

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

FINANCIAL STATEMENTS

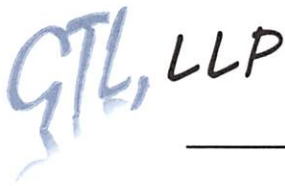
**Year Ended December 31, 2018
(With comparative totals for 2017)**

**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, 2018, 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, 2018, 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 Information

The 2017 financial statements were reviewed by us, and our report thereon, dated April 12, 2018, 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, 2017, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

GTL, LLP

Certified Public Accountants
March 21, 2018

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT**
Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
ASSETS	Audited	Reviewed
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 958,637	\$ 1,508,713
Assessments Receivable, net of reserve for uncollected assessments of \$35,550 and \$6,113, for 2018 and 2017, respectively (Note 2)	-	-
Prepaid Expenses and Other Assets (Note 4)	<u>142,313</u>	<u>101,988</u>
Total Current Assets	<u>1,100,950</u>	<u>1,610,701</u>
Property and Equipment (Note 2):		
Field Equipment	455,822	324,060
Website	63,106	63,106
Leasehold Improvements	32,341	32,341
Computers	27,686	25,491
Furniture and Fixtures	<u>16,936</u>	<u>22,888</u>
	595,891	467,886
Less Accumulated Depreciation	<u>(367,852)</u>	<u>(377,208)</u>
Net Property and Equipment	<u>228,039</u>	<u>90,678</u>
Total Assets	<u>\$ 1,328,989</u>	<u>\$ 1,701,379</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 157,956	\$ 199,574
Trust Account - 8th and San Pedro Median Project	<u>22,991</u>	<u>22,831</u>
Total Current Liabilities	<u>180,947</u>	<u>222,405</u>
Commitments (Note 9)	-	-
Net Assets Without Donor Restrictions (Note 5):		
BID Fund Balance	521,468	1,098,553
Board-Designated for Public Art	1,844	1,844
Board-Designated for BID Renewal	-	55,284
Board-Designated for MTA Projects' Matching Funds	100,691	117,615
Board-Designated for Future Capital Equipment Purchases	296,000	115,000
Investment in Existing Property and Equipment	<u>228,039</u>	<u>90,678</u>
Total Net Assets Without Donor Restrictions	<u>1,148,042</u>	<u>1,478,974</u>
Total Liabilities and Net Assets	<u>\$ 1,328,989</u>	<u>\$ 1,701,379</u>

See accompanying 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, 2018
(With Comparative Totals for 2017)

	2018	2017
	Audited	Reviewed
BID REVENUES (Note 2):		
Assessment Revenue:		
Business Improvement District - Assessments	\$ 3,456,895	\$ 3,308,038
Collection of Prior Years' Unpaid Assessments	3,881	13,650
Collection of Penalties and Interest	10,727	9,296
General Benefit Revenue	75,479	75,479
Service Revenue (Broadway Plazas)	40,877	34,760
Investment Income	28,637	16,002
Website Advertisement Revenue	26,237	18,333
Merchants' Trash Pick-Up	13,018	15,358
Revenue from Disposal of Capital Equipment	8,283	1,000
Special Events Revenue and Sponsorships	-	30,504
Other Revenues	11,411	8,735
BID Revenues Sub-Total	3,675,445	3,531,155
OVERLAYS REVENUES (Note 2):		
North Santee Alley - Overlay Assessments	301,105	278,801
North Santee Alley - General Benefit Revenue	6,978	6,978
South Santee Alley - Overlay Assessments (pass-thru)	313,452	307,306
South Santee Alley - General Benefit Rev (pass-thru)	6,534	6,534
South Santee Alley - Penalties (pass-thru)	2,262	-
Overlays Revenues Sub-Total	630,331	599,619
Total Revenues	4,305,776	4,130,774
BID EXPENSES (Note 2):		
Cleaning	2,003,927	1,720,342
Safety	1,144,231	1,077,085
Communication	228,440	194,441
Special Projects	185,474	172,189
Management	222,486	232,614
Provision for Uncollected Assessments	115,743	82,181
Depreciation	55,899	55,488
BID Renewal	32,370	44,716
City and County Collection Costs	17,807	33,533
BID Expenses Sub-Total	4,006,377	3,612,589
OVERLAYS EXPENSES (Note 2):		
North Santee Alley Overlay	308,083	351,494
South Santee Alley Overlay (pass-thru)	322,248	313,840
Overlays Expenses Sub-Total	630,331	665,334
Total Expenses	4,636,708	4,277,923
(Decrease) in Net Assets Without Donor Restrictions	(330,932)	(147,149)
UNRESTRICTED NET ASSETS - Beginning of Year	1,478,974	1,626,123
UNRESTRICTED NET ASSETS - End of Year	\$ 1,148,042	\$ 1,478,974
Supplemental Note:		
(Decrease) in Net Assets (Excluding Overlays)	\$ (330,932)	\$ (81,434)

