

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

FINANCIAL STATEMENTS

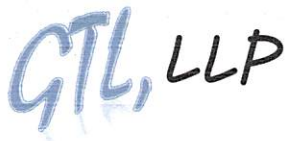
**Year Ended December 31, 2016
(With comparative totals for 2015)**

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

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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

To the Board of Directors of
DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Los Angeles, California

We have audited the accompanying financial statements of Downtown Los Angeles Property Owners Association, dba LA Fashion District Business Improvement District (the "Association") (a California nonprofit corporation) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2016, 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.

Report on Summarized Comparative Prior Year Financial Information

The 2015 financial statements were reviewed by us, and our report thereon, dated March 7, 2016, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

Certified Public Accountants
April 6, 2017

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT**
Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS	Audited	Reviewed
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 1,356,562	\$ 975,342
Assessments Receivable, net of reserve for uncollectable assessments of \$14,934 and \$32,400, for 2016 and 2015, respectively (Note 2)	-	-
Prepaid Expenses and Other Assets (Note 4)	114,201	130,083
Total Current Assets	1,470,763	1,105,425
Cash Investments - Other (Note 3)	240,000	723,943
Property and Equipment (Note 2):		
Field Equipment	305,015	369,648
Website	63,106	63,106
Leasehold Improvements	32,341	32,341
Computers	25,491	49,774
Furniture and Fixtures	22,888	22,888
	448,841	537,757
Less Accumulated Depreciation	(343,784)	(341,831)
Net Property and Equipment	105,057	195,926
Total Assets	\$ 1,815,820	\$ 2,025,294
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 157,385	\$ 246,997
Trust Account - 8th and San Pedro Median Project	22,682	22,529
Deferred Website Advertising Revenue	9,630	-
Total Current Liabilities	189,697	269,526
Commitments (Note 8)	-	-
Unrestricted Net Assets (Note 5):		
BID Fund Balance	1,022,538	1,112,108
North Santee Alley Overlay Fund Balance	65,715	64,921
Board-Designated for BID Renewal	100,000	100,000
Board-Designated for MTA Projects' Matching Funds	147,813	147,813
Board-Designated for Future Capital Equipment Purchases	185,000	135,000
Investment in Existing Property and Equipment	105,057	195,926
Total Unrestricted Net Assets	1,626,123	1,755,768
Total Liabilities and Net Assets	\$ 1,815,820	\$ 2,025,294

See Independent Auditors' Report and Notes to Financial Statements

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT**
Statement of Activities
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
	<u>Audited</u>	<u>Reviewed</u>
BID REVENUES (Note 2):		
Assessment Revenue:		
Business Improvement District - Assessments	\$ 3,170,921	\$ 3,044,516
Collection of Prior Years' Unpaid Assessments	30,928	8,010
Collection of Penalties and Interest	11,551	1,879
General Benefit Revenue	75,479	107,109
Special Events Revenue and Sponsorships	18,500	17,055
Merchants & Food Vendors Trash Pick-Up	13,618	15,455
Investment Income	16,561	15,059
Other Revenues	18,459	19,792
BID Revenues Sub-Total	<u>3,356,017</u>	<u>3,228,875</u>
OVERLAYS REVENUES (Note 2):		
North Santee Alley Overlay Assessments	270,681	231,382
North Santee Alley General Benefit Rev	6,978	12,577
South Santee Alley Overlay Assessments (pass-thru)	284,543	213,466
South Santee Alley General Benefit Rev (pass-thru)	6,534	11,700
Overlays Revenues Sub-Total	<u>568,736</u>	<u>469,125</u>
Total Revenues	<u>3,924,753</u>	<u>3,698,000</u>
BID EXPENSES (Note 2):		
Cleaning	1,553,389	1,496,671
Safety	1,166,553	1,227,314
Management	222,209	226,960
Communication	194,728	176,485
Special Projects	155,235	191,431
Provision for Uncollectable Assessments	87,907	91,988
Depreciation and Amortization	74,174	75,879
City and County Collection Costs	32,262	30,977
BID Expenses Sub-Total	<u>3,486,457</u>	<u>3,517,705</u>
OVERLAYS EXPENSES (Note 2):		
North Santee Alley Overlay	276,864	293,534
South Santee Alley Overlay (pass-thru)	291,077	225,166
Overlays Expenses Sub-Total	<u>567,941</u>	<u>518,700</u>
Total Expenses	<u>4,054,398</u>	<u>4,036,405</u>
(Decrease) in Net Assets	(129,645)	(338,405)
UNRESTRICTED NET ASSETS - Beginning of Year	<u>1,755,768</u>	<u>2,094,173</u>
UNRESTRICTED NET ASSETS - End of Year	<u>\$ 1,626,123</u>	<u>\$ 1,755,768</u>
Supplemental Note:		
(Decrease) in Net Assets (Excluding Overlays)	<u>\$ (130,440)</u>	<u>\$ (288,830)</u>

