

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
(A Non-profit Corporation)**

FINANCIAL STATEMENTS

Year ended December 31, 2012

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT**

TABLE OF CONTENTS

Year ended December 31, 2012

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to the Financial Statements	5-11



Certified Public Accountants and Business Consultants

Member of American Institute of Certified Public Accountants and California Society of Public Accountants
Participant in Quality Review Program of AICPA

INDEPENDENT AUDITORS' REPORT

William
Tilley
CPA

To the Board of Directors of
Downtown Los Angeles Property Owners Association
Db a LA Fashion District
Los Angeles, California

J. Pearse
Leonard
CPA

We have audited the accompanying financial statements of Downtown Los Angeles Property Owners Association, dba LA Fashion District (the "Association") (a California nonprofit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

James T.
Chang
CPA

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.

Fabio
Vasco
CPA

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Manny
Gleicher
CPA
(Retired)

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 2012 financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The prior year summarized comparative information has been derived from the Association's 2011 financial statements, which were audited by other auditors whose report dated March 22, 2012, expressed an unmodified opinion on those statements.

GTL, LLP

Los Angeles, CA
February 26, 2013

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
Statement of Financial Position
December 31, 2012

(With Comparative Totals for 2011)

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 1,271,768	\$ 1,327,967
Assessments Receivable, net of reserve for uncollectible assessments of \$123,411 and \$136,174, for 2012 and 2011, respectively (Note 2)	-	-
Prepaid Expenses and Other Assets (Note 4)	236,503	110,620
Total Current Assets	1,508,271	1,438,587
Investments - Other (Note 3)	498,000	498,000
Property and Equipment (Note 2):		
Field Equipment	287,130	291,679
Leasehold Improvements	32,341	32,341
Computers	31,464	39,478
Furniture and Fixtures	23,714	23,714
	374,649	387,212
Less Accumulated Depreciation	(291,991)	(319,410)
Net Property and Equipment	82,658	67,802
Total Assets	\$ 2,088,929	\$ 2,004,389
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 119,913	\$ 174,283
Trust Account - 8th and San Pedro Median Project	24,881	24,869
Total Current Liabilities	144,794	199,152
Commitments (Note 8)		
Unrestricted Net Assets (Note 5):		
2009-2012 BID Fund Balance	1,163,247	1,250,777
2009-2012 North Santee Alley Overlay Fund Balance	40,230	36,658
Board-Designated for 2014 BID Renewal	175,000	300,000
Board-Designated for Future Streetscaping Project(s)	50,000	-
Board-Designated for MTA Grant Match	150,000	150,000
Board-Designated for Capital Equipment Purchases	283,000	-
Investment in Property and Equipment	82,658	67,802
Total Unrestricted Net Assets	1,944,135	1,805,237
Total Liabilities and Net Assets	\$ 2,088,929	\$ 2,004,389

See Independent Auditors' Report and Notes to the Financial Statements

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
Statement of Activities
Year Ended December 31, 2012

(With Comparative Totals for 2011)

	2012	2011
BID REVENUES (Note 2):		
Assessment Revenue:		
Business Improvement District - Assessments	\$ 3,139,859	\$ 3,139,622
Collection of Prior Years' Unpaid Assessments	57,239	128,695
Collection of Penalties and Interest	28,967	37,942
Service Revenue - South Santee Alley	72,875	67,250
Food Vendors Trash Pick-Up	17,560	33,380
Merchants Trash Pick-Up	14,090	11,840
Investment Income	8,609	5,389
Other Revenues	19,695	23,217
BID Revenues Sub-Total	3,358,894	3,447,335
 OLVERLAYS REVENUES (Note 2):		
North Santee Alley Overlay	288,360	267,000
South Santee Alley Overlay	250,560	232,000
Overlays Revenues Sub-Total	538,920	499,000
 Total Revenues	3,897,814	3,946,335
 BID EXPENSES (Note 2):		
Cleaning	1,408,481	1,429,490
Safety	1,052,174	1,073,010
Administration	210,967	200,731
Special Projects	163,677	154,480
Image and Communications	152,554	142,166
Provision for Uncollectible Assessments	127,569	132,131
Depreciation and Amortization	35,494	36,028
City and County Collection Costs	24,089	24,065
BID Renewal	43,563	-
Parking Signage Grant Expenses	5,000	-
BID Expenses Sub-Total	3,223,568	3,192,101
 OVERLAYS EXPENSES (Note 2):		
North Santee Alley Overlay	284,788	278,253
South Santee Alley Overlay	250,560	232,000
Overlays Expenses Sub-Total	535,348	510,253
 Total Expenses	3,758,916	3,702,354
 Increase in Net Assets	138,898	243,981
 UNRESTRICTED NET ASSETS - Beginning of Year	1,805,237	1,561,256
 UNRESTRICTED NET ASSETS - End of Year	\$ 1,944,135	\$ 1,805,237