See accompanying 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, 2018
(With Comparative Totals for 2017)**

	2018	2017
	Audited	Reviewed
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets Without Donor Restrictions	\$ (330,932)	\$ (147,149)
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents (Used-in) Operating Activities:		
Depreciation	55,899	55,488
Gain on Sale of Equipment	(8,283)	(1,000)
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	(40,325)	12,213
Accounts Payable and Accrued Expenses	(41,618)	42,189
Deferred Website Advertising Revenue		(9,630)
Trust Account - 8th and San Pedro Median Project	160	149
	160	149
Net Cash and Cash Equivalents (Used-in) Operating Activities	(365,099)	(47,740)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemptions/(Purchases) of Investment CDs	-	240,000
(Purchases) of Equipment	(193,260)	(41,109)
Proceeds from Sale of Equipment	8,283	1,000
	8,283	1,000
Net Cash and Cash Equivalents (Used-in) Provided by Investing Activities	(184,977)	199,891
Net (Decrease) Increase in Cash and Cash Equivalents	(550,076)	152,151
CASH AND CASH EQUIVALENTS, beginning of year	1,508,713	1,356,562
CASH AND CASH EQUIVALENTS, end of year	\$ 958,637	\$ 1,508,713

SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION:

In preparation for the new BID period, the Association purchased during 2018 the following equipment at cost: four trucks \$160,560; 25 patrol bicycles \$27,507; one phone system \$2,998; one computer system \$2,195. The Association also disposed of the following equipment during 2018 with original cost as follows: two trucks \$43,256; 15 patrol bicycles \$13,050; one boardroom table and chairs \$5,807; and one phone system \$3,143 and recorded an overall gain on sale of \$8,283 at December 31, 2018.

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

**Notes to Financial Statements
Year Ended December 31, 2018**

(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 (The LA Fashion District) be a clean, safe, and friendly place to work, shop, live and do business 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. An 8-member management and staff 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 LA Fashion District. The Association consists of property owners located within the LA 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 BID completed its fifth term of operations on December 31, 2018. In 2018 the BID was successfully renewed for a sixth term beginning January 1, 2019 through December 31, 2026.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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. The District is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets, revenue, contributions, fundraising, gains, and losses, are classified based on the existence or absence of donor or grantor imposed restrictions.

(b) 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.

(c) Revenue Recognition

Revenues are recorded when earned and mainly 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 2018 Revenue was composed of \$301,105 billed overlay assessments and \$6,978 General Benefit funds paid by the City. The 2017 Revenue was composed of \$278,801 billed overlay assessments and \$6,978 General Benefit funds paid by the City. Through December 31, 2018 and 2017, the Association held zero reserve funds belonging to the NSA.

