

**HOLLYWOOD ENTERTAINMENT BUSINESS
IMPROVEMENT DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011



INDEPENDENT ACCOUNTANTS' REVIEW REPORT

William
Tilley
CPA

To the Board of Directors

HOLLYWOOD PROPERTY OWNERS ALLIANCE

(Managing Entity for Hollywood Entertainment
Business Improvement District)

Hollywood, CA 90028

J. Pearse
Leonard
CPA

James T.
Chang
CPA

Fabio
Vasco
CPA

Manny
Gleicher
CPA (Retired)

We have reviewed the accompanying statement of financial position of Hollywood Entertainment Business Improvement District (the "District") as of December 31, 2011, and the related statements of activities and changes in unrestricted net assets and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of District 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 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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

GTL, LLP

Certified Public Accountants
March 28, 2012

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

ASSETS

Current Assets:

Cash and cash equivalents	\$ 399,102
Assessments receivable	360,419
Due from affiliate	35,312
Prepaid expenses	12,092
	<u>806,925</u>

Leasehold improvements, net (Note 3)	<u>22,029</u>
--------------------------------------	---------------

\$ 828,954

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

Accounts payable	\$ 193,247
------------------	------------

Commitment (Note 7)	-
---------------------	---

Unrestricted Net Assets	<u>635,707</u>
-------------------------	----------------

\$ 828,954

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT
STATEMENTS OF ACTIVITIES AND CHANGE IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Revenue:	
Property assessment income	\$ 3,498,815
Contract income-CHC	158,252
Interest income	9,726
	<u>3,666,793</u>
Operating Expenses:	
Security	1,587,811
Maintenance	947,565
Marketing	56,628
Alley services	135,276
	<u>2,727,280</u>
General and Administrative Expenses:	
Accounting fees	50,003
Business meals	3,728
City fees	35,022
Dues and subscriptions	3,952
Insurance	49,411
Legal	6,000
Miscellaneous/contingency	36,757
Amortization	6,293
Minor office equipment	29,695
Office supplies	3,448
Payroll taxes	23,571
Rent	37,141
Salaries	337,358
Telephone	7,927
Temporary help/consulting	32,915
Travel	4,577
Contract expense-CHC	158,252
	<u>826,050</u>
	<u>3,553,330</u>
Increase in Unrestricted Net Assets	113,463
Unrestricted Net Assets, Beginning of Year	522,244
Unrestricted Net Assets, End of Year	<u>\$ 635,707</u>

See accompanying independent accountants' review report and notes to financial statements

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows from Operating Activities:	
Increase in unrestricted net assets	\$ 113,463
Adjustments to reconcile increase in unrestricted net assets to net cash (used in) operating activities:	
Amortization	6,293
Changes in operating assets and operating liabilities:	
Assessments receivable	(178,865)
Due from affiliate	16,580
Accounts payable	<u>(31,796)</u>
Net cash (used in) operating activities	<u>(74,325)</u>
Net Decrease in Cash and Cash Equivalents	(74,325)
Cash and Cash Equivalents, Beginning of Year	<u>473,427</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 399,102</u></u>

See accompanying independent accountants' review report and notes to financial statements

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(1) NATURE OF OPERATIONS

Hollywood Entertainment Business Improvement District (the "District") was first organized under the laws of the State of California as a business improvement district for an initial period of January 1, 1997 through December 31, 2001. The District has undergone several subsequent renewals, in accordance with state law and city guidelines. The District was most recently renewed for a period extending from January 1, 2009 through December 31, 2018. On September 3, 2008, the City of Los Angeles renewed its contract with the Hollywood Property Owners Alliance (the "HPOA") to continue to operate the District for the extended period through 2018. The primary purpose of the District is to manage programs, activities, grants, and contracts with the aim of promoting community revitalization efforts, quality of life, security, streetscape improvements, tourism, economic development and business interest for the benefit of owners of commercial properties in the District. The District generates its revenue from the assessments to property owners imposed and collected by the County of Los Angeles, transferred to the City of Los Angeles and remitted to the HPOA.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statement Presentation

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The District is required to report information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Includes assessment revenue, contributions, fundraising and other forms of unrestricted revenue and expenditures related to the general operations and fundraising efforts of the District.

