	(41,439)
Total Non-Operating	<u>(41,439)</u>	<u>--</u>	<u>(41,439)</u>
Change in Net Assets	104,740	119,290	224,030
Net Assets - Beginning	<u>5,376,880</u>	<u>89,056</u>	<u>5,465,936</u>
Net Assets - Ending	<u>\$ 5,481,620</u>	<u>\$ 208,346</u>	<u>\$ 5,689,966</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, 2024

	Program Services					Support Services		
	Public Safety	Clean Team and Dispatch	Communication and Development	Parks and Greenspace	The Crossing	Total	Management and General	Total
Contract services	\$ 1,114,130	\$ 886,674	\$ 38	\$ 1,769,555	\$ --	\$ 3,770,397	\$ --	\$ 3,770,397
Management personnel expenses	85,054	88,662	246,243	289,750	244,550	954,259	250,301	1,204,560
Rent and utilities	56,179	43,032	11,483	110,314	9,848	230,856	69,861	300,717
Professional Services	--	1,175	1,707	17,875	13,622	34,379	36,794	71,173
Accounting and audit	--	--	--	--	18,045	18,045	194,571	212,616
Community events	--	50	5,670	29,124	4,785	39,629	35,542	75,171
Office expense and supplies	602	6,104	17,611	1,180	1,183	26,680	81,187	107,867
Marketing and branding	353	271	67,724	1,375	3,677	73,400	3,096	76,496
General consulting	--	--	--	--	1,038	1,038	10,427	11,465
Depreciation and amortization	--	4,562	302	--	2,200	7,064	5,307	12,371
Provision for credit loss of related party loan receivable	--	--	--	--	--	--	20,000	20,000
All other expenses	--	--	15,538	47,416	--	62,954	8,287	71,241
Total	<u>\$ 1,256,318</u>	<u>\$ 1,030,530</u>	<u>\$ 366,316</u>	<u>\$ 2,266,589</u>	<u>\$ 298,948</u>	<u>\$ 5,218,701</u>	<u>\$ 715,373</u>	<u>\$ 5,934,074</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, 2023

	Program Services					Support Services	Management and General	Total
	Public Safety	Clean Team and Dispatch	Communication and Development	Parks and Greenspace	The Crossing	Total		
Contract services	\$ 909,276	\$ 936,964	\$ 216	\$ 1,676,585	\$ --	\$ 3,523,041	\$ 2,754	\$ 3,525,795
Management personnel expenses	126,781	126,781	180,818	230,311	4,652	669,343	188,826	858,169
Rent and utilities	30,552	23,402	6,245	59,991	--	120,190	9,102	129,292
Professional Services	--	245	--	27,284	--	27,529	--	27,529
Accounting and audit	--	--	--	--	--	--	92,096	92,096
Community events	--	1,740	3,911	23,557	4,479	33,687	3,824	37,511
Office expense and supplies	15,029	862	10,805	2,617	14,694	44,007	43,593	87,600
Legal fees	245	--	--	--	--	245	14,291	14,536
Marketing and branding	318	243	18,136	10,990	519	30,206	3,108	33,314
General consulting	--	--	--	--	--	--	11,683	11,683
Depreciation and amortization	--	4,804	--	--	--	4,804	--	4,804
All other expenses	583	11,968	3,699	11,342	1,951	29,543	21,814	51,357
Total	\$ 1,082,784	\$ 1,107,009	\$ 223,830	\$ 2,042,677	\$ 26,295	\$ 4,482,595	\$ 391,091	\$ 4,873,686

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, 2024 AND 2023

	2024	2023
Cash Flows From Operating Activities		
Change in net assets	\$ (253,466)	\$ 224,030
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized investment (gains) losses	(33,977)	1,229
Depreciation and amortization	12,371	4,804
Loss from equity method investment	37,876	41,439
Amortization of operating right-of use asset	172,948	70,040
Provision for credit loss of related party note receivable	20,000	--
Changes in operating assets and liabilities:		
Assessments receivable	(52,038)	(32,897)
Other receivables and prepayments	(15,604)	(77,477)
Grant receivable	(134,700)	--
Promises to give	(170,000)	--
Accounts payable and accrued expenses	535,839	248,627
Operating lease liability	(155,403)	(68,916)
Net Cash (Used in) Provided by Operating Activities	(36,154)	410,879
Cash Flows From Investing Activities		
Purchase of investments	(1,702,054)	(8,031,695)
Purchase of capital assets	(125,350)	(3,622)
Capital contribution to equity method investment	(350,000)	(145,000)
Sale or redemption of investments	2,880,050	5,693,849
Net Cash Provided by (Used in) Investing Activities	702,646	(2,486,468)
Net Increase (Decrease) in Cash and Cash Equivalents	666,492	(2,075,589)
Cash and Cash Equivalents - Beginning	355,733	2,431,322
Cash and Cash Equivalents - Ending	\$ 1,022,225	\$ 355,733

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

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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.”

