

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

FINANCIAL STATEMENTS

**Year Ended December 31, 2019
(With comparative totals for 2018)**

**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 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, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' 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.

Accountants' 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 2018 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated March 21, 2019. We have not performed any auditing procedures on the financial statements since March 21, 2019.

GTL, LLP

Certified Public Accountants
March 27, 2020

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS	Reviewed	Audited
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 986,493	\$ 958,637
Assessments Receivable, net of allowance for uncollected assessments of \$53,854 and \$35,550, for 2019 and 2018, respectively (Note 2)	-	-
Accounts Receivable (Note 4)	106,703	74,107
Prepaid Expenses (Note 4)	88,145	68,206
Total Current Assets	1,181,341	1,100,950
Property and Equipment (Note 2):		
Field Equipment	619,662	455,822
Website	32,694	63,106
Leasehold Improvements	113,488	32,341
Computers	51,914	27,686
Furniture and Fixtures	30,987	16,936
	848,745	595,891
Less Accumulated Depreciation	(346,247)	(367,852)
Net Property and Equipment	502,498	228,039
Total Assets	\$ 1,683,839	\$ 1,328,989
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 282,552	\$ 153,506
8th and San Pedro Median Project Funds	23,296	22,991
BID Consortium Funds	2,600	4,450
Total Current Liabilities	308,448	180,947
Commitments (Note 9)	-	-
Net Assets Without Donor Restrictions (Note 5):		
BID Fund Balance - Unallocated	-	453,262
Designated for Public Art	1,844	1,844
Designated for 2020 Operating Budget	117,000	-
Designated for MTA Projects' Matching Funds in 2020	26,000	100,691
Designated for Board Strategic Planning in 2021	10,000	-
Designated for Tree Trimming in 2021 and 2024	200,000	-
Designated for BID Renewal in 2025-2026	100,000	-
Prepaid Expenses	88,145	68,206
Designated for Future Capital Equipment Purchases in 2021-2026	329,904	296,000
Investment in Existing Property and Equipment	502,498	228,039
Total Net Assets Without Donor Restrictions	1,375,391	1,148,042
Total Liabilities and Net Assets	\$ 1,683,839	\$ 1,328,989

See accompanying independent accountants' review 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, 2019
(With Comparative Totals for 2018)**

	2019	2018
	Reviewed	Audited
BID REVENUES (Note 2):		
Assessment Revenue:		
Business Improvement District - Assessments	\$ 5,074,548	\$ 3,456,895
Collection of Prior Years' Unpaid Assessments	13,595	3,881
Collection of Penalties and Interest	17,856	10,727
General Benefit Revenue	117,463	75,479
Service Revenue (Broadway Plazas)	43,394	40,877
Investment Income	38,307	28,637
Website Advertisement Revenue	22,760	26,237
Merchants' Trash Pick-Up Revenue	9,036	13,018
Revenue from Disposal of Capital Equipment	-	8,283
Miscellaneous Other Revenues	3,273	11,411
BID Revenues Sub-Total	5,340,232	3,675,445
OVERLAYS REVENUES (Note 2):		
North Santee Alley - Overlay Assessments	-	301,105
North Santee Alley - General Benefit Revenue	-	6,978
Santee Alley - Overlay Assessments (pass-thru)	699,533	313,452
Santee Alley - General Benefit Rev (pass-thru)	16,122	6,534
Santee Alley - Penalties (pass-thru)	-	2,262
Overlays Revenues Sub-Total	715,655	630,331
Total Revenues	6,055,887	4,305,776
BID EXPENSES (Note 2):		
Cleaning	2,720,585	2,003,927
Safety	1,275,598	1,144,231
Communication	322,941	228,440
Special Projects	193,701	185,474
Management	310,873	222,486
Provision for Uncollected Assessments	167,772	115,743
Depreciation	95,748	55,899
BID Renewal	-	32,370
City and County Collection Costs	25,665	17,807
BID Expenses Sub-Total	5,112,883	4,006,377
OVERLAY EXPENSES (Note 2):		
North Santee Alley Overlay	-	308,083
Santee Alley Overlay (pass-thru)	715,655	322,248
Overlays Expenses Sub-Total	715,655	630,331
Total Expenses	5,828,538	4,636,708
Increase / (Decrease) in Net Assets Without Donor Restrictions	227,349	(330,932)
UNRESTRICTED NET ASSETS - Beginning of Year	1,148,042	1,478,974
UNRESTRICTED NET ASSETS - End of Year	\$ 1,375,391	\$ 1,148,042

