

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

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2017  
(With comparative totals for 2016)**

**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

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## **INDEPENDENT ACCOUNTANTS' REVIEW 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 reviewed 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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### **Prior Year Financial Statements**

The 2016 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated April 6, 2017. We have not performed any auditing procedures on the financial statements since April 6, 2017.

Certified Public Accountants

April 12, 2018

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION  
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT**  
**Statement of Financial Position**  
**December 31, 2017**  
**(With Comparative Totals for 2016)**

	2017	2016
	<b>Reviewed</b>	<b>Audited</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 1,508,713	\$ 1,356,562
Assessments Receivable, net of reserve for uncollected assessments of \$6,113 and \$14,934, for 2017 and 2016, respectively (Note 2)	-	-
Prepaid Expenses and Other Assets (Note 4)	101,988	114,201
Total Current Assets	1,610,701	1,470,763
Cash Investments - Other (Note 3)	-	240,000
Property and Equipment (Note 2):		
Field Equipment	324,060	305,015
Website	63,106	63,106
Leasehold Improvements	32,341	32,341
Computers	25,491	25,491
Furniture and Fixtures	22,888	22,888
	467,886	448,841
Less Accumulated Depreciation	(377,208)	(343,784)
Net Property and Equipment	90,678	105,057
Total Assets	\$ 1,701,379	\$ 1,815,820
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 199,574	\$ 157,385
Trust Account - 8th and San Pedro Median Project	22,831	22,682
Deferred Website Advertising Revenue	-	9,630
Total Current Liabilities	222,405	189,697
Commitments (Note 8)	-	-
Unrestricted Net Assets (Note 5):		
BID Fund Balance	1,098,553	1,022,538
North Santee Alley Overlay Fund Balance	-	65,715
Board-Designated for Public Art	1,844	-
Board-Designated for BID Renewal	55,284	100,000
Board-Designated for MTA Projects' Matching Funds	117,615	147,813
Board-Designated for Future Capital Equipment Purchases	115,000	185,000
Investment in Existing Property and Equipment	90,678	105,057
Total Unrestricted Net Assets	1,478,974	1,626,123
Total Liabilities and Net Assets	\$ 1,701,379	\$ 1,815,820

See accompanying notes and independent accountant's review report

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

**Statement of Activities  
Year Ended December 31, 2017  
(With Comparative Totals for 2016)**

	2017	2016
	<b>Reviewed</b>	<b>Audited</b>
BID REVENUES (Note 2):		
Assessment Revenue:		
Business Improvement District - Assessments	\$ 3,308,038	\$ 3,170,921
Collection of Prior Years' Unpaid Assessments	13,650	30,928
Collection of Penalties and Interest	9,296	11,551
General Benefit Revenue	75,479	75,479
Service Revenue (Broadway Plazas)	34,760	-
Special Events Revenue and Sponsorships	30,504	18,500
Website Advertisement Revenue	18,333	7,716
Investment Income	16,002	16,561
Merchants & Food Vendors Trash Pick-Up	15,358	13,618
Other Revenues	9,735	10,743
BID Revenues Sub-Total	3,531,155	3,356,017
OVERLAYS REVENUES (Note 2):		
North Santee Alley Overlay Assessments	278,801	270,681
North Santee Alley General Benefit Rev	6,978	6,978
South Santee Alley Overlay Assessments (pass-thru)	307,306	284,543
South Santee Alley General Benefit Rev (pass-thru)	6,534	6,534
Overlays Revenues Sub-Total	599,619	568,736
Total Revenues	4,130,774	3,924,753
BID EXPENSES (Note 2):		
Cleaning	1,720,342	1,553,389
Safety	1,077,085	1,166,553
Management	232,614	222,209
Communication	194,441	194,728
Special Projects	172,189	155,235
Provision for Uncollected Assessments	82,181	87,907
Depreciation	55,488	74,174
BID Renewal	44,716	-
City and County Collection Costs	33,533	32,262
BID Expenses Sub-Total	3,612,589	3,486,457
OVERLAYS EXPENSES (Note 2):		
North Santee Alley Overlay	351,494	276,864
South Santee Alley Overlay (pass-thru)	313,840	291,077
Overlays Expenses Sub-Total	665,334	567,941
Total Expenses	4,277,923	4,054,398
(Decrease) in Net Assets	(147,149)	(129,645)
UNRESTRICTED NET ASSETS - Beginning of Year	1,626,123	1,755,768
UNRESTRICTED NET ASSETS - End of Year	\$ 1,478,974	\$ 1,626,123
Supplemental Note:		
(Decrease) in Net Assets (Excluding Overlays)	\$ (81,434)	\$ (130,440)

