

**DOWNTOWN LOS ANGELES PROPERTY OWNERS
ASSOCIATION**

**FINANCIAL STATEMENTS
December 31, 2011 and 2010
And For The Years Then Ended**

Together with Independent Auditor's Report

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION

December 31, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Downtown Los Angeles Property Owners Association

We have audited the accompanying statements of financial position of Downtown Los Angeles Property Owners Association (the "Association") as of December 31, 2011 and 2010, and the related statements of activities and cash flows, for the years then ended. These financial statements and schedules are the responsibility of the Association's management. 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 our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

STANISLAWSKI & HARRISON

March 22, 2012

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 1,825,967	\$ 1,563,882
Assessments Receivable, net of reserve for uncollectible assessments of \$136,174 and \$502,084, for 2011 and 2010, respectively (Note 2)	-	-
Prepaid Expenses and Other Assets (Note 4)	110,620	94,685
Total Current Assets	1,936,587	1,658,567
Property and Equipment (Note 2):		
Field Equipment	291,679	309,951
Leasehold Improvements	32,341	32,341
Computers	39,478	31,813
Furniture and Fixtures	23,714	23,714
	387,212	397,819
Less Accumulated Depreciation	(319,410)	(338,934)
Net Property and Equipment	67,802	58,885
Total Assets	\$ 2,004,389	\$ 1,717,452
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 174,283	\$ 131,339
Trust Account - 8th and San Pedro Median Project	24,869	24,857
Total Current Liabilities	199,152	156,196
Commitments (Note 8)		
Unrestricted Net Assets (Note 5):		
2009-2011 BID Funds Balance	1,250,777	1,004,460
2009-2011 North Santee Alley Overlay Funds Balance	36,658	47,911
Board-Designated for 2014 BID Renewal	300,000	250,000
Board-Designated for MTA Grant Match	150,000	150,000
Board-Designated for Possible MTA Grant Match	-	50,000
Investment in Property and Equipment	67,802	58,885
Total Unrestricted Net Assets	1,805,237	1,561,256
Total Liabilities and Net Assets	\$ 2,004,389	\$ 1,717,452

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Statements of Activities
For the Years Ended December 31, 2011 and 2010

	2011	2010
BID REVENUES: (Note 2)		
Assessment Revenue:		
Business Improvement District - Assessments, Penalties, and Interest	\$ 3,146,693	\$ 3,142,082
Collection of Prior Years' Unpaid Assessments, Penalties, and Interest, Net of Refunds of \$124,161 for 2010	159,566	254,802
Service Revenue - South Santee Alley	67,250	62,250
Food Vendors Trash Pick-Up	33,380	29,119
Merchants Trash Pick-Up	11,840	9,905
Investment Income	5,389	9,789
Other Revenue	23,217	4,074
BID Revenues Sub-Total	3,447,335	3,512,021
OVERLAYS AND GRANT REVENUES: (Note 2)		
North Santee Alley Overlay	267,000	267,000
South Santee Alley Overlay	232,000	391,729
Parking Signage Grant	-	68,472
Overlays and Grant Revenues Sub-Total	499,000	727,201
Total Revenues	3,946,335	4,239,222
BID EXPENSES: (Note 2)		
Maintenance	1,429,490	1,282,921
Security	1,073,010	1,038,434
Administration	200,731	179,423
Special Projects	154,480	153,392
Image and Communications	142,166	98,519
Provision for Uncollectable Assessments	132,131	226,007
Depreciation	36,028	43,907
City Collection Costs	24,065	23,977
BID Expenses Sub-Total	3,192,101	3,046,580
OVERLAYS AND GRANT EXPENSES: (Note 2)		
North Santee Alley Overlay	278,253	336,421
South Santee Alley Overlay	232,000	391,729
Parking Signage Grant Expenses	-	68,472
Overlays and Grant Expenses Sub-Total	510,253	796,622
Total Expenses	3,702,354	3,843,202
Increase in Net Assets	243,981	396,020
UNRESTRICTED NET ASSETS - Beginning of Year	1,561,256	1,165,236
UNRESTRICTED NET ASSETS - End of Year	\$ 1,805,237	\$ 1,561,256

