HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

CONTENTS

GTL, LLP 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
HOLLYWOOD PROPERTY OWNERS ALLIANCE
(Managing Entity for Hollywood Entertainment
Business Improvement District)
Hollywood, CA 90028

We have reviewed the accompanying financial statements of Hollywood Entertainment Business Improvement District (the "District"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and change in unrestricted net assets, 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.

GTL, LLP

Certified Public Accountants
March 27, 2018

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HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

Current Assets:		
Cash and cash equivalents	$	749,051
Assessments receivable (Note 4)		102,306
Allowance for doubtful accounts (Note 4)		(55,127)
Other receivable - Philadelphia Ins. Co.		23,784
Due from affiliate (Note 6)		45,821
Prepaid expenses		29,499
		895,334
Property and Equipment, net (Note 3)		93,079
	$	988,413

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	$	305,951
Contract equipment payable (Note 7)		62,356
		368,307
Commitments (Note 8)		-
Unrestricted Net Assets		620,106
	$	988,413

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENTS OF ACTIVITIES AND CHANGE IN UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

Revenue:	
Property assessment income (Note 4)	$ 3,610,971
Collection of penalties, interest and other	23,755
Contract income-CHC	170,460
Fellowship grant	25,368
Total revenue	3,830,554
Operating Expenses:	
Security	1,670,699
Maintenance	940,566
Marketing	129,401
Alley services	62,314
Total operating expenses	2,802,980
General and Administrative Expenses:	
Accounting fees	77,170
Business meals	4,747
City fees	36,338
Dues and subscriptions	4,037
Insurance	62,679
Legal	121,298
Contingency	37,295
Depreciation/amortization	93,206
Minor office equipment/supplies	22,601
Payroll taxes	28,727
Rent	69,657
Salaries	397,682
Retirement	14,698
Telephone	6,928
Temporary help	575
Travel	7,141
Fellowship grant	9,219
Miscellaneous	318
Contract expense-CHC	169,104
Total general and administrative expenses	1,163,420
Total expenses	3,966,400
Decrease in Unrestricted Net Assets	(135,846)
Unrestricted Net Assets, Beginning of Year	755,952
Unrestricted Net Assets, End of Year	$ 620,106

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, 2017

Cash Flows from Operating Activities:		
Decrease in unrestricted net assets	$	(135,846)
Adjustments to reconcile decrease in unrestricted net assets to net cash (used-in) operating activities:		
Depreciation/amortization		93,206
Decrease in allowance for doubtful accounts		(1,499)
Changes in operating assets and operating liabilities:		
Assessments receivable		(25,163)
Due from affiliate		(4,175)
Prepaid expenses		(2,397)
Accounts payable and accrued expenses		46,830
Net cash (used-in) operating activities		(29,044)
Cash Flows from Financing Activities:		
Payments on contract equipment payable		(62,371)
Net cash (used-in) financing activities		(62,371)
Net Decrease in Cash and Cash Equivalents		(91,415)
Cash and Cash Equivalents, Beginning of Year		840,466
Cash and Cash Equivalents, End of Year	$	749,051

Supplemental Disclosure of Cash Flow Information:		
Interest paid during the year	$	6,293

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, 2017

(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 ("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 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.

(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, 2017, there was a balance of $632,427 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 or the remaining life of the current BID.

(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, 2017.

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

(e) Income Taxes

The District is managed by HPOA which is exempt from taxes under Section501(c)(6) of the Internal Revenue Code ("IRC"), and from federal and state income taxes under Section501(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 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.

(f) Subsequent Events

The District 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 March 27, 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.

(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.

(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. At December 31, 2017, the District's bank balances exceeded the "FDIC" limit by $501,392.

(3) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consisted of the following:

Furniture and equipment	$ 182,397
Leasehold improvements	75,774
Accumulated depreciation/amortization	(165,092)
	$ 93,079

Depreciation and amortization expense for the year ended December 31, 2017 was $93,206.

(4) MAJOR REVENUE SOURCE AND RELATED RECEIVABLE

For the year ended December 31, 2017, approximately 95% of the District's revenue was derived from the BID's assessments levied by the County of Los Angeles on the property tax bills, plus penalties and interest collected on delinquent assessments amounting to $3,622,048. At December 31, 2017, the amount due was $102,306, which represents delinquent tax assessments from a combination of public and privately owned parcels. Management has evaluated the collectability of these amounts and determined appropriate to adjust the allowance for doubtful accounts to $55,127 for publically owned parcels for potential delinquency expense.

