

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

FINANCIAL STATEMENTS

**Year Ended December 31, 2021
(With comparative totals for 2020)**

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

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Year Ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 12 to these financial statements, on March 11, 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 cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Association's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 10, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

GTL, LLP

Certified Public Accountants
Sherman Oaks, California
March 31, 2022

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)

| | 2021 | 2020 |
|---|--------------|--------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents (Note 3) | \$ 1,450,808 | \$ 1,463,456 |
| Assessments Receivable, net of allowance for uncollected assessments of \$228,091 and \$270,620, for 2021 and 2020, respectively (Note 2) | - | - |
| Accounts Receivable (Note 4) | 140,233 | 27,443 |
| Prepaid Expenses (Note 4) | 94,906 | 90,391 |
| Total Current Assets | 1,685,947 | 1,581,290 |
| Property and Equipment (Note 2): | | |
| Field Equipment | 707,333 | 553,337 |
| Website | 32,694 | 32,694 |
| Leasehold Improvements | 100,297 | 100,297 |
| Computers | 42,711 | 50,590 |
| Furniture and Fixtures | 26,599 | 28,579 |
| | 909,634 | 765,497 |
| Less Accumulated Depreciation and Amortization | (487,457) | (382,519) |
| Net Property and Equipment | 422,177 | 382,978 |
| Total Assets | \$ 2,108,124 | \$ 1,964,268 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Expenses | \$ 241,169 | \$ 163,701 |
| 8th and San Pedro Median Project Funds | 23,521 | 23,421 |
| BID Consortium Funds | - | 1,600 |
| Total Current Liabilities | 264,690 | 188,722 |
| Commitments and Contingencies (Notes 2, 8, 9, 12) | - | - |
| Net Assets Without Donor Restrictions (Note 5): | | |
| Designated Non-Assessment Revenues Fund | - | 34,529 |
| Designated for Public Art | - | 1,844 |
| Designated for 2022 Operating Budget | 383,000 | 289,372 |
| Designated for MTA Projects' Matching Funds in 2022 | 26,000 | 26,000 |
| Designated for Tree Trimming in 2024 | 150,000 | 100,000 |
| Designated for BID Renewal in 2025-2026 | 100,000 | 100,000 |
| Prepaid Expenses | 94,906 | 90,391 |
| Designated for Capital Equipment Purchases in 2021 | - | 207,790 |
| Designated for Capital Equipment and/or Operating Needs in 2023-2026 | 667,351 | 542,642 |
| Investment in Existing Property and Equipment | 422,177 | 382,978 |
| Total Net Assets Without Donor Restrictions | 1,843,434 | 1,775,546 |
| Total Liabilities and Net Assets | \$ 2,108,124 | \$ 1,964,268 |

The accompanying notes are an integral part of the financial statements

DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Statement of Activities
Year Ended December 31, 2021
(With Comparative Totals for 2020)