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

**Notes to Financial Statements
Year Ended December 31, 2018**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) 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 2018 Revenue was composed of \$313,452 billed overlay assessments, \$6,534 General Benefit funds paid by the City and \$2,262 penalties assessed by the County. The 2017 Revenue was composed of \$307,306 billed overlay assessments, \$6,534 General Benefit funds paid by the City . The SMAA keeps its own checking account 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, 2018 and 2017 totaled \$3,471,502 and \$3,330,984, 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, \$17,807 and \$33,533 for the years ended December 31, 2018 and 2017, respectively.

(d) Assessments Receivable and Allowance for Doubtful Accounts

Management believes that the collection of assessments relating to certain parcels is unknown and, accordingly, has established reserves for uncollected assessments receivable. The Association's policy, consistent with industry practice, is to reserve 100% of unpaid assessments receivable. At December 31, 2018 and 2017, the reserves for uncollected assessments receivable were \$35,550 and \$6,113, respectively and composed of only outstanding private-parcel assessments. For 2018, the Association wrote off the following assessments receivable which were deemed as uncollectable: LAUSD \$56,308, Caltrans \$25,605 and other private parcels \$512.

(e) General Benefit Revenue

Per the 2014 through 2018 Management Plan, billed assessments were reduced by an estimated 2.42% General Benefit component within the Service Programs. The Association is required to use "non-assessment" funds to pay for the General Benefit component. For years 2018 and 2017 the City of LA reimbursed the Association for these funds amounting to \$75,479 each year. The City reimburses the Association at the 2014 base amount due to the City's interpretation of the Management Plan.

(f) Other Revenues

For the years ended December 31, 2018 and 2017, the Association received Other Revenues of \$11,411 and \$8,735, respectively derived from miscellaneous receipts mainly generated by the Association's sub-leasing part of the lot it uses for Field Office parking and storage of trash roll-off containers and from a one-time cleaning service to utility boxes on Broadway.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2018**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Concentration of Credit Risk

Financial instruments that subject the Association to potential concentration of credit risk consist 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.

(h) 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.

(i) 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.

(j) Advertising

The Association expenses all costs of advertising and promotion as incurred. Such costs were \$1,917 and \$4,525 for years 2018 and 2017, respectively.

(k) 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.

(l) 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.

(m) Subsequent Events

The Association has evaluated events subsequent to December 31, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 21, 2019, 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, 2018**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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, 2018 and 2017, the Association had cash and cash equivalents and investments as follows:

<u>Cash and Cash Equivalents</u>	<u>2018</u>	<u>2017</u>
Certificates of Deposit (yield rates 2.05-2.10%)	\$ 498,000	\$ 498,000
Money Market Account - Merrill Lynch (yield rate 2.00% at y/end)	401,977	947,945
Money Market Account - 8th & S. Pedro Trust Acct (yield rate 0.92% at y/end)	22,991	22,831
Checking Account - Union Bank (yield rate 0.05% at y/end)	34,669	38,937
Petty Cash	1,000	1,000
Total	<u>\$ 958,637</u>	<u>\$ 1,508,713</u>

The Certificates of Deposit at December 31, 2018 had maturities in January 2019 and are planned to be held to maturity. At December 31, 2018 and 2017, 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, 2018

(4) PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets at December 31, 2018 and 2017 were as follows:

	2018	2017
Prepaid Insurance	\$ 45,609	\$ 36,114
Collected 2018 Assessments Pending Remittal by the City of LA	61,893	36,040
Prepaid Rent	9,783	9,497
Other Receivables	12,214	8,968
Other Prepaid Expenses	7,214	5,769
Refundable Deposits	5,600	5,600
Total	\$ 142,313	\$ 101,988