PROGRAMS

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

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

PROGRAMS (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, Essex Hillside, Guy Place Park, Salesforce Park, Transbay Park, and Sports and Dog 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.
- **The Crossing** – The Crossing is an ever-evolving urban destination in the heart of the East Cut neighborhood that inspires us to be well. The mission of the Crossing is to bring people together with around the clock activations and amenities to celebrate community, promote active wellness, and enjoy a dynamic spectrum of entertainment experiences. The Crossing is located at the former Transbay Temporary Terminal, which provided temporary bus terminal facilities during the construction of the new Salesforce Transit Center.

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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

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. 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

Donor restricted net assets represent net assets which are donor restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; (d) acquisition of long-lived assets, (e) assets donated with stipulations by the donor that they be used for a specified purpose, be preserved, not be sold; or (f) be invested to provide a permanent source of income. At June 30, 2024 and 2023, 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, receivables, and accounts payable approximate fair value because of the short maturity of these instruments.

USE OF 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

CASH HELD FOR OTHERS

ECCBD serves as a fiscal sponsor for another entity. ECCBD receives cash and other sources of income and makes payments on behalf of the entity. 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.

ASSESSMENTS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

Assessments receivable represent obligations of local property owners due to ECCBD. Unpaid assessments do not accrue interest. At July 1, 2022, assessment receivable were \$117,878.

During the year ended June 30, 2024, ECCBD recognizes an expected allowance for credit losses. In addition, at June 30, 2024, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. Assessments receivable are evaluated individually when they do not share similar risk characteristics which could exist in circumstances where amounts are considered at risk or uncollectible.

The allowance estimate is derived from a review of ECCBD's historical losses based on the aging schedule method. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the ECCBD. ECCBD believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as ECCBD's portfolio segments have remained constant since ECCBD's inception.

ECCBD writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the entity's accounting policy election. There were no write-offs for the year ended June 30, 2024.

INVESTMENTS

Investments in marketable securities and fixed income securities are carried at fair value based upon quoted market prices. Investment in East Cut Landing Partners, LLC ("ECLP") is accounted for using the equity method. Accordingly, the investment is carried at cost and adjusted for ECCBD's proportionate share of undistributed earnings or losses.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

LOAN RECEIVABLE

The loan receivable is unsecured and stated at the principal amount. Management evaluates the collectability of the note receivable annually.

ECCBD considers various factors as of the date of the financial statements in evaluating the credit quality, including historical collection experience and ECCBD's assessment of the counterparty's ability to repay its obligation. During the year ended June 30, 2024, ECCBD provided for a credit loss of \$20,000 for the related part loan receivable due to the terms and conditions not being met.

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 and amortization 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 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 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 240 vacation hours.

LEASES

ECCBD leases its office space. ECCBD determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") asset and operating lease liability on the statements of financial position.

ROU assets represent ECCBD's right to use an underlying asset for the lease term and lease liabilities represent ECCBD's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. If the lease does not provide an implicit rate, ECCBD uses a risk free rate based on the information available at the commencement date in determining the present value of lease payments, the discount rate being 5.18% at June 30, 2024 and 2023.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

LEASES (CONTINUED)

The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that ECCBD will exercise that option. The expense for lease payments is recognized on a straight-line basis over the lease term.

ECCBD has elected to apply the short-term lease exemption to office equipment. For the year ended June 30, 2024, ECCBD has a small number of leases within this class of underlying assets that qualify for the exemption. There were no such leases for the year ended June 30, 2023.

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, generally four times a year. Interest is not charged on late assessments; however, late penalties are charged in accordance with the City's policy.

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.

In-Kind Contributions

Donated materials and equipment are recorded as unconditional contributions at their estimated fair value on the date of receipt. Such donations are reported as without donor-imposed 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-imposed 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

REVENUE RECOGNITION (CONTINUED)

In-Kind Contributions (continued)

ECCBD reclassifies net assets with donor-imposed restrictions to support without donor-imposed restrictions when the donor-imposed restriction is met. ECCBD records unconditional 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.