| | 2021 | 2020 |
|---|--------------|--------------|
| Changes in Net Assets Without Donor Restrictions: | | |
| BID REVENUES (Note 2): | | |
| Assessment Revenue: | | |
| Business Improvement District - Assessments | \$ 5,217,031 | \$ 5,209,429 |
| Collection of Prior Years' Unpaid Assessments | 194,854 | 18,585 |
| Collection of Penalties and Interest | 44,616 | 12,708 |
| | 5,456,501 | 5,240,722 |
| General Benefit Revenue | 124,511 | 124,511 |
| Service Revenue (Broadway Plazas) | - | 11,283 |
| Investment Income | 1,222 | 11,106 |
| Website Advertisement Revenue | 7,804 | 11,067 |
| Revenue from Disposal of Capital Equipment | - | 12,990 |
| Special Events Revenue and Sponsorships | - | 1,000 |
| Miscellaneous Other Revenues | 1,112 | 586 |
| BID Revenues | 5,591,150 | 5,413,265 |
| OVERLAY REVENUES (Note 2): | | |
| Santee Alley - Overlay Assessments (pass-through) | 755,496 | 755,496 |
| Santee Alley - General Benefit Revenue (pass-through) | 17,413 | 17,413 |
| Overlays Revenues Sub-Total | 772,909 | 772,909 |
| Total Revenues | 6,364,059 | 6,186,174 |
| EXPENSES: | | |
| BID FUNCTIONAL EXPENSES (Notes 2, 13): | | |
| Cleaning | 2,663,763 | 2,179,358 |
| Safety | 1,539,918 | 1,478,196 |
| Communication | 273,474 | 315,912 |
| Special Projects | 239,582 | 249,385 |
| Management | 348,404 | 254,093 |
| Provision for Uncollected Assessments | 293,786 | 376,708 |
| Depreciation and Amortization | 137,642 | 132,796 |
| City and County Collection Costs | 26,694 | 26,662 |
| BID Functional Expenses | 5,523,262 | 5,013,110 |
| OVERLAY EXPENSES (Note 2): | | |
| Santee Alley Overlay (pass-through) | 772,909 | 772,909 |
| Overlay Expenses | 772,909 | 772,909 |
| Total Expenses | 6,296,171 | 5,786,019 |
| Increase in Net Assets Without Donor Restrictions | 67,888 | 400,155 |
| NET ASSETS - Beginning of Year | 1,775,546 | 1,375,391 |
| NET ASSETS - End of Year | \$ 1,843,434 | \$ 1,775,546 |

The accompanying notes are an integral part of the financial statements

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Statement of Cash Flows
Year Ended December 31, 2021
(With Comparative Totals for 2020)**

| | 2021 | 2020 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets Without Donor Restrictions | \$ 67,888 | \$ 400,155 |
| Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities: | | |
| Depreciation and Amortization | 137,642 | 132,796 |
| Gain on Sale of Equipment | - | (12,990) |
| Changes in Current Assets and Liabilities: | | |
| Accounts Receivable | (112,790) | 79,260 |
| Prepaid Expenses | (4,515) | (2,246) |
| Accounts Payable and Accrued Expenses | 77,467 | (118,851) |
| 8th and San Pedro Median Project Funds | 100 | 125 |
| BID Consortium Funds | (1,600) | (1,000) |
| | <u>164,192</u> | <u>477,249</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (Purchases) of Equipment | (176,840) | (13,276) |
| Proceeds from Sale of Equipment | - | 12,990 |
| | <u>(176,840)</u> | <u>(286)</u> |
| Net (Decrease) Increase in Cash and Cash Equivalents | (12,648) | 476,963 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>1,463,456</u> | <u>986,493</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 1,450,808</u> | <u>\$ 1,463,456</u> |

SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION:

The Association's total of \$176,840 capital equipment purchases at cost during 2021 consisted of four computers \$16,287, one Isuzu Street Sweeper Raptor Truck \$146,133, and four Solar Self-Compacting Trash Cans \$14,420. During 2021, the Association disposed of \$32,704 worth of capital equipment at original cost consisting of: one server, one enclosure cabinet, one NAS Storage Device, seven computers, and one Pressure Washing Unit. These disposals did not generate any cash proceeds and all the equipment was fully depreciated.

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

**Notes to Financial Statements
Year Ended December 31, 2021**

(1) NATURE OF ORGANIZATION

Downtown Los Angeles Property Owners Association, (the "Association"), dba LA Fashion District Business Improvement District, is a 501(c)(6) tax-exempt nonprofit mutual benefit corporation dedicated to helping the community (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 Association 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 (program or time) 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 with no effect on previously reported net assets.

(c) Revenue Recognition

Assessment revenue is recognized when billed and consists of real estate special assessments levied on property parcels based on benefits received, as approved by property owners and the City of Los Angeles in the Management District Plan. Unspent funds are rolled forward in net assets available to assist in covering the following years' Association operations.

**DOWNTOWN LOS ANGELES PROPERTY OWNERS ASSOCIATION
DBA LA FASHION DISTRICT BUSINESS IMPROVEMENT DISTRICT
Notes to Financial Statements
Year Ended December 31, 2021**

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue Recognition (Continued)

Parcels with footage fronting the Santee Alley pay an additional Santee Alley Overlay Assessment 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 acts as fiscal agent for SMAA and receives the overlay assessments from the City and fully transfers those overlay assessments to SMAA as a pass-through in the Association's financials. The 2021 revenue was composed of \$755,496 billed overlay assessments and \$17,413 General Benefit funds paid by the City of Los Angeles.