(5) NET ASSETS WITHOUT DONOR RESTRICTIONS

The Association allocates certain Net Assets Without Donor Restrictions 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 \$521,468 from 2018 to 2019 and carried over \$1,098,553 from 2017 to 2018. These funds are being used to supplement the annually billed BID assessments to meet operating needs and to keep a prudent liquidity reserve.
- Board-Designated for Public Art - The net profit generated from the 2017 Urban Dinner Party has been designated as a fund to promote Public Art in the LA Fashion District. There was no Urban Dinner Party in 2018 due to delay in construction completion of the venue.
- Board-Designated for BID Renewal - As of December 31, 2016, the Board had designated a \$100,000 reserve to be used for the next BID Renewal. \$44,716 was spent in 2017 and \$32,370 was spent in 2018, leaving \$22,914 unused, which has been incorporated into the BID Fund Balance.
- Board-Designated as Matching Funds for MTA Projects - The Board has designated \$100,000 to be used to obtain \$1.2 million in funding for streetscape improvements from Olympic Boulevard to Pico Boulevard and from Santee Street to Maple Street (Phase 1); (in 2013 \$2,187 was spent to set up a system of removable vehicle-stopping poles at the entrances of the North and South Santee Alleys; in 2017-2018 \$13,526 was spent to fund 25% of the cost to provide portable toilets service in the Santee Alleys, leaving a \$84,287 balance as of December 31, 2018), plus \$50,000 to obtain \$1.6 million in funding for streetscape improvements on Los Angeles Street between 7th Street and Olympic Boulevard (Phase 2); (in 2017-2018 \$33,596 was spent on light fixtures, paver tiles, planter fences and other supplies, leaving a \$16,404 balance). Thus a total balance of \$100,691 remains as of December 31, 2018.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2018**

(5) NET ASSETS WITHOUT DONOR RESTRICTIONS (CONTINUED)

- Board-Designated for Future Capital Equipment Purchases - As of December 31, 2018 and 2017, the Board had designated \$296,000 and \$115,000, respectively for acquisition of capital equipment in subsequent years through December 31, 2019. The Association has budgeted to purchase the following capital equipment in 2019 during the first year of the new 8-year BID period: radio communication system \$101,000; two trucks \$78,000; field office tenant improvements \$40,000; website revamp \$50,000; CRM system \$17,000; copier machine \$10,000.
- 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) 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, 2018 and 2017, the Association made contributions to the plan totaling \$15,759 and \$17,840, respectively.

(7) MAJOR VENDORS

For the years ended December 31, 2018 and 2017, approximately 63% and 64%, respectively of the Association's expenses (not including the Santee Alley Overlays) were from two major vendors: Chrysalis (cleaning services) and Allied Universal Security Services (safety services) amounting to \$2,510,997 in 2018 and \$2,311,363 in 2017. At December 31, 2018 and 2017, there were \$105,565 and \$102,469, respectively due to these vendors, which were included in accounts payable and accrued expenses in the Statements of Financial Position.

(8) 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.

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

**Notes to Financial Statements
Year Ended December 31, 2018**

(9) LEASE COMMITMENTS

In December 2018, the Association entered into an operating lease agreement with a related party for its administrative office for a 4-year term, ending on January 31, 2023 with a fixed \$100 increase to the monthly rent every year. The Association will have the option to extend the lease for 4 additional years through February 28, 2027. See also Note 11, Related Party Transaction.

In December 2018, the Association extended its operating lease agreement for its field office with an unrelated party for a 4-year term, ending on February 28, 2023 with 3% annual rent increases. The Association will have the option to extend the lease for 4 additional years through February 28, 2027.

In December 2018, the Association extended its operating lease agreement with an unrelated party for the use of a vacant lot to park personnel vehicles and to store trash roll-off containers for a 4-year term, ending on January 31, 2023 with a fixed \$50 increase to the monthly rent every year. This agreement does not contain an option to extend the lease.

Future minimum lease payments are as follows:

Year ending December 31,	Facilities leases	Lot used for vehicle parking & trash bins	Totals
2019	\$ 122,796	\$ 20,950	\$ 143,746
2020	128,233	21,550	149,783
2021	131,735	22,150	153,885
2022	135,306	22,750	158,056
2023	18,134	1,900	20,034
Total	<u>\$ 536,204</u>	<u>\$ 89,300</u>	<u>\$ 625,504</u>

Facilities rent expense for the years ended December 31, 2018 and 2017 was \$96,552 and \$93,712, respectively.