See accompanying notes and independent accountant's review report

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION  
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT**  
**Statement of Cash Flows**  
**Year Ended December 31, 2017**  
**(With Comparative Totals for 2016)**

	2017	2016
	<b>Reviewed</b>	<b>Audited</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (147,149)	\$ (129,645)
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents (Used-in) Operating Activities:		
Depreciation	55,488	74,626
Gain on Sale of Equipment	(1,000)	(1,833)
Changes in Assets and Liabilities:		
Prepaid Expenses and Other Assets	12,213	15,882
Accounts Payable and Accrued Expenses	42,189	(89,612)
Deferred Website Advertising Revenue	(9,630)	9,630
Trust Account - 8th and San Pedro Median Project	149	153
	<u>149</u>	<u>153</u>
Net Cash and Cash Equivalents (Used-in) Operating Activities	<u>(47,740)</u>	<u>(120,799)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Redemptions/(Purchases) of Investment CDs	240,000	483,943
(Purchases) of Equipment	(41,109)	(1,324)
Proceeds from Sale of Equipment	1,000	19,400
	<u>1,000</u>	<u>19,400</u>
Net Cash and Cash Equivalents Provided by Investing Activities	<u>199,891</u>	<u>502,019</u>
Net Increase in Cash and Cash Equivalents	152,151	381,220
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,356,562</u>	<u>975,342</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,508,713</u>	<u>\$ 1,356,562</u>

**SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION:**

The Association disposed of certain equipment during 2017 and 2016 with original costs of \$22,063 and \$90,239, respectively.

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

**Notes to Financial Statements  
Year Ended December 31, 2017**

**(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, 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 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 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 2017 Revenue was composed of \$278,801 billed overlay assessments and \$6,978 General Benefit funds paid by the City. The 2016 Revenue was composed of \$270,681 billed overlay assessments and \$6,978 General Benefit funds paid by the City. Through December 31, 2016, the Association used to keep in its checking account any NSA reserve funds. The Association remitted to the NSA the \$55,241 Overlay Fund Balance as of December 31, 2017.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION  
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT  
Notes to Financial Statements  
Year Ended December 31, 2017**

**(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 2017 Revenue was composed of \$307,306 billed overlay assessments and \$6,534 General Benefit funds paid by the City. The 2016 Revenue was composed of \$284,543 billed overlay assessments and \$6,534 General Benefit funds paid by the City. 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, 2017 and 2016 totaled \$3,330,984 and \$3,213,400, 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, \$33,533 and \$32,262 for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016, the reserves for uncollected assessments receivable were \$6,113 and \$14,934, respectively and composed of only outstanding private-parcel assessments.

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 2017 and 2016 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.

Other Revenues

For the years ended December 31, 2017 and 2016, the Association received Other Revenues of \$9,735 and \$10,743, 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.



**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION  
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**Notes to Financial Statements  
Year Ended December 31, 2017**

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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 \$4,348 and \$4,528 for years 2017 and 2016, 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, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through April 12, 2018, 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, 2017**

**(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, 2017 and 2016, the Association had cash and cash equivalents and investments as follows:

<u>Cash and Cash Equivalents</u>	<u>2017</u>	<u>2016</u>
Certificates of Deposit (yield rates 1.20%)	\$ 498,000	\$ 738,000
Money Market Account - Merrill Lynch (yield rate 0.65% at y/end)	947,945	544,571
Money Market Account - 8th & S. Pedro Trust Acct (yield rate 0.66% at y/end)	22,831	22,682
Checking Account - Union Bank (yield rate 0.05% at y/end)	38,937	50,309
Petty Cash	1,000	1,000
Subtotal	<u>1,508,713</u>	<u>1,356,562</u>
 <u>Cash Investments - Other</u>		
Certificate of Deposit		
with maturity dates longer than 3 months.	-	240,000
Total	<u>\$ 1,508,713</u>	<u>\$ 1,596,562</u>

The Certificates of Deposit and Investments-Other at December 31, 2017 had maturities in February 2018 and are planned to be held to maturity. At December 31, 2017 and 2016, 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, 2017**

**(4) PREPAID EXPENSES AND OTHER ASSETS**

Prepaid expenses and other assets at December 31, 2017 and 2016 were as follows:

	2017	2016
Prepaid Insurance	\$ 36,114	\$ 35,361
Collected Assessments Pending Remittal by the City of LA	36,040	27,690
Prepaid Rent	9,497	9,219
Other Receivables	8,968	27,560
Other Prepaid Expenses	5,769	8,771
Refundable Deposits	5,600	5,600
Total	\$ 101,988	\$ 114,201

**(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 \$1,098,553 from 2017 to 2018 and carried over \$1,022,538 from 2016 to 2017. These funds are being used to supplement the annually billed BID assessments to meet operating needs and to keep a prudent reserve.
- North Santee Alley Overlay Fund Balance - The Association is carrying over an unspent funds balance of \$0 from 2017 to 2018 and carried over \$65,715 from 2016 to 2017. The Association remitted to the North Alley Association the \$55,241 Overlay Fund Balance as of December 31, 2017. These funds are being used to supplement the annually billed North Alley Overlay assessments to meet operating needs.
- 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.
- 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, leaving a \$55,284 balance as of December 31, 2017.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION  
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**Notes to Financial Statements  
Year Ended December 31, 2017**

**(5) UNRESTRICTED NET ASSETS (CONTINUED)**

- 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 \$4,944 was spent to fund 25% of the cost to provide portable toilets service in the Santee Alleys, leaving a \$92,869 balance), 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 \$25,254 was spent on light fixtures, paver tiles and planter fences, leaving a \$24,746 balance), thus a balance of \$117,615 remains as of December 31, 2017.
- Board-Designated for Future Capital Equipment Purchases - As of December 31, 2017 and 2016, the Board has designated \$115,000 and \$185,000, 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, 2017 and 2016 are as follows:

	2017		2016	
Program	\$ 3,379,975	93.6%	\$ 3,264,248	93.6%
Management	232,614	6.4%	222,209	6.4%
Total Functional Expenses	3,612,589	100%	3,486,457	100%
North Santee Alley Overlay	351,494		276,864	
South Santee Alley Overlay	313,840		291,077	
Total Overlay Expenses	665,334		567,941	
Total Expenses	\$ 4,277,923		\$ 4,054,398	

**(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, 2017 and 2016, the Association made contributions to the plan totaling \$17,840 and \$20,718, respectively.

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

**Notes to Financial Statements  
Year Ended December 31, 2017**

**(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 2017 the Association made monthly rental payments of \$1,967, 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 2017 the Association made monthly rental payments of \$5,880, 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 2017 the Association made monthly rental payments of \$1,650, 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
2018	\$ 96,522	\$ 20,350	\$ 116,872
2019	16,165	1,700	17,865
Total	<u>\$ 112,687</u>	<u>\$ 22,050</u>	<u>\$ 134,737</u>

Facilities rent expense for the years ended December 31, 2017 and 2016 was \$93,712 and \$90,984, 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 2014 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 2013 and beyond.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION  
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Notes to Financial Statements  
Year Ended December 31, 2017**

**(10)      MAJOR VENDORS**

For the years ended December 31, 2017 and 2016, approximately 64% and 61%, 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 \$2,311,363 in 2017 and \$2,136,243 in 2016. At December 31, 2017 and 2016, there were \$102,469 and \$110,102, 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.