See Independent Auditors' Report and Notes to the Financial Statements

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
Statement of Cash Flows
Year Ended December 31, 2012

(With Comparative Totals for 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 138,898	\$ 243,981
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents (Used in) Provided by Operating Activities:		
Depreciation and Amortization	35,494	36,028
Gain on Sale of Equipment	-	(10,800)
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	(125,884)	(15,935)
Accounts Payable and Accrued Expenses	(54,370)	42,944
Trust Account - 8th and San Pedro Median Project	12	12
	(5,850)	296,230
Net Cash and Cash Equivalents (Used in) Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Equipment	(50,349)	(44,945)
Proceeds from Sale of Equipment	-	10,800
	(50,349)	(34,145)
Net Cash and Cash Equivalents Used in Investing Activities		
Net (Decrease) Increase in Cash and Cash Equivalents	(56,199)	262,085
CASH AND CASH EQUIVALENTS, beginning of year	1,327,967	1,065,882
CASH AND CASH EQUIVALENTS, end of year	\$ 1,271,768	\$ 1,327,967

SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION:

The Association disposed of certain fully depreciated equipment during 2012 and 2011 with original costs of \$62,912 and \$55,552, respectively.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT**

Notes to the Financial Statements

Year ended December 31, 2012

(1) NATURE OF 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 cleaning, security and marketing programs. Launched in January 1996, the LA Fashion District Business Improvement 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 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of 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.

Reclassification

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

Revenue Recognition

Revenues are recorded when earned and consist of real estate special assessments levied on properties 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 pay 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
DBA LA FASHION DISTRICT
Notes to the Financial Statements
Year ended December 31, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Parcels with footage inside the South Santee Alley pay 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 City and County of Los Angeles coordinate the levy and collection of all assessments which for the years ended December 31, 2012 and 2011 total \$3,226,000 and \$3,306,000, respectively. The costs directly associated with the administration of this program were reimbursed to the City and County of Los Angeles \$24,089 and \$24,065 for the years ended December 31, 2012 and 2011, respectively.

Assessments Receivable and Allowance for Doubtful Accounts

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, 2012 and 2011, assessments receivable were \$123,411 and 136,174, respectively. In 2011 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, 2012, the Association spent and was reimbursed \$5,000 of the grant. Final expenses will be incurred in 2013.

Other Revenues

For the years ended December 31, 2012 and 2011, the Association received \$19,695 and \$23,217, respectively in other grants and miscellaneous receipts.

Concentration of Credit Risk

Financial instruments that subject the Association to the potential concentration of credit risk consists principally of cash and cash equivalents, money market accounts and investments in certificates of deposit. The Association maintains its cash, money market accounts 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.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
Notes to the Financial Statements
Year ended December 31, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

Cash and cash equivalents include cash in bank, money market accounts and short-term (maturing in three months or less) 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.

Advertising

The Association expenses all costs of advertising and promotion as incurred. There were no expenses incurred for advertising and promotion for the years ended December 31, 2012 and 2011.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's prior year audited financial statements, from which this selected financial data was derived.

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.

Subsequent Events

The Association has evaluated events subsequent to December 31, 2012, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 26, 2013 the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
Notes to the Financial Statements
Year ended December 31, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair Value Standards under FASB Accounting Standards Codification (ASC) 820-10 establishes a hierarchical 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 markets 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.

(3) CASH AND CASH EQUIVALENTS AND INVESTMENTS FAIR VALUE MEASUREMENTS

At December 31, 2012 and 2011, the Association had cash and cash equivalents and investments as follows:

<u>Cash and Cash Equivalents</u>	<u>2012</u>	<u>2011</u>
Certificates of Deposit (yield rates 0.25% - 0.55%)	\$ 995,294	\$ 991,184
Preferred Deposit for Business Account - Merrill Lynch	246,851	241,913
Money Market Account - Union Bank	24,781	24,769
Checking Accounts - Union Bank	3,842	68,966
Petty Cash	1,000	1,135
	<u>\$ 1,271,768</u>	<u>\$ 1,327,967</u>
 <u>Investments - Other</u>		
Certificates of Deposit (yield rates 0.40% - 0.55%), with maturity dates longer than 3 months	<u>\$ 498,000</u>	<u>\$ 498,000</u>

The certificates of deposit and investments-other at December 31, 2012 had maturities in February through June 2013 and are planned to be held to maturity. At December 31, 2012 and 2011, the certificates of deposit and investments-other 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
DBA LA FASHION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012**

(4) PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets at December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Collected Assessments to be Remitted by City	\$ 166,534	\$ 47,194
Prepaid Insurance	27,723	32,863
Other Receivables	2,171	10,370
Prepaid Rent	8,656	8,449
Refundable Deposits	5,600	5,600
Other Prepaid Expenses	<u>25,819</u>	<u>6,144</u>
Total	<u>\$ 236,503</u>	<u>\$ 110,620</u>