See accompanying independent accountants' review 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, 2019
(With Comparative Totals for 2018)**

	2019 Reviewed	2018 Audited
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets Without Donor Restrictions	\$ 227,349	\$ (330,932)
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents (Used-in) Operating Activities:		
Depreciation	92,037	55,899
Loss/(Gain) on Sale of Equipment	3,711	(8,283)
Changes in Assets and Liabilities:		
Accounts Receivable	(32,596)	(23,198)
Prepaid Expenses	(19,939)	(17,127)
Accounts Payable and Accrued Expenses	129,046	(43,568)
8th and San Pedro Median Project Funds	305	160
BID Consortium Funds	(1,850)	1,950
	<u>398,063</u>	<u>(365,099)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchases) of Equipment	(383,707)	(193,260)
Proceeds from Sale of Equipment	13,500	8,283
	<u>(370,207)</u>	<u>(184,977)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	27,856	(550,076)
CASH AND CASH EQUIVALENTS, beginning of year	<u>958,637</u>	<u>1,508,713</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 986,493</u>	<u>\$ 958,637</u>

SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION:

The Association's total \$383,707 capital equipment purchases at cost during 2019 consisted of: three trucks \$124,804, a new two-way radio system \$106,784, tenant improvements for Administration Office and Field Office \$81,147, new website \$32,694, six computer systems \$18,228, office furniture and equipment \$14,050 and CRM System \$6,000. The Association's total \$130,854 capital equipment disposals at original cost during 2019 consisted of: old website \$63,107, old two-way radio system \$42,606 and one patrol vehicle \$25,141, which yielded \$13,500 in sales proceeds and net loss on disposal of \$3,711.

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

**Notes to Financial Statements
Year Ended December 31, 2019**

(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, oversees 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 107 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. 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, revenues, contributions, 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 benefits received, as approved by property owners and the City of Los Angeles in the Management District Plan.

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

**Notes to Financial Statements
Year Ended December 31, 2019**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue Recognition (Continued)

Parcels with footage fronting the Santee Alley pay added assessments to fund additional services inside the 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 those overlay assessments to SMAA as a pass-thru. The 2019 Revenue was composed of \$699,533 billed overlay assessments and \$16,222 General Benefit funds paid by the City of Los Angeles. Effective January 1, 2019 the North Santee Alley merged into the Santee Alley Overlay.

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, 2019 and 2018 totaled \$5,105,999 and \$3,471,502, respectively (excluding the Santee Alley Overlay). The costs directly associated with the administration of this program were reimbursed to the City and County of Los Angeles, \$25,665 and \$17,807 for the years ended December 31, 2019 and 2018, 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 an allowance against assessments receivable. The Association's policy, consistent with conservative practice, is to reserve 100% of unpaid assessments receivable. At December 31, 2019 and 2018, the allowances for uncollected assessments receivable were \$53,854 and \$35,550 respectively and composed of only outstanding private-parcel assessments. For 2019, the Association wrote off and removed from the allowance the following assessments receivable which were deemed as uncollectable: LAUSD \$76,321, Caltrans \$55,357 and other private parcels \$6,280.

(e) General Benefit Revenue

Per the 2019 through 2026 Management District Plan, billed assessments were reduced by an estimated 2.3% 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 2019 and 2018 the City of LA contributed these funds, \$117,463 and \$75,479 respectively.

(f) Other Revenues

For 2019 Other Revenues were: Service Revenue to provide maintenance for the Broadway St. Plazas \$43,394, Investment Income \$38,307, Website Advertisement Revenue \$22,760, Merchants' Trash Pick-Up Revenue \$9,036 and Miscellaneous Other Revenues \$3,273.

