

**DOWNTOWN LOS ANGELES PROPERTY OWNERS  
ASSOCIATION**

**FINANCIAL STATEMENTS  
December 31, 2010 and 2009  
And For The Years Then Ended**

Together with Independent Auditor's Report

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION**

December 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 16, 2011

Member of:  
American Institute of Certified Public Accountants  
Division of CPA Firms/Private Companies Practice Section  
California Society of Certified Public Accountants

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION**  
**Statements of Financial Position**  
**December 31, 2010 and 2009**

	2010	2009
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 1,563,882	\$ 1,230,777
Assessments Receivable, net of reserve for uncollectible assessments of \$502,084 and \$687,609, for 2010 and 2009, respectively (Note 1)	-	-
Prepaid Expenses and Other Assets	94,685	50,833
Total Current Assets	1,658,567	1,281,610
Property and Equipment (Note 1):		
Field Equipment	309,951	287,387
Leasehold Improvements	32,341	32,341
Computers	31,813	24,482
Furniture and Fixtures	23,714	23,714
	397,819	367,924
Less Accumulated Depreciation	(338,934)	(307,191)
Net Property and Equipment	58,885	60,733
Total Assets	\$ 1,717,452	\$ 1,342,343
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 131,339	\$ 152,282
Trust Account - 8th and San Pedro Median Project	24,857	24,825
Total Current Liabilities	156,196	177,107
Commitments (Note 5)		
Unrestricted Net Assets (Note 1):		
2009-2010 BID Funds Balance	1,052,371	729,503
Board-Designated for 2014 BID Renewal	250,000	200,000
Board-Designated for MTA Grant Match	150,000	150,000
Board-Designated for Possible MTA Grant Match	50,000	25,000
Investment in Property and Equipment	58,885	60,733
Total Unrestricted Net Assets	1,561,256	1,165,236
Total Liabilities and Net Assets	\$ 1,717,452	\$ 1,342,343

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION**  
**Statements of Activities**  
**For the Years Ended December 31, 2010 and 2009**

	2010	2009
BID REVENUES: (Note 1)		
Assessment Revenue:		
Business Improvement District - Assessments, Penalties, and Interest	\$ 3,142,082	\$ 3,129,249
Collection of Prior Year Unpaid Assessments, Penalties, and Interest, Net of Refunds of \$124,161 and \$27,871, for 2010 and 2009, respectively	254,802	(3,935)
Investment Income	9,789	7,846
Other Revenue	105,348	42,351
BID Revenues Sub-Total	3,512,021	3,175,511
OVERLAYS AND GRANT REVENUES: (Note 1)		
South Santee Alley Overlay	391,729	368,780
North Santee Alley Overlay	267,000	400,000
Parking Signage Grant	68,472	-
Overlays and Grant Revenues Sub-Total	727,201	768,780
Total Revenues	4,239,222	3,944,291
BID EXPENSES: (Note 1)		
Maintenance	1,282,921	1,073,202
Security	1,038,434	946,324
Provision for Uncollectable Assessments	226,007	494,113
Administration	179,423	179,551
Special Projects	153,392	147,645
Image and Communications	98,519	101,884
Depreciation	43,907	55,618
City Collection Costs	23,977	54,496
BID Renewal	-	8,325
BID Expenses Sub-Total	3,046,580	3,061,158
OVERLAYS AND GRANT EXPENSES: (Note 1)		
South Santee Alley Overlay	391,729	368,780
North Santee Alley Overlay	336,421	295,000
Parking Signage Grant Expenses	68,472	-
Overlays and Grant Expenses Sub-Total	796,622	663,780
Total Expenses	3,843,202	3,724,938
Increase in Net Assets	396,020	219,353
UNRESTRICTED NET ASSETS - Beginning of Year	1,165,236	945,883
UNRESTRICTED NET ASSETS - End of Year	\$ 1,561,256	\$ 1,165,236

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2010 and 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 396,020	\$ 219,353
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities:		
Depreciation	43,907	55,268
Loss on Disposal of Equipment	-	350
Prepaid Expenses and Other Assets	(43,852)	(19,523)
Accounts Payable and Accrued Expenses	(20,943)	24,245
Trust Account - 8th and San Pedro Median Project	32	118
Net Cash and Cash Equivalents Provided by Operating Activities	375,164	279,811
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Equipment	(42,059)	(14,657)
Proceeds from Sale of Equipment	-	28,799
Net Cash and Cash Equivalents (Used in) Provided by Investing Activities	(42,059)	14,142
Net Increase in Cash and Cash Equivalents	333,105	293,953
CASH AND CASH EQUIVALENTS, Beginning of Year	1,230,777	936,824
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,563,882	\$ 1,230,777

**SUPPLEMENTAL INFORMATION:**

During 2010 and 2009, the Association disposed of equipment with an original cost of \$12,164 and \$73,257 and net book value of \$0 and \$29,149, respectively.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Organization – Downtown Los Angeles Property Owners Association (the “Association”), doing business as LA Fashion District, is a corporation organized in the State of California on May 5, 1993, under the nonprofit mutual benefit corporation law. 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.

Under its mission, the Association is dedicated to making the community a clean, safe, and friendly place to work, shop, and do business.

The specific purpose of the Association is to advocate, facilitate and/or direct improved public safety, sidewalk, graffiti and streetscape cleaning and maintenance 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 Plan. The City Council approved a fourth renewal of the BID for a five-year term beginning January 1, 2009 through December 31, 2013.

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 Plan.