(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:

- 2009-2012 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 \$1,338,247 from 2012 to 2013 and carried over \$1,250,777 from 2011 to 2012. These funds are being used to supplement the annually billed BID assessments to meet operating needs.
- 2009-2012 North Santee Alley Overlay Funds Balance - The Association is carrying over an unspent funds balance of \$40,230 from 2012 to 2013 and carried over \$36,658 from 2011 to 2012. These funds are being used to supplement the annually billed North Alley Overlay assessments to meet operating needs.
- Board-Designated for 2014 BID Renewal - As of December 31, 2011, the Board had designated \$300,000 as a reserve for renewing the BID starting in 2014. From this reserve, \$125,000 was budgeted in 2012, leaving a \$175,000 balance as of December 31, 2012.
- Board-Designated for Future Streetscaping Project(s) - The Board has designated a \$50,000 reserve to use as matching funds for future streetscaping projects that may become available.
- 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 future streetscaping on Los Angeles Street between 7th Street and Olympic Boulevard.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
Notes to the Financial Statements
Year ended December 31, 2012

(5) UNRESTRICTED NET ASSETS (CONTINUED)

Board-Designated for Capital Equipment Purchases - The Board has designated \$175,000 and 108,000 for acquisition of capital equipment in 2013 and 2014, respectively, or a total of \$283,000.

Investment in Property and Equipment - Investment in property and equipment represents the carrying value of property and equipment, at cost, net of accumulated depreciation and amortization.

(6) FUNCTIONAL ALLOCATION OF EXPENSES

The functional allocation of expenses for the years ended December 31, 2012 and 2011 are as follows:

	2012		2011	
Program	\$ 3,297,389	94.0%	\$ 3,269,623	94.2%
Administration	210,967	6.0%	200,731	5.8%
Total Functional Expenses	3,508,356	100%	3,470,354	100%
South Santee Alley Overlay	250,560		232,000	
Total Expenses	\$ 3,758,916		\$ 3,702,354	

(7) RETIREMENT PLAN

The Association sponsors 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, 2012 and 2011, the Association made contributions to the plan totaling \$14,397 and \$14,243, respectively.

(8) LEASE COMMITMENTS

In March 2009, the Association entered into an operating lease agreement with an unrelated party for its field office for a five year term, ending on February 28, 2014. Under the provision 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 entered into an operating lease agreement with a related party 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. See also Note 11, Related Party Transaction.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT
Year ended December 31, 2012

(8) LEASE COMMITMENTS (CONTINUED)

Future minimum lease payments are as follows:

Year ending December 31,	Facilities Leases	Postage Meter Lease	Totals
2013	\$ 86,176	\$ 1,077	\$ 87,253
2014	14,793	-	14,793
	<u>\$ 100,969</u>	<u>\$ 1,077</u>	<u>\$ 102,046</u>

Facilities rent expense for the years ended December 31, 2012 and 2011 was \$83,688 and \$81,304, respectively.

(9) INCOME TAXES

The Association is exempt from taxes under Section 501(c)(6) of the Internal Revenue Code (IRC), and from federal and state income taxes under Section 501(a) of the IRC and corresponding sections of the California Revenue and Taxation Code. Accordingly, no provision or benefit for federal or state income taxes is recorded in the accompanying financial statements.

The Association's federal income tax returns for tax years 2009 and beyond remain subject to examination by the Internal Revenue Service. The returns for California, its only state jurisdiction, remain subject to examination by state taxing authorities for the tax years 2008 and beyond.

(10) MAJOR VENDORS

For the years ended December 31, 2012 and 2011, approximately 55% and 58%, respectively of the Association's purchases (not including the Santee Alley Overlays) were from two major vendors for cleaning and safety services amounting to \$1,825,000 and \$1,853,000, respectively. At December 31, 2012 and 2011, there were \$47,470 and \$74,315, respectively due to these vendors, which were included in accounts payable and accrued expenses in the Statement of Financial Position.

(11) RELATED PARTY TRANSACTION

The Association's Board of Directors has a conflict of interest policy in place that is intended to assure the Association stakeholders that the decisions of the Association are made objectively and with full knowledge of the involvement, if any, of the Board of Directors and staff. At times during the course of the year, the Association may determine that doing business with a Board member is in the best interest of the Association. In accordance with the Association's bylaws, such transactions are reviewed and approved by the Association's Board of Directors, with the involved Director(s) recusing themselves from voting.

A Director on the Board of the Association is an owner of the building where the Association is a tenant via a long term office lease (see Footnote No. 8, Lease Commitments, Administrative Office), and the related rent expense paid for the years ended December 31, 2012 and 2011 was \$21,600 each year.