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

**Notes to Financial Statements
Year Ended December 31, 2019**

(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 City National Bank and Merrill Lynch. Bank balances and money market accounts are subject to coverage by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) up to statutory limits and by other bank-provided private insurance.

(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 and Promotion

The Association expenses all costs of advertising and promotion as incurred. Such costs were \$43,353 and \$46,147 for years 2019 and 2018, 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, 2019, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 27, 2020, 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.

Nonetheless, in March 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events and the potential impact on the Association cannot be reasonably estimated at this time.

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

**Notes to Financial Statements
Year Ended December 31, 2019**

(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 FAIR VALUE MEASUREMENTS

At December 31, 2019 and 2018, the Association had cash and cash equivalents as follows:

<u>Cash and Cash Equivalents</u>	<u>2019</u>	<u>2018</u>
Certificates of Deposit (yield rates 1.64 -1.74%)	\$ 600,000	\$ 498,000
Money Market Account - Merrill Lynch (yield rate 0.63% at y/end)	288,417	401,977
Money Market Account - 8th & S. Pedro Proj. Funds (yield rate 1.32% at y/end)	23,296	22,991
Checking Account - City National Bank	73,780	-
Checking Account - Union Bank	-	34,669
Petty Cash	1,000	1,000
Total	<u>\$ 986,493</u>	<u>\$ 958,637</u>

The Certificates of Deposit at December 31, 2019 had maturities in January through March 2020 and are planned to be held to maturity. At December 31, 2019 and 2018, the certificates of deposit 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, 2019**

(4) ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	<u>2019</u>	<u>2018</u>
Collected Assessments Pending Remittal by the City of LA	\$ 94,968	\$ 61,893
Other Miscellaneous Receivables	11,735	12,214
Accounts Receivable Total	<u>\$ 106,703</u>	<u>\$ 74,107</u>
Prepaid Insurance	\$ 53,276	\$ 45,609
Prepaid Rent	12,188	9,783
Other Prepaid Expenses	10,781	7,214
Refundable Deposits	11,900	5,600
Prepaid Expenses Total	<u>\$ 88,145</u>	<u>\$ 68,206</u>

(5) NET ASSETS WITHOUT DONOR RESTRICTIONS

The Association allocates certain Net Assets Without Donor Restrictions to 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 - Unallocated - In accordance with the State of California Streets and Highways Code Section 36650, the Association is required to disclose the amount of any surplus revenues to be carried over from a previous fiscal year. Previously the Association considered any unallocated funds at year-end as a prudent operating liquidity reserve. However the City of LA now does not allow any surplus revenues to be classified as unallocated or as a liquidity reserve. To comply the Association now allocates all surplus funds at year-end - subject to annual re-assessment of the allocations.
- Designated for Public Art - The \$1,844 net profit generated from the 2017 Urban Dinner Party was designated as an accumulating fund to promote Public Art in the LA Fashion District. There was no Urban Dinner Party in 2018 and 2019 due to delay in construction completion of the venue.
- Designated for 2020 Operating Budget - This \$117,000 amount is for 3 projects originally budgeted in 2018 and 2019 under Communication, which were not completed in 2018 and 2019 that will be completed in 2020. The Funds are being rolled into the 2020 Operating Budget. The projects are: \$71,000 for an Advocacy & Economic Development Project, \$30,000 for a Pedestrian Counts Project and \$16,000 for a Marketing Personas Development Project.
- Designated as Matching Funds for MTA Projects - The Board 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 Santee Alley; in 2017-2018 \$13,526 was spent to fund 25% of the cost to provide portable toilets service in the Santee Alley, in 2019 the Board approved absorbing \$58,287 into general funds, leaving a \$26,000 balance as of December 31, 2019, which the Board has approved to fund approximately 50% of the estimated cost to install mechanical security gates at the Santee Alley entrances), 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, in 2019 \$16,404 was used to fund approximately 50% of the remaining cost of an Economic Development Marketing Plan for Los Angeles St.). A balance of \$26,000 remains available as of December 31, 2019.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
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**Notes to Financial Statements
Year Ended December 31, 2019**