Assessment revenue was higher because 84% of the 2009 unpaid assessments and penalties (\$378,962) were collected in 2010. However, the Association also refunded assessments in 2010 as follows:

- Refund to Fashion District 2 (FD2) Property Owners – In May 2009, the City of Los Angeles billed the FD2 property owners for 12 months of BID services; however, the BID did not provide Clean and Safe services to FD2 properties for the first 3 months of 2009 (January through March) because of the delay in getting property owner approval to officially renew the FD2 section of the Fashion District. In 2010, the Association refunded \$110,458 relating to the three months that no Clean and Safe services were provided to those FD2 property owners, who had paid their full 2009 and 2010 assessments.

(1) **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

- Dropped Parcels Refunds – As per the approved 2009-2013 management plan, those parcels left out of the BID as of January 1, 2009, were to receive a proportionate refund of any unexpended funds remaining at the end of 2008. The Association accrued \$27,871 for these refunds as of December 31, 2009. Actual refunds issued in 2010 were \$22,540.
- Other Refunds: The Association had other assessment refunds totaling \$19,034 in 2010.

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 Plan.

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 Plan. Under agreement between the Association and the South 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 \$23,977 and \$54,496 (of which \$31,140 was for direct-billing the 2009 assessments) for the years ended December 31, 2010 and 2009 respectively.

Assessments Receivable – Management believes that uncollected assessments relating to certain parcels may not be collected and, accordingly, has established reserves for uncollectible assessments receivable. The Association’s policy, consistent with industry practice, is to reserve 100% of unpaid assessments receivable. At December 31, 2010, assessments receivable were composed of \$288,378 owed by Cal Trans (2002 through 2010) and \$213,706 owed by private parcels (2009 through 2010).

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 being received as related expenses are incurred.

Other Revenue – For 2010, \$62,550 was from providing maintenance and security supervision inside the South Santee-Maple Alley, \$29,119 was for trash collection from mobile food vendors, \$12,905 was for trash collection from merchants and \$774 was other miscellaneous receipts. For 2009, \$25,300 was from providing maintenance inside the South Santee-Maple Alley, \$2,264 was for trash collection from mobile food vendors, \$10,510 was for trash collection from merchants and \$2,277 was other miscellaneous receipts.



(1) **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

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 with 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.

Impairment of Long-Lived Assets – The Association reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment losses, if any, are recognized when estimated future cash flows (undiscounted and without interest charges) derived from such assets are less than their carrying values.

Advertising – The Association expenses all costs of advertising and promotion as incurred. Advertising and promotion expenses for the years ended December 31, 2010 and 2009 were \$4,900 and \$0, 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.

New Accounting Pronouncement - The FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB No. 109 (FIN 48), which is included in ASC 740-10. FIN 48 provides guidance on how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires evaluation of tax positions taken in the course of preparing the Association’s tax returns to determine whether tax positions are “more-likely-than-not” of having been sustained by the applicable tax authority. The Association adopted FIN 48 effective January 1, 2010. The Association believes that it does not have any uncertain tax positions that impact the Association’s financial position or statement of activities.

(1) **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Board-Designated 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.

- 2009-2010 BID Funds Balance - In accordance with 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 the unspent 2009-2010 BID funds balance of \$1,052,371 from 2010 to 2011 and carried over \$729,503 from 2009 to 2010. These funds are being used to supplement the annually billed assessments to meet operating needs.
- Board-Designated for 2014 BID Renewal – At December 31, 2010, the Board has designated \$250,000 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 7<sup>th</sup> Street and Olympic Boulevard.
- Board-Designated for Possible MTA Grant Match – At December 31, 2010, the Board has designated \$50,000 to be used to obtain \$1.975 million in funding for streetscaping from Pico Boulevard starting at Maple to San Pedro and from San Pedro to Washington Boulevard. MTA will decide whether to approve the project in 2011.
- Investment in Property and Equipment – Investment in property and equipment represents the carrying value of property and equipment, at cost, net of accumulated depreciation.

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 16, 2011, the date that these financial statements were available to be issued.

**(2) CASH AND CASH EQUIVALENTS**

At December 31, 2010 and 2009, the Association had cash and cash equivalents as follows:

	<u>2010</u>	<u>2009</u>
Certificates of Deposit (yield rates 0.15% - 1.24%)	\$ 995,899	\$ 673,000
Preferred Deposit for Business Account - Merrill Lynch	526,840	248,755
Money Market Account - Union Bank	24,757	275,008
Checking Accounts - Union Bank	14,887	32,514
Petty Cash	1,500	1,500
	<u>\$ 1,563,882</u>	<u>\$ 1,230,777</u>

The certificates of deposit as of December 31, 2010 had maturities in January and March 2011, and were renewed at maturity.

**(3) FUNCTIONAL ALLOCATION OF EXPENSES**

The functional allocations of expenses for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>		<u>2009</u>	
Program	\$ 3,272,050	94.8%	\$ 3,168,282	94.4%
Administration	179,423	5.2%	179,551	5.3%
BID Renewal	-	0%	8,325	0.2%
	<u>3,451,473</u> <u>100%</u>		<u>3,356,158</u> <u>100%</u>	
South Santee-Maple Alley	<u>391,729</u>		<u>368,780</u>	
Total Expenses	<u>\$ 3,843,202</u>		<u>\$ 3,724,938</u>	

**(4) 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, 2010 and 2009, the Association made contributions totaling \$13,589 and \$13,628, respectively.

**(5) 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.

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.

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>
2011	\$ 81,304	\$ 1,304	\$ 82,608
2012	83,692	1,304	84,996
2013	86,176	1,195	87,371
2014	14,793	-	14,793
	<u>\$ 265,965</u>	<u>\$ 3,803</u>	<u>\$ 269,768</u>

The rent expense for the years ended December 31, 2010 and 2009 was \$79,008 and \$75,636, respectively.