(10) 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 2015 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 2014 and beyond.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2018**

(11) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Association's financial assets as of the Statement of Financial Position date, reduced if any, by amounts not available for general use because of contractual or donor-imposed restrictions or board designations within one year of the Statement of Financial Position at December 31, 2018.

Cash and Cash Equivalents		\$ 958,637
Miscellaneous Receivables		73,257
Less Funds Needed for:		
Accounts Payable and Accrued Expenses		(157,956)
Trust Account Funds - 8th and San Pedro Median Project		(22,991)
Board-Designated for Public Art		(1,844)
Board-Designated for MTA Projects' Matching Funds		(100,691)
Board-Designated for Future Capital Equipment Purchases		<u>(296,000)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year		<u>\$ 452,412</u>

None of the financial assets are subject to donor or other contractual restrictions outside the Association's mission that makes them unavailable for general expenditure within one year of the Statement of Financial Position. Miscellaneous Receivable will be collected early in 2019. The Association has a goal to maintain financial assets, which consist of cash on hand to meet 30 days of normal operating expenses. The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Most of the Association's funding comes from special assessments billed to the member property owners either on the County of Los Angeles' annual property tax bills or directly billed by the City of Los Angeles. Approximately 40% of the total billed by the County is remitted to the Association by early February every year, with the rest of the funds remitted in subsequent installments reaching approximately 97% in July. The Association adheres to a strict annual operating budget. These factors make the association less susceptible to unanticipated liquidity needs.

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2018

(12) SCHEDULE OF EXPENSES BY BOTH NATURE AND FUNCTION

The schedule below presents expenses by both their nature and function for the year ended December 31, 2018.

Natural Category	Program Activities					Supporting Activities					Total
	Cleaning	Safety	Communication	Special Projects	Santee Alleys Overlay	Management	Provision for Uncollected Assessments	Depreciation	BID Renewal	City and County Collection Costs	
Contracted Services	\$ 1,548,271	\$ 875,198	\$ -	\$ -	\$ 186,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,609,468
Wages/Benefits/Taxes	232,635	146,901	141,947	139,886	16,320	64,811	-	-	-	-	742,500
Santee Alleys Overlay	-	-	-	-	428,011	-	-	-	-	-	428,011
Equipment and Supplies	134,352	42,231	-	8,342	-	-	-	-	-	-	184,925
Occupancy	49,309	49,309	12,097	-	-	19,563	-	-	-	-	130,278
Uncollected Assessments	-	-	-	-	-	-	115,743	-	-	-	115,743
Consultants	-	-	37,644	37,246	-	8,089	-	-	18,837	-	101,816
Office Expenses	3,697	4,040	16,879	-	-	53,060	-	-	13,533	-	91,210
Insurance	28,493	8,732	-	-	-	38,580	-	-	-	-	75,806
Depreciation	-	-	-	-	-	-	-	55,899	-	-	55,899
Information Technology	3,000	13,800	12,327	-	-	10,099	-	-	-	-	39,226
Meetings/Conferences	4,170	4,020	1,659	-	-	20,614	-	-	-	-	30,463
City/County Fees	-	-	-	-	-	-	-	-	-	17,807	17,807
Legal	-	-	-	-	-	7,668	-	-	-	-	7,668
Promotion	-	-	5,887	-	-	-	-	-	-	-	5,887
Total	\$ 2,003,927	\$ 1,144,231	\$ 228,440	\$ 185,474	\$ 630,331	\$ 222,486	\$ 115,743	\$ 55,899	\$ 32,370	\$ 17,807	\$ 4,636,708

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are mainly wages/benefits/taxes, which are allocated on the basis of estimates of time and effort to the benefiting programs or supporting functions.