See Independent Auditors' Report and Notes to Financial Statements

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT**
Statement of Cash Flows
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
	Audited	Reviewed
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (129,645)	\$ (338,405)
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents (Used-in) Operating Activities:		
Depreciation and Amortization	74,174	75,879
Gain on Sale of Equipment	(1,381)	(9,600)
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	15,882	50,301
Accounts Payable and Accrued Expenses	(89,612)	38,021
Deferred Website Advertising Revenue	9,630	-
Trust Account - 8th and San Pedro Median Project	153	244
	<u>(120,799)</u>	<u>(183,560)</u>
Net Cash and Cash Equivalents (Used-in) Operating Activities		
	<u>(120,799)</u>	<u>(183,560)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemptions/(Purchases) of Investment CDs	483,943	494,057
(Purchases) of Equipment	(1,324)	(124,937)
Proceeds from Sale of Equipment	19,400	9,600
	<u>502,019</u>	<u>378,720</u>
Net Cash and Cash Equivalents Provided by Investing Activities		
	<u>502,019</u>	<u>378,720</u>
Net Increase in Cash and Cash Equivalents	381,220	195,160
CASH AND CASH EQUIVALENTS, beginning of year	<u>975,342</u>	<u>780,182</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,356,562</u>	<u>\$ 975,342</u>

SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION:

The Association disposed of certain equipment during 2016 and 2015 with original costs of \$90,239 and \$72,668, respectively.

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

**Notes to Financial Statements
Year Ended December 31, 2016**

(1) NATURE OF ORGANIZATION

Downtown Los Angeles Property Owners Association, (the "Association"), doing business as LA Fashion District Business Improvement District, is a 501(c)(6) tax-exempt nonprofit mutual benefit corporation dedicated to helping the community be a clean, safe, and friendly place to work, shop, do business and live through cleaning, safety 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 7-member management team directs the day-to-day operation of BID programs and serves as a liaison between city government and property owners.

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 that contribute to a cleaner, safer, 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 (the "City"), 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 fifth renewal of the BID for a five-year term beginning January 1, 2014 through December 31, 2018.

(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 account balances may have been reclassified to conform to the current year presentation or to more accurately present the nature of the account balances.

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 of Los Angeles in the Management District Plan.

Parcels with footage fronting the North Santee Alley, ("NSA"), pay added assessments to fund additional services inside the NSA as a separate overlay under the Management District Plan. The 2016 Revenue was composed of \$270,681 billed overlay assessments and \$6,978 General Benefit funds paid by the City. The 2015 Revenue was composed of \$231,382 billed overlay assessments and \$12,577 General Benefit funds paid by the City for years 2015 and 2014. The Association keeps in its checking account any NSA Reserve Funds.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2016**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Parcels with footage fronting 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, ("SMAA"), the Association receives overlay assessments from the City and fully transfers these overlay assessments to SMAA as a pass-thru. The 2016 Revenue was composed of \$284,543 billed overlay assessments and \$6,534 General Benefit funds paid by the City. The 2015 Revenue was composed of \$213,466 billed overlay assessments and \$11,700 General Benefit funds paid by the City for years 2015 and 2014. The SMAA keeps its own checking account and any SMAA accumulated reserve funds.