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, 2021 and 2020 totaled \$5,456,501 and \$5,240,722, 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, \$26,694 and \$26,662 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, the allowances for uncollected assessments receivable were \$228,091 and \$270,620, respectively, and composed of only outstanding private-parcel assessments. The \$228,091 balance was composed of the \$270,620 uncollected assessments at December 31, 2020, less \$194,854 collections received in 2021, plus \$293,786 total uncollected 2021-year assessments, less the following 2021 written-off assessments which were deemed as uncollectable: LAUSD \$78,229 (50% of total assessed), Caltrans \$56,741 (100% of total assessed) and other private parcels \$6,491. These LAUSD, Caltrans and private parcels write-offs occur every year and were not due to the COVID-19 pandemic. Nonetheless, total outstanding assessments at the end of 2021 and 2020 increased as an effect of the COVID-19 pandemic.

(e) General Benefit Revenue

Per the 2019-through-2026-year 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 2021 and 2020 the City of Los Angeles contributed non-assessment funds of \$124,511 for each year.

(f) Other Revenues

For 2021 other revenues were: Website Advertisement and Sponsored Content Revenue \$7,804, Investment Income \$1,222, and Miscellaneous Other Revenues \$1,112. For 2020 Other Revenues were: Service Revenue to provide maintenance for the Broadway St. Plazas \$11,283 (for service January 1 through March 31, 2020; per the City's request no service was provided April through December due to the COVID-19 pandemic), Investment Income \$11,106, Website Advertisement Revenue \$11,067, Revenue from Disposal of Capital Equipment \$12,990, Special Event Sponsorship \$1,000 and Miscellaneous Other Revenues \$586.

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

**Notes to Financial Statements
Year Ended December 31, 2021**

(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. The Association has not experienced and does not anticipate any losses related to these balances.

(h) Cash and Cash Equivalents

Cash and cash equivalents include cash in bank and money market accounts.

(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 \$60,306 and \$38,912 for years ended 2021 and 2020, 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 may not have a materially adverse effect on the financial condition of the Association.

(m) Functional Expenses

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.

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

**Notes to Financial Statements
Year Ended December 31, 2021**

(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. The Association's money market funds at December 31, 2021 and 2020 are considered to be level 1 investments.

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.

(o) Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2020, from which the summarized information was derived.

(3) CASH AND CASH EQUIVALENTS FAIR VALUE MEASUREMENTS

At December 31, 2021 and 2020, the Association had cash and cash equivalents as follows:

| <u>Cash and Cash Equivalents</u> | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Money Market Account - Merrill Lynch (yield rate 0.03% at year-end) | \$ 1,050,612 | \$ 1,061,289 |
| Money Market Account - 8th & S. Pedro Proj. Funds (yield rate 0.03% at year-end) | 23,521 | 23,421 |
| Checking Account - City National Bank | 122,234 | 125,002 |
| Money Market Account - City National Bank (yield rate 0.45% at year-end) | 250,941 | 250,244 |
| Emergency Cash Fund | 2,500 | 2,500 |
| Petty Cash Fund | 1,000 | 1,000 |
| Total | <u>\$ 1,450,808</u> | <u>\$ 1,463,456</u> |

No Certificates of Deposit were held at December 31, 2021 or 2020.

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

**Notes to Financial Statements
Year Ended December 31, 2021**

(4) ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|------------------|
| Collected Assessments and Penalties Pending Remittal by City of LA | \$ 128,675 | \$ - |
| Receivables from City of LA and Vendor for Broadway Holiday Event | 7,256 | |
| Santee Alley Receivable | - | 26,512 |
| Other Miscellaneous Receivables | 4,302 | 931 |
| Total Accounts Receivable | <u>\$ 140,233</u> | <u>\$ 27,443</u> |
| | | |
| Prepaid Insurance | \$ 61,892 | \$ 58,056 |
| Prepaid Rent | 12,868 | 12,526 |
| Other Prepaid Expenses | 8,246 | 7,909 |
| Refundable Deposits | 11,900 | 11,900 |
| | | |
| Total Prepaid Expenses | <u>\$ 94,906</u> | <u>\$ 90,391</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, subject to re-consideration as operational needs change. The net assets and changes therein have been classified and are reported as follows:

- Non-Assessment Revenues Fund - This reserve was eliminated in 2021. In 2020 this fund included the following revenues collected in 2020: Service Revenue to provide maintenance for the Broadway St. Plazas \$21,876, Website Advertising Revenue \$11,067, Special Event Sponsorship \$1,000, and Commission from vending machines at the field office \$586.
- Designated for Public Art - These funds were utilized in 2021. The \$1,844 balance in 2020 was the net profit generated from the 2017 Urban Dinner Party, which was designated as an accumulating fund to promote Public Art in the LA Fashion District. There was no Urban Dinner Party in 2019 or 2018 due to delays in construction completion of the venue and there was no event in 2021 or 2020 due to the COVID-19 pandemic.
- Designated for 2022 Operating Budget - Additional Clean Team Labor \$90,000, Economic Development Strategies \$293,000. These amounts came from unspent 2021 budgeted expenses.
- Designated for 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 toilet 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 approved to fund approximately 50% of the estimated cost to install mechanical security gates at the Santee Alley entrances).

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

**Notes to Financial Statements
Year Ended December 31, 2021**

(5) NET ASSETS WITHOUT DONOR RESTRICTIONS (CONTINUED)

- Designated for Tree Trimming - This \$150,000 reserve is to trim trees in year 2024. Trees are trimmed on an every 3rd year cycle.
- Designated for BID Renewal - This \$100,000 reserve is for expenses expected in years 2025 and 2026, the last two years of the current BID period.
- Prepaid Expenses - This \$94,906 represents the value of prepayments made for Insurance, Rent and Other Expenses. The related expenses will be recognized in 2022.
- Designated for Future Capital Equipment Purchases in year 2021 - \$176,840 of the 2020 \$207,790 reserve was used in 2021 and the unused funds reallocated. The \$207,790 was allocated for one street sweeper truck, 4 solar-powered compacting trash cans, one copier machine, one server and installing an electric gate at the Field Operations Parking Lot. The copier machine and electric gate were not purchased.
- Designated for Future Capital Equipment Purchases and/or Operating Needs in years 2023 through 2026 - This reserve is allocated to replace, through purchase or lease, existing capital equipment, which primarily consists of street sweeper, trash collector, graffiti and pressure washing trucks, patrol vehicles, bicycles, computers, and two-way radio system, etc., and/or for operating budget needs.
- Investment in Existing Property and Equipment - This amount represents the carrying value of property and capitalized equipment, at cost, net of accumulated depreciation and amortization.

(6) MAJOR VENDORS

For the years ended December 31, 2021, and 2020, approximately 51% and 58%, respectively of the Association's total expenses (not including the Santee Alley Overlay) were from two major vendors: Chrysalis (cleaning services)(\$1,620,648 for 2021 and \$1,756,726 for 2020) and Allied Universal Security Services (safety services)(\$1,207,657 for 2021 and \$1,150,417 for 2020). At December 31, 2021, there was \$167,340 due to these two vendors, which is included in accounts payable and accrued expenses in the statement of financial position.

(7) RELATED PARTY TRANSACTIONS

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. Such transactions are reviewed and approved by the Association's Board of Directors, with the involved Director(s) recusing themselves from voting. See also Note 8, Lease Commitments.

Parcels with footage fronting the Santee Alley pay an additional Santee Alley Overlay Assessment 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 acts as fiscal agent for SMAA and receives the overlay assessments from the City and fully transfers those overlay assessments to SMAA as a pass-through in the Association's financial statements.

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

**Notes to Financial Statements
Year Ended December 31, 2021**

(8) 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, with a continuing fixed \$100 increase to the monthly rent every year. See also Note 7, Related Party Transactions.

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, with 3% annual rent increases.