The following provides information about the in-kind contributions received during the year ended June 30, 2024: ECCBD received \$2,725 in contributed professional services and \$33,260 for personnel gym memberships, wine bottles, and software licenses. The estimated value of the contributed services was based on the current rates charged for similar services in the region. The estimated value of the personnel gym memberships, wine bottles, and software licenses is based on the wholesale values that would be received for selling similar products in the United States.

The following provides information about the in-kind contributions received, during the year ended June 30, 2023: ECCBD received \$10,126 in contributed professional services and \$17,754 for personnel gym memberships and software licenses. The estimated value of the contributed services was based on the current rates charged for similar services in the region. The estimated value of the personnel gym memberships and software licenses is based on the wholesale values that would be received for selling similar products in the United States.

There were no associated donor-imposed restrictions on in-kind contributions received, during the years ended June 30, 2024 and 2023.

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.

Investment Income

Interest income is recognized on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized losses includes ECCBD's gains and losses on investments bought and sold, as well as those held during the year.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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, 2024 and 2023, were \$77,049 and \$35,700, 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. ECLP is a partnership for tax purposes and does not pay tax at the entity level. All tax attributes are passed on to the partners.

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 evaluated ECCBD's tax positions taken and concluded that 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 unknown income taxes has been included in the financial statements. ECCBD's tax returns are subject to examination by federal and state tax authorities. However, there are no examinations in progress nor are there any pending.

CONCENTRATIONS OF RISK

Financial Instruments

Financial instruments which potentially subject ECCBD to concentrations of credit risk consist principally of cash and cash equivalents and investments. 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.

ECCBD attempts to limit its credit risk associated with investments by utilizing outside investment managers to place ECCBD's investments with highly rated corporate and financial institutions. Investments are protected by the Securities Protection Investor Corporation. ECCBD has not experienced any losses in such accounts. Management believes that ECCBD is not exposed to any significant credit risk related to concentrations in financial instruments.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

CONCENTRATIONS OF RISK (CONTINUED)

Service Provider

Approximately 53% and 63% of total expenses incurred were provided by two vendors during the years ended June 30, 2024 and 2023, respectively, and were attributed to safety and park operation management. Management believes that ECCBD is not exposed to any significant risk related to this concentration.

Contributions and Grants

For the years ended June 30, 2024 and 2023, three donors represented 71% and two donors represented 83% of total contributions and grants, respectively.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and other supporting activities have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Certain expenses have been allocated between program and management and general based on direct identification when possible, and allocation if a single expense benefits more than one program or function. Management and personnel are allocated based on the estimated time and efforts of involvement in different activities. Other expenses that require allocation, including depreciation, facilities, and insurance are allocated to the respective function based on square footage, and headcount.

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, 2024 and 2023, ECCBD has satisfied these requirements.

RECLASSIFICATION

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets or results of operations.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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

ADOPTED ACCOUNTING PRONOUNCEMENT

On July 1, 2023, ECCBD adopted ASU No. 2016–13, *Financial Instruments – Credit Losses* (“ASU 2016–13”) using the modified retrospective approach. The comparative prior year information has not been adjusted and continues to be reported under legacy U.S. GAAP. The most significant change brought about by this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. Financial assets held by ECCBD that are subject to the guidance in ASU 2016–13 were assessment and note receivable.

For financial assets measured at amortized cost, including ECCBD assessment and note receivables, the standard requires an entity to (1) estimate its lifetime expected credit losses upon recognition of the financial assets and establish an allowance to present the net amount expected to be collected, (2) recognize this allowance and changes in the allowance during subsequent periods through net income and (3) consider relevant information about past events, current conditions and reasonable and supportable forecasts in assessing the lifetime expected credit losses.

As a result of adoption, ECCBD provided for a credit loss on its related party note receivable.