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 243,981	\$ 396,020
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities:		
Depreciation	36,028	43,907
Gain on Sales of Equipment	(10,800)	-
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	(15,935)	(43,852)
Accounts Payable and Accrued Expenses	42,944	(20,943)
Trust Account - 8th and San Pedro Median Project	12	32
Net Cash and Cash Equivalents Provided by Operating Activities	296,230	375,164
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Equipment	(44,945)	(42,059)
Proceeds from Sales of Equipment	10,800	-
Net Cash and Cash Equivalents Used in Investing Activities	(34,145)	(42,059)
Net Increase in Cash and Cash Equivalents	262,085	333,105
CASH AND CASH EQUIVALENTS - Beginning of Year	1,563,882	1,230,777
CASH AND CASH EQUIVALENTS - End of Year	\$ 1,825,967	\$ 1,563,882

SUPPLEMENTAL INFORMATION:

During 2011 and 2010, the Association disposed of certain fully depreciated equipment with original costs of \$55,552 and \$12,164, respectively.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Notes to Financial Statements
December 31, 2011 and 2010

(1) ORGANIZATION

Downtown Los Angeles Property Owners Association (the "Association"), doing business as LA Fashion District, is a 501(c)6 nonprofit mutual benefit corporation dedicated to making the community a clean, safe, and friendly place to work, shop, do business and live through maintenance, security and marketing programs. Launched in January, 1996, the LA Fashion District BID was the first property-based BID in Los Angeles.

A 15-member Board of Directors, consisting of LA Fashion District property owners, administers the management of the BID. A seven-member management team directs the day-to-day operation of BID programs and serves as a liaison for law enforcement, industry associations and city government.

The specific purpose of the Association is to advocate, facilitate and/or direct improved public safety, sidewalk, graffiti and streetscape cleaning programs, and other projects needed to create a safer, cleaner, well-managed section of Los Angeles known as the Fashion District. The Association consists of property owners located within the Fashion District's 100 block Business Improvement District (BID).

The Association's viability and its revenues depend upon renewal of the BID by the member property owners and the Los Angeles City Council, and continuation of a performance agreement with the City to administer the BID funds and services in accordance with the Management District Plan. The City Council approved a fourth renewal of the BID for a five-year term beginning January 1, 2009 through December 31, 2013.

Based on favorable determination letters received from the Internal Revenue Service and the California Franchise Tax Board, the Association is exempt from federal and state income taxes.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation – The financial statements of the Association have been prepared on the accrual basis of accounting to conform to accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Revenue Recognition – Revenues are recorded when earned and consist of real estate special assessments levied on property based on location and benefits received, as approved by property owners and the City in the Management District Plan.

Parcels with footage fronting the North Santee Alley paid added assessments to fund additional services inside the North Santee Alley as a separate overlay under the Management District Plan.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Notes to Financial Statements
December 31, 2011 and 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Parcels with footage inside the South Santee Alley paid added assessments to fund additional services inside the South Santee Alley as a separate overlay under the Management District Plan. Under agreement between the Association and the Santee Maple Alley Association ("SAA"), the Association receives assessments from the City and transfers these assessments to SAA.

The County and City of Los Angeles coordinate the levy and collection of all assessments. The costs directly associated with the administration of this program are reimbursed to the City of Los Angeles \$24,065 and \$23,977 for the years ended December 31, 2011 and 2010, respectively.

Assessments Receivable – Management believes that uncollected assessments relating to certain parcels may not be collected and, accordingly, has established reserves for uncollectable assessments receivable. The Association's policy, consistent with industry practice, is to reserve 100% of unpaid assessments receivable. At December 31, 2011, assessments receivable were \$136,174, after the Association wrote off both the assessment receivable and related reserve due from Cal Trans for the period from 2002 through 2011 (\$311,737), which the Association does not expect to collect. The assessments receivable balance is now composed of only outstanding private-parcel assessments.