(5) NET ASSETS WITHOUT DONOR RESTRICTIONS (CONTINUED)

- Designated for Board Strategic Planning - This \$10,000 reserve is for an expense in year 2021.
- Designated for Tree Trimming - This \$200,000 reserve is to trim trees in years 2021 and 2024. Trees are trimmed on an every 3rd year cycle.
- Designated for BID Renewal - This \$100,000 reserve is for expenses in years 2025 and 2026, the last two years of the current BID period.
- Prepaid Expenses - This \$88,145 represents the value of prepayments made for Insurance, Rent and Other Expenses. The related expenses will be recognized in 2020.
- Designated for Future Capital Equipment Purchases - This \$329,904 reserve is to replace existing capital equipment in years 2021 through 2026, primarily trash collector, graffiti and pressure washing trucks, patrol vehicles and bicycles needed to perform the Clean and Safe Programs.
- Investment in Existing Property and Equipment - This \$502,498 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 full-time 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, 2019 and 2018, the Association made contributions to the plan totaling \$17,642 and \$15,759, respectively.

(7) MAJOR VENDORS

For the years ended December 31, 2019 and 2018, approximately 61% and 63%, respectively of the Association's expenses (not including the Santee Alley Overlay) were from two major vendors: Chrysalis (cleaning services)(\$2,101,889) and Allied Universal Security Services (safety services)(\$1,002,850).

(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, 2019**

(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 8, 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
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>\$ 413,408</u>	<u>\$ 68,350</u>	<u>\$ 481,758</u>

Facilities rent expense for the years ended December 31, 2019 and 2018 was \$122,796 and \$96,522, 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 2016 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 2015 and beyond.

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

**Notes to Financial Statements
Year Ended December 31, 2019**

(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, 2019.

Cash and Cash Equivalents	\$ 986,493
Miscellaneous Receivables	106,702
Less Funds Needed for:	
Accounts Payable and Accrued Expenses	(282,552)
8th and San Pedro Median Project Funds	(23,296)
BID Consortium Funds	(2,600)
Designated for Public Art Fund	(1,844)
Designated for 2020 Operating Budget	(117,000)
Designated for MTA Projects' Matching Funds in 2020	<u>(26,000)</u>
Net Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 639,903</u></u>

None of the net 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 Receivables will be collected early in 2020. 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, 2019**

(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, 2019.

Natural Category	Program Activities					Supporting Activities				Total
	Cleaning	Safety	Communication	Special Projects	Santee Alley Overlay	Management	Provision for Uncollected Assessments	Depreciation	City and County Collection Costs	
Contracted Services	\$ 2,159,504	\$ 1,000,870	\$ -	\$ -	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ 3,360,374
Wages/Benefits/Taxes	256,315	170,366	185,019	168,498	19,670	90,299	-	-	-	890,168
Santee Alley Overlay	-	-	-	-	495,985	-	-	-	-	495,985
Equipment and Supplies	204,114	28,104	-	-	-	-	-	-	-	232,219
Uncollected Assessments	-	-	-	-	-	-	167,772	-	-	167,772
Occupancy	51,488	51,488	26,015	-	-	37,130	-	-	-	166,120
Insurance	32,582	8,828	-	-	-	55,268	-	-	-	96,679
Depreciation	-	-	-	-	-	-	-	95,748	-	95,748
Consultants	-	-	44,632	21,891	-	12,345	-	-	-	78,868
Office Expenses	5,315	4,387	10,758	-	-	50,185	-	-	-	70,646
Information Technology	5,875	5,875	16,475	-	-	26,813	-	-	-	55,037
Advertising and Promotion	-	-	40,042	3,311	-	-	-	-	-	43,353
Meetings/Conferences	5,392	5,679	-	-	-	28,449	-	-	-	39,520
City/County Fees	-	-	-	-	-	-	-	-	25,665	25,665
Legal	-	-	-	-	-	10,383	-	-	-	10,383
Total	\$ 2,720,585	\$ 1,275,598	\$ 322,941	\$ 193,701	\$ 715,655	\$ 310,873	\$ 167,772	\$ 95,748	\$ 25,665	\$ 5,828,538

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.