The City and County of Los Angeles coordinate the levy and collection of all current-year assessments and prior years' unpaid assessments, penalties and interest, which for the years ended December 31, 2016 and 2015 totaled \$3,213,400 and \$3,054,405, respectively (excluding the Santee Alley Overlays). The costs directly associated with the administration of this program were reimbursed to the City and County of Los Angeles, \$32,262 and \$30,977 for the years ended December 31, 2016 and 2015,

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 uncollectable assessments receivable. The Association's policy, consistent with industry practice, is to reserve 100% of unpaid assessments receivable. At December 31, 2016 and 2015, the reserves for uncollectable assessments receivable were \$14,934 and \$32,400, respectively and composed of only outstanding private-parcel assessments.

General Benefit Revenue

Per the 2014 through 2018 Management Plan, the 2016 and 2015 billed assessments (excluding the Overlays) were reduced by \$76,735 and \$73,670 or 2.42%, respectively for the estimated General Benefit component within the Service Programs. The Association is required to use "non-assessment" funds to pay for the General Benefit component. However, for years 2016 and 2015 the City of LA reimbursed the Association for these funds amounting to \$75,479 and \$107,109, respectively. The amount received in 2015 was for 2015 plus a partial balance owed for 2014. The City paid the 2016 revenue but at the 2014 base amount due to the City's interpretation of the Management Plan.

Other Revenues

For the years ended December 31, 2016 and 2015, the Association received Other Revenues of \$18,459 and \$19,792, respectively derived from revenue from merchants to advertise on the Association's website, gains from retired equipment and other miscellaneous receipts.

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

**Notes to Financial Statements
Year Ended December 31, 2016**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

Financial instruments that subject the Association to 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, Merrill Lynch and HAB Bank. 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 and Cash Equivalents

Cash and cash equivalents include cash in bank, money market accounts and short-term (maturing in three months or less as of year-end) 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. Such costs were \$4,528 and \$4,815 for years 2016 and 2015, respectively.

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.

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 resolutions 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, 2016, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through April 6, 2017, 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 BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2016**

(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, 2016 and 2015, the Association had cash and cash equivalents and investments as follows:

<u>Cash and Cash Equivalents</u>	2016	2015
Certificates of Deposit (yield rates 0.40% - 1.00%)	\$ 738,000	\$ 489,000
Money Market Account - Merrill Lynch	544,571	437,278
Money Market Account - 8th & S. Pedro Trust Acct	22,682	22,529
Checking Accounts - Union Bank	50,309	25,535
Petty Cash	1,000	1,000
	1,356,562	975,342
 <u>Cash Investments - Other</u>		
Certificate of Deposit (yield rate 1.20%), with maturity dates longer than 3 months.	240,000	723,943
Total	\$ 1,596,562	\$ 1,699,285

The Certificates of Deposit and Investments-Other at December 31, 2016 had maturities in January 2017 through August 2017 and are planned to be held to maturity. At December 31, 2016 and 2015, 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 BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2016**

(4) PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets at December 31, 2016 and 2015 were as follows:

	2016	2015
Collected Assessments to be Remitted by the City of LA	\$ 27,690	\$ 27,668
General Benefit Revenue to be Remitted by the City of LA	-	42,395
Prepaid Insurance	35,361	33,667
Other Receivables	27,560	4,497
Prepaid Rent	9,219	8,947
Refundable Deposits	5,600	5,600
Other Prepaid Expenses	8,771	7,309
Total	\$ 114,201	\$ 130,083

(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:

- BID Fund Balance - In accordance with the State of California Streets and Highways Code Section 36741, 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 \$1,022,538 from 2016 to 2017 and carried over \$1,112,108 from 2015 to 2016. These funds are being used to supplement the annually billed BID assessments to meet operating needs.
- North Santee Alley Overlay Fund Balance - The Association is carrying over an unspent funds balance of \$65,715 from 2016 to 2017 and carried over \$64,921 from 2015 to 2016. These funds are being used to supplement the annually billed North Alley Overlay assessments to meet operating needs.
- Board-Designated for BID Renewal - As of December 31, 2016 and 2015, the Board has designated a \$100,000 reserve to be used for the next BID Renewal.

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

**Notes to Financial Statements
Year Ended December 31, 2016**

(5) UNRESTRICTED NET ASSETS (CONTINUED)

- Board-Designated for MTA Projects' Matching Funds - 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 (Phase 1); (in 2013, \$2,187 was spent from this reserve to set up a system of removable vehicle-stopping poles at the entrances of the North and South Santee Alleys, leaving \$97,813), plus \$50,000 to obtain \$1.6 million in funding for future streetscaping on Los Angeles Street between 7th Street and Olympic Boulevard (Phase 2).
- Board-Designated for Future Capital Equipment Purchases - As of December 31, 2016 and 2015, the Board has designated \$185,000 and \$135,000, respectively for acquisition of capital equipment in subsequent years through 2018.
- Investment in Existing 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, 2016 and 2015 are as follows:

	2016		2015	
Program	\$ 3,264,248	93.6%	\$ 3,290,745	93.5%
Management	222,209	6.4%	226,960	6.5%
Total Functional Expenses	3,486,457	100%	3,517,705	100%
North Santee Alley Overlay	276,864		293,534	
South Santee Alley Overlay	291,077		225,166	
Total Overlay Expenses	567,941		518,700	
Total Expenses	\$ 4,054,398		\$ 4,036,405	

(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' compensation. For the years ended December 31, 2016 and 2015, the Association made contributions to the plan totaling \$20,718 and \$16,718, respectively.

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

**Notes to Financial Statements
Year Ended December 31, 2016**

(8) LEASE COMMITMENTS

In December 2013, 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, 2019. Under the provisions of the lease, in 2016 the Association made monthly rental payments of \$1,910, subject to a 3% increase per year. See also Note 11, Related Party Transaction.

In January 2014, 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, 2019. Under the provision of the lease, in 2016 the Association made monthly rental payments of \$5,709, subject to a 3% increase per year.

In January 2014, the Association entered into an operating lease agreement with an unrelated party for use of a vacant lot to park personnel vehicles and to store trash roll-off containers for a five year term, ending on January 31, 2019. Under the provision of the lease, in 2016 the Association made monthly rental payments of \$1,600, subject to a fixed \$50 increase to the monthly payment every year.

Future minimum lease payments are as follows:

Year ending December 31,	Facilities leases	Lot used for vehicle parking & trash bins	Totals
2017	\$ 93,712	\$ 19,750	\$ 113,462
2018	96,522	20,350	116,872
2019	16,165	1,700	17,865
	<u>\$ 206,399</u>	<u>\$ 41,800</u>	<u>\$ 248,199</u>

Facilities rent expense for the years ended December 31, 2016 and 2015 was \$90,984 and \$88,331, 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 2013 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 2012 and beyond.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2016**

(10) MAJOR VENDORS

For the years ended December 31, 2016 and 2015, approximately 61% and 53%, respectively of the Association's expenses (not including the Santee Alley Overlays) were from two major vendors: Chrysalis (cleaning services) and Universal Protection Service LP (safety services) amounting to \$2,131,243 in 2016 and \$2,034,872 in 2015. At December 31, 2016 and 2015, there were \$110,102 and \$124,300, respectively due to these vendors, which were included in accounts payable and accrued expenses in the Statements 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.