Parking Signage Grant – The Association was awarded a \$98,000 grant from the Federal Government available from August 2009 through August 2014 to provide uniform parking signage in the district. Funding is on a reimbursement arrangement and is received and recorded as related expenses are incurred. For the year ended December 31, 2010, the Association spent and was reimbursed \$68,472 of the grant. No expenses were incurred in 2011. Final expenses will be incurred in 2012.

Other Revenue – For 2011, \$10,800 was received from the retirement of depreciated equipment, \$7,000 were grants received from DWP for District Improvements and \$5,417 were miscellaneous receipts.

Concentration of Credit Risk – Financial instruments that subject the Association to potential concentrations of credit risk consists principally of cash and cash equivalents, including investments in certificates of deposit. The Association maintains its cash and investments in Union Bank and Merrill Lynch. Bank balances and money market accounts are subject to coverage by the Federal Deposit Insurance Corporation ("FDIC"), the Securities Investor Protection Corporation ("SIPC") up to statutory limits and by other bank-provided private insurance.

Cash Equivalents – Cash and cash equivalents include cash in bank, money market accounts and short-term certificates of deposit.

Property and Equipment – Property and equipment is depreciated using the straight-line method over the estimated useful lives (3 to 5 years) of the individual assets. Leasehold improvements are amortized over the estimated useful lives, or the term of the related leases, whichever is shorter, using the straight-line method.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Notes to Financial Statements
December 31, 2011 and 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising – The Association expenses all costs of advertising and promotion as incurred. Advertising and promotion expenses for the years ended December 31, 2011 and 2010 were \$0 and \$4,900, respectively.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Legal Assertions – Various claims, generally incidental to the conduct of normal business, are pending or threatened against the Association from time to time. While ultimate liability, if any, is presumably indeterminable, in the opinion of management, the ultimate resolution will not have a materially adverse effect on the financial condition of the Association.

Fair Value Measurements – Fair Value Standards FASB Accounting Standards Codification ASC 820-10 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Reclassifications – Certain prior year balances have been reclassified to conform to current year presentation or to more accurately present the nature of the account balance.

Subsequent Events – Subsequent events have been evaluated through March 22, 2012, the date that these financial statements were available to be issued.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncement – In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amended Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures (ASC 820), to clarify certain existing fair value disclosures and to require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and to present information regarding the purchases, sales, issuances, and settlements in Level 3 assets and liabilities on a gross basis. The Association adopted ASU 2010-06 effective January 1, 2011.

(3) CASH AND CASH EQUIVALENTS AND FAIR VALUE MEASUREMENTS

At December 31, 2011 and 2010, the Association had cash and cash equivalents as follows:

	2011	2010
Certificates of Deposit (yield rates 0.25% - 0.59%)	\$ 1,489,184	\$ 995,899
Preferred Deposit for Business Account - Merrill Lynch	241,913	526,840
Money Market Account - Union Bank	24,769	24,757
Checking Accounts - Union Bank	68,966	14,887
Petty Cash	1,135	1,500
	\$ 1,825,967	\$ 1,563,882

The certificates of deposit as of December 31, 2011 had maturities in February through October 2012 and are planned to be held to maturity. At December 31, 2011, the certificates of deposit are classified as Level 2 assets, and there were no transfers in or out of Level 2 during the year.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Notes to Financial Statements
December 31, 2011 and 2010

(4) PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets at December 31, 2011 and 2010 were as follows:

	2011	2010
Collected Assessments to be remitted by City	\$ 47,194	34,976
Prepaid Insurance	32,863	30,999
Other Receivables	10,370	9,024
Prepaid Rent	8,449	8,225
Refundable Deposits	5,600	5,600
Other Prepaid Expenses	6,144	5,861
	\$ 110,620	\$ 94,685