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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect ECCBD's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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

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, 2024 and 2023:

	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Fixed income securities	\$ --	\$ 4,731,571	\$ --	\$ 4,731,571
Equity securities	<u>69,363</u>	<u>--</u>	<u>--</u>	<u>69,363</u>
Total Assets at Fair Value	<u>\$ 69,363</u>	<u>\$ 4,731,571</u>	<u>\$ --</u>	<u>\$ 4,800,934</u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Fixed income securities	\$ --	\$ 5,913,684	\$ --	\$ 5,913,684
Equity securities	<u>31,269</u>	<u>--</u>	<u>--</u>	<u>31,269</u>
Total Assets at Fair Value	<u>\$ 31,269</u>	<u>\$ 5,913,684</u>	<u>\$ --</u>	<u>\$ 5,944,953</u>

NOTE 3 - INVESTMENT IN ECLP

On May 24, 2021, ECLP was established to perform its obligations under the permit agreement with the City. ECCBD made an initial contribution of \$45,000 and received a non-controlling 17.65%-member ownership interest. ECCBD made an additional contribution of \$350,000 during the year ended June 30, 2024, which did not change its non-controlling ownership interest.

The financial position of ECLP as of June 30, 2024 and 2023, is as follows:

	2024 Unaudited	2023 Unaudited
Assets		
Cash	\$ 38,192	\$ 38,192
Cash held at ECCBD	44,153	19,782
Rental accounts receivable	37,505	34,587
Contribution receivable	20,000	20,000
Capital asset, net	70,311	39,151
Due from ECCBD	<u>22,952</u>	<u>--</u>
Total Assets	<u>\$ 233,113</u>	<u>\$ 151,712</u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 3 - INVESTMENT IN ECLP (CONTINUED)

	<u>2024 Unaudited</u>	<u>2023 Unaudited</u>
Liabilities and Members' Deficit		
Liabilities		
Accounts payable	\$ 80,663	\$ 206,593
Accrued Expenses	71,927	--
Loan payable	<u>20,000</u>	<u>20,000</u>
Total Liabilities	<u>172,590</u>	<u>226,593</u>
Members' Equity (Deficit)		
ECCBD	415,685	103,561
All others	<u>(355,162)</u>	<u>(178,442)</u>
	<u>60,523</u>	<u>(74,881)</u>
Total Liabilities and Members' Equity (Deficit)	<u>\$ 233,113</u>	<u>\$ 151,712</u>

The statements of operations for ECLP for the years ended June 30, 2024 and 2023, is as follows:

	<u>2024 Unaudited</u>	<u>2023 Unaudited</u>
Income		
Rental income	\$ 133,102	\$ 313,270
Event revenue	281,314	69,639
Other income	<u>45,001</u>	<u>466</u>
Total Income	459,417	383,375
Operating Expenses	<u>650,800</u>	<u>632,168</u>
Operating Loss	(191,383)	(248,793)
Other (Expense) Income	<u>(23,213)</u>	<u>13,969</u>
Net Loss	<u>\$ (214,596)</u>	<u>\$ (234,824)</u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 4 - RELATED PARTY LOAN RECEIVABLE

Loan receivable consists of a loan, dated April 25, 2022, in the amount of \$20,000 at June 30, 2023, that was made to ECLP to use for capital expenditures, general operating expenditures, and certain other purposes as deemed necessary.

The loan was unsecured and called for a single repayment at the earliest of 1.) One hundred and eighty days 2.) the first date by which the borrowing organization has received in hand at least \$150,000 in support. The loan also included certain other commitments by the borrowing organization. The loan had 0% interest and discount is immaterial. During the year ended June 30, 2024, the ECCBD provided for a credit loss of \$20,000 due to the terms and conditions not being met.

NOTE 5 - CAPITAL ASSETS

Capital assets at June 30, 2024 and 2023, consist of the following:

	2024	2023
Computers	\$ 11,055	\$ 11,055
Furniture and equipment	98,146	27,909
Leasehold improvements	<u>55,114</u>	<u>--</u>
	164,315	38,964
Less: accumulated depreciation and amortization	<u>(35,613)</u>	<u>(23,241)</u>
Total	<u><u>\$ 128,702</u></u>	<u><u>\$ 15,723</u></u>

Depreciation and amortization expense for the years ended June 30, 2024 and 2023 was \$12,371 and \$4,804, respectively.