Temporarily restricted net assets - Includes resources received that are temporarily restricted as to use by the donor or grantor. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets. The District has no temporarily restricted net assets.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

(a) Financial Statement Presentation- Cont'd

Permanently restricted net assets - Includes assets that have been restricted by the donor in perpetuity and cannot be expended by the District. The District has no permanently restricted net assets.

(b) Cash and Cash Equivalents

The District considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2011, there was a balance of \$395,811 in money market funds, which are considered to be cash equivalents.

(c) Equipment and Improvements

Equipment and improvements are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as unrestricted, unless the donor has restricted the donated asset to a specific purpose, then it is reported as restricted. Depreciation/amortization is provided using the straight-line basis over estimated useful lives ranging from 3 to 5 years or the life of the lease.

(d) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position. The District did not incur any impairment charges during the year ended December 31, 2011.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

(e) Income Taxes

The District is managed by HPOA which 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 District's federal income tax returns for tax years 2008 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 2007 and beyond.

(f) Subsequent Events

The District has evaluated events subsequent to December 31, 2011, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 28, 2012, 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.

(g) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

(h) Concentration of Credit Risk

Financial instruments which potentially subject the District to a concentration of credit risk consists of cash equivalents and assessments receivable. The District generally places its cash and cash equivalents with high credit quality financial institutions. At times, such cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000. Concentrations of credit risk with respect to assessments are limited since the District derives the majority of its revenue from the City of Los Angeles tax assessments.

(3) LEASEHOLD IMPROVEMENTS

Leasehold improvements, net at December 31, 2011 consists of the following:

Leasehold improvements	\$ 31,470
Accumulated amortization	<u>(9,441)</u>
	<u>\$ 22,029</u>

Amortization expense for the year ended December 31, 2011 was \$6,293.

(4) MAJOR REVENUE SOURCE AND RELATED RECEIVABLE

For the year ended December 31, 2011, approximately 95% of the District's revenue was from the BID's assessments levied by the County of Los Angeles on the property tax bills amounting to \$3,498,815. At December 31, 2011, the amount due was \$360,419, which represents delinquent tax assessments from a combination of public and privately owned parcels amounting to primarily \$207,240 for 2011 and \$152,434 for 2010. No allowance for uncollectible accounts is considered necessary as management believes the entire amount to be collectible.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(5) MAJOR VENDORS

For the year ended December 31, 2011, approximately 45% and 27% of the District's operating purchases were from two major vendors amounting to \$2,535,376. At December 31, 2011, there was \$171,388 due to these two vendors, which is included in accounts payable in these financial statements.

(6) DUE FROM AFFILIATE

Amounts due from affiliates relate to ordinary course of business transactions that take place between the District and HPOA, its managing entity. At December 31, 2011, the amounts due from affiliate was \$35,312. Reimbursement of these balances is routinely done shortly thereafter.

(7) COMMITMENT

The District has entered into a noncancelable lease for its office facilities which expires in June 30, 2015. Future minimum lease payments under this lease are as follows:

<u>Year ending December 31,</u>	<u>Total</u>	<u>Amount allocated to CHC</u>	<u>Amount allocated to the District</u>
2012	\$ 45,540	\$ 10,400	\$ 35,140
2013	46,902	10,400	36,502
2014	48,312	10,400	37,912
2015	24,516	5,200	19,316
	<u>\$ 165,270</u>	<u>\$ 36,400</u>	<u>\$ 128,870</u>

Rent expense for the year ended December 31, 2011 totaled \$37,141, which includes parking, cleaning and janitorial monthly charges.