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 |
|-----------------------------|----------------------|--|-------------------|
| 2022 | \$ 135,306 | \$ 22,750 | \$ 158,056 |
| 2023 | 18,134 | 1,900 | 20,034 |
| Total | <u>\$ 153,440</u> | <u>\$ 24,650</u> | <u>\$ 178,090</u> |

Total rent expense for the years ended December 31, 2021 and 2020 was \$131,735 and 128,233, respectively, and is included in occupancy costs in Note 13, Schedule of Expenses by Both Nature and Function.

(9) 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 (fully vested and nonforfeitable) contributions up to 3% of employees' annual compensation. For the years ended December 31, 2021 and 2020, the Association made employer matching contributions to the plan totaling \$21,063 and \$24,238, 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 2018 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 2017 and beyond.

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

**Notes to Financial Statements
Year Ended December 31, 2021**

(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, 2021.

| | |
|---|----------------------------|
| Cash and Cash Equivalents | \$ 1,450,808 |
| Accounts Receivable | 140,233 |
| Less Funds Needed for: | |
| Accounts Payable and Accrued Expenses | (241,169) |
| 8th and San Pedro Median Project Funds | (23,521) |
| Designated for MTA Projects' Matching Funds in 2022 | <u>(26,000)</u> |
| Net Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | <u><u>\$ 1,300,351</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. Accounts Receivable will be collected early in 2022. 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.

(12) SUBSEQUENT EVENTS AND EMPHASIS OF MATTER

The Association has evaluated events subsequent to December 31, 2021, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 31, 2022, 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.

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, 2021**

(13) 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, 2021.

| Natural Category | Program Activities | | | | | Supporting Activities | | | | Total |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------|----------------------|-----------------------|---------------------------------------|----------------------------|----------------------------------|---------------------|
| | Cleaning | Safety | Communication | Special Projects | Santee Alley Overlay | Management | Provision for Uncollected Assessments | Depreciation- Amortization | City and County Collection Costs | |
| Contracted Services | \$ 2,110,782 | \$ 1,210,627 | \$ - | \$ - | \$ 263,059 | \$ - | - | \$ - | \$ - | \$ 3,584,468 |
| Wages/Benefits/Taxes | 267,736 | 191,557 | 145,913 | 163,846 | 29,000 | 69,547 | - | - | - | 867,600 |
| Santee Alley Overlay | - | - | - | - | 480,850 | - | - | - | - | 480,850 |
| Uncollected Assessments | - | - | - | - | - | - | 293,786 | - | - | 293,786 |
| Equipment and Supplies | 177,613 | 57,059 | - | - | - | - | - | - | - | 234,672 |
| Occupancy | 54,956 | 54,956 | 27,965 | - | - | 36,785 | - | - | - | 174,662 |
| Consultants and Professional Svcs | - | - | 24,129 | 6,825 | - | 107,145 | - | - | - | 138,099 |
| Depreciation and Amortization | - | - | - | - | - | - | - | 137,642 | - | 137,642 |
| Insurance | 35,163 | 9,409 | - | - | - | 77,989 | - | - | - | 122,561 |
| Information Technology | 8,774 | 8,774 | 13,577 | 17,342 | - | 27,934 | - | - | - | 76,401 |
| Advertising and Promotion | - | - | 53,466 | 6,840 | - | - | - | - | - | 60,306 |
| Office Expenses | 6,710 | 5,791 | 8,424 | - | - | 25,717 | - | - | - | 46,642 |
| Grants | - | - | - | 44,728 | - | - | - | - | - | 44,728 |
| City/County Fees | - | - | - | - | - | - | - | - | 26,694 | 26,694 |
| Meetings/Conferences | 2,029 | 1,745 | - | - | - | 3,288 | - | - | - | 7,061 |
| Total | \$ 2,663,763 | \$ 1,539,918 | \$ 273,474 | \$ 239,582 | \$ 772,909 | \$ 348,404 | \$ 293,786 | \$ 137,642 | \$ 26,694 | \$ 6,296,171 |
| Section Sub-Total | | | \$ 5,489,646 | | | | \$ 806,525 | | | \$ 6,296,171 |
| Percent of Total Expenses | | | 87% | | | | 13% | | | |