NOTE 6 - OPERATING LEASE LIABILITY

ECCBD has a three-year non-cancelable operating office lease agreement at 160 Spear Street, which expired on June 30, 2024. An employee of the lessor was a board member of ECCBD and a current board member subleased this office space for the year ended June 30, 2024. ECCBD has another three-year non-cancelable operating office lease agreement at 528 Folsom Street, which expires on July 14, 2026, with an option to extend the lease to December 31, 2030, which ECCBD is planning to exercise.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 6 - OPERATING LEASE LIABILITY (CONTINUED)

ROU lease asset and lease liability for ECCBD's operating lease as of June 30, 2024 and 2023, is recorded in the statement of financial position as follows:

	<u>2024</u>	<u>2023</u>
Operating Right-of-Use Asset	<u>\$ 1,034,189</u>	<u>\$ 73,745</u>
Operating Lease Liability	<u>\$ 1,052,858</u>	<u>\$ 74,869</u>

Other information related to the lease for the year ended June 30, 2024 and 2023, is as follows:

	<u>2024</u>	<u>2023</u>
Weighted average remaining lease term (in years)	6.5	1
Weighted average discount rate	5.18%	5.18%

Lease cost information related to operating lease is as follows for the years ended June 30, 2024: and 2023:

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 219,783	\$ 76,030
Variable lease cost	56,395	53,262
Short-term lease cost	2,517	2,009
Less; sublease income from related party	<u>(54,123)</u>	<u>--</u>
Total Lease Cost	<u>\$ 224,572</u>	<u>\$ 131,301</u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 6 - OPERATING LEASE LIABILITY (CONTINUED)

The following summarizes the cash flow information related to operating lease for the years ended June 30, 2024 and 2023:

	2024	2023
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating cash flows from operating lease	\$ <u>155,403</u>	\$ <u>74,905</u>
Lease Assets Obtained in Exchange for Lease Liabilities:		
Operating lease	\$ <u>1,133,392</u>	\$ <u>--</u>

The following is a schedule of minimum lease commitments:

For the Years Ending	Amount
June 30,	
2025	\$ 162,774
2026	170,880
2027	179,424
2028	188,388
2029	197,808
2030 and after	334,926
Less imputed interest	(181,342)
Total	\$ 1,052,858

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2024 and 2023, net assets with donor restrictions are as follows:

	2024	2023
Subject to Expenditure for Specific Purpose		
East Cut Sports and Dog Park	\$ 161,581	\$ 59,125
Big Belly grant	48,642	67,417
Projection project	23,500	10,000
Homeless	20,417	--
Guy Lansing Neighbors	15,911	15,911
Street services fund	14,364	5,594
City and County of San Francisco grant	661	49,553
Mosaic Staircase	100	--
Service team wish list	--	651
Essex Park	--	95
	<u>285,176</u>	<u>208,346</u>
Subject to Expenditure for Specific Purpose and Passage of Time		
East Cut Sports and Dog Park	170,000	--
City and County of San Francisco grant	<u>134,700</u>	--
	<u>304,700</u>	--
Total Net Assets with Donor Restrictions	<u>\$ 589,876</u>	<u>\$ 208,346</u>

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

NOTE 8 - 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 years ended June 30, 2024 and 2023, net assets released were as follows:

	<u>2024</u>	<u>2023</u>
City and County of San Francisco grant	\$ 193,892	\$ 180,447
Big Belly Grant	18,511	36,946
Street services fund	3,180	--
Essex Mural	2,500	--
Essex Park	<u>95</u>	<u>--</u>
Total	<u>\$ 218,178</u>	<u>\$ 217,393</u>

NOTE 9 - RETIREMENT PLAN

ECCBD established a 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.

THE EAST CUT COMMUNITY BENEFIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
Financial Assets		
Cash and cash equivalents	\$ 1,022,225	\$ 355,733
Assessments receivable	202,813	150,775
Grant receivable	134,700	--
Promises to give	170,000	--
Other receivables	58,354	39,668
Investments	<u>4,800,934</u>	<u>5,944,953</u>
Total Financial Assets	6,389,026	6,491,129
Cash held for others	(52,811)	(25,636)
Donor imposed restrictions	<u>(589,876)</u>	<u>(208,346)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 5,746,339</u>	<u>\$ 6,257,147</u>

ECCBD's goal is generally to maintain financial assets to meet 180 days of operating expenses (approximately \$3 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 GRANTS

During the year ended June 30, 2021, ECCBD received a conditional grant for \$65,000, which had been amended to \$190,600 during the year ended June 30, 2023, that is directed to the Big Belly pilot and pressure washing project. During the year ended June 30, 2023, \$186,799, was recognized as the conditions on which it depends has been satisfied. The grant terminated on June 30, 2023.

NOTE 12 - SUBSEQUENT EVENTS

ECCBD has evaluated all subsequent events through November 8, 2024, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.