(5) UNRESTRICTED NET ASSETS

The Association allocates certain unrestricted net assets to Board-Designated Reserves to facilitate the spending policies established by the Board of Directors. The net assets and changes therein have been classified and are reported as follows:

- 2009-2011 BID Funds Balance – In accordance with the State of California Streets and Highways Code Section 36740, the Association is required to disclose the amount of any BID funds balance to be carried over from a previous fiscal year. Accordingly, the Association is carrying over an unspent BID funds balance of \$1,250,777 from 2011 to 2012 and carried over \$1,004,460 from 2010 to 2011. These funds are being used to supplement the annually billed BID assessments to meet operating needs.
- 2009-2011 North Santee Alley Overlay Funds Balance – The Association is carrying over an unspent funds balance of \$36,658 from 2011 to 2012 and carried over \$47,911 from 2010 to 2011. These funds are being used to supplement the annually billed North Alley Overlay assessments to meet operating needs. In 2011, \$11,253 of the prior year's overlay funds balance was expended.
- Board-Designated for 2014 BID Renewal – As of December 31, 2011, the Board has designated \$300,000 as a reserve for renewing the BID in 2014. The renewal process and related expenses will take place in years 2012 and 2013.
- Board-Designated for MTA Grant Match – The Board has designated \$100,000 to be used to obtain \$1.3 million in funding for streetscaping from Olympic Boulevard to Pico Boulevard and from Santee Street to Maple Street, and \$50,000 to obtain \$1.6 million in funding for streetscaping on Los Angeles Street between 7th Street and Olympic Boulevard.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Notes to Financial Statements
December 31, 2011 and 2010

(5) UNRESTRICTED NET ASSETS (Continued)

- Board-Designated for Possible MTA Grant Match – As of December 31, 2011 this reserve is no longer necessary as the Association's Grant Application was not selected.
- Investment in Property and Equipment – Investment in property and equipment represents the carrying value of property and equipment, at cost, net of accumulated depreciation.

(6) FUNCTIONAL ALLOCATION OF EXPENSES

The functional allocation of expenses for the years ended December 31, 2011 and 2010 are as follows:

	2011		2010	
Program	\$ 3,269,623	94.2%	\$ 3,272,050	94.8%
Administration	200,731	5.8%	179,423	5.2%
Total Functional Expenses	3,470,354	100%	3,451,473	100%
South Santee Alley Overlay	232,000		391,729	
Total Expenses	\$ 3,702,354		\$ 3,843,202	

(7) RETIREMENT PLAN

The Association has a defined contribution SIMPLE IRA retirement plan covering all of the Association's employees, after one year of employment. The plan allows employee contributions up to statutory limits and employer matching contributions up to 3% of employees' salary. For the years ended December 31, 2011 and 2010, the Association made contributions to the plan totaling \$14,243 and \$13,589, respectively.

(8) LEASE COMMITMENTS

In March 2009, the Association entered into an operating lease agreement for its field office for a five year term, ending on February 28, 2014. Under the provisions of the lease, the Association makes monthly rental payments of \$4,600, subject to a 4% increase per year.

Also, In March 2009, the Association also entered into an operating lease agreement for its administrative office for a five year term, ending on February 28, 2014. Under the provisions of the lease, the Association makes monthly rental payments of \$1,800.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
Notes to Financial Statements
December 31, 2011 and 2010

(8) LEASE COMMITMENTS (Continued)

Future minimum lease payments are as follows:

<u>Year Ending December 31</u>	<u>Facilities Leases</u>	<u>Postage Meter Lease</u>	<u>Totals</u>
2012	\$ 83,692	\$ 1,292	\$ 84,984
2013	86,176	1,077	87,253
2014	14,793	-	14,793
	<u>\$ 184,661</u>	<u>\$ 2,369</u>	<u>\$ 187,030</u>

Facilities rent expense for the years ended December 31, 2011 and 2010 was \$81,304 and \$79,008, respectively.