(5) MAJOR VENDORS

For the year ended December 31, 2017, approximately 40% and 21% of the District's operating purchases were from two major vendors, Andrews International, Inc. (security services) and StreetPlus (cleaning services) amounting to $2,434,000, approximately. At December 31, 2017, there was $183,982 due to these two vendors, which is included in accounts payable and accrued expenses in the Statement of Financial Position.

(6) DUE FROM AFFILIATE

Due from affiliate balance relates to ordinary course of business transactions that take place during the year between the current District and HPOA, its managing entity. At December 31, 2017, the amount due from affiliate totaled $45,821. Reimbursement of these balances is routinely done shortly thereafter.

(7) CONTRACT EQUIPMENT PAYABLE

During 2016 HPOA entered into a contract with its maintenance contractor (StreetPlus Company, LLC), whereby the contractor purchased maintenance equipment to be used by the contractor in providing maintenance services to the District. HPOA agreed to make monthly payments to the contractor for the equipment purchased of $5,517, for a period of 28 months starting September 2016 through December 2018, at which time the District would own the purchased equipment. The economic substance of this arrangement is that the District financed the acquisition of the maintenance equipment through the contract agreement, and accordingly it is recorded as the District's asset and liability. At December 31, 2017, the amount representing interest of $3,843 was calculated using the present value of an annuity with monthly payments at an imputed interest rate of 5%.

The following is a schedule by year of future minimum payments required under the contract together with its present value as of December 31, 2017:

Year Ending December 31,	Total
2018	$ 66,199
Less amount representing interest	(3,843)
Contract equipment payable	$ 62,356

Total interest expense on the maintenance contract equipment payable amounted to $6,293 for the year ended December 31, 2017.

(8) COMMITMENTS

(a) During July 2015 HPOA entered into a noncancelable lease agreement with a private company, with whom a Board member has a management relationship, for its office facility expiring December 31, 2020, with scheduled annual rent increases. Lease includes one early termination clause to be exercised between August 2018 and November 2018, should the BID not be reauthorized past December 2018, provided a one-time payment of the unamortized leasing costs is made.

(8) COMMITMENTS - CONT'D

Future minimum lease payments under this lease are as follows:

Year ending December 31,	Total	Amount allocated to CHC	Amount allocated to the District
2018	$ 76,767	$ 16,889	$ 59,878
2019	79,070	17,395	61,675
2020	81,037	17,828	63,209
	$ 236,874	$ 52,112	$ 184,762

Rent expense for the year ended December 31, 2017 totaled $69,657, which includes parking, cleaning and janitorial monthly charges.

(b) In May 2013, the District renewed its service agreement with Andrews International Inc. to provide security services to the District through April 30, 2018. Payments are due within 30 days of each weekly invoice. This service agreement may be terminated by the District upon 30-90 days notice. Management intents to go on a month-to-month service agreement after April 30, 2018 through December 31, 2018.

(c) In September 2016, the District entered into a service agreement with StreetPlus Company, LLC to provide maintenance services to the District through December 31, 2018. Payments are due within 30 days of each monthly invoice. This service agreement may be terminated by the District upon 30-90 days notice.

(9) RETIREMENT 401(K) PLAN

The District sponsors a 401(k) retirement plan for all employees of at least 21 years of age and after completing one year of service. The District matches employees' contributions equal to 100% of the elective deferrals, not to exceed 3% of the employee's eligible earnings. Employer matching contributions vest as follows: less than three years of service, 0%; three years of service or more, 100%. The amount of employer matching contributions charged to general and administrative expenses during the year ended December 31, 2017 was $14,698.

(10) RELATED PARTY TRANSACTIONS

HPOA's Board of Directors has a conflict of interest policy in place that is intended to assure its stakeholders that the decisions of HPOA are made objectively and with full knowledge and involvement of the full Board of Directors and management. At times during the course of the year, HPOA may determine that doing business with a Board member is in the best interest of HPOA. In accordance with HPOA's Board of Directors handbook, referenced in the Association's bylaws, such transactions are reviewed and approved by the Board of Directors, with the involved Director(s) refraining from participating in or voting on actions related to such actual or apparent self-interests.

(11) LEGAL ASSERTION

At times, claims generally incidental to the conduct of normal business operations, are pending or threatened against the District. While ultimate liability, if any, is presumably indeterminable, in the opinion of management, the ultimate resolution will not have a materially adverse effect on the financial condition of the District.

(12) SIGNIFICANT ACCOUNTING PRONOUNCEMENTS

I. In February 2016, the FASB issued **ASU 2016-02, Leases**, which requires lessees to recognize “right of use” assets and liabilities for all leases with terms of more than 12 months. The ASU requires additional quantitative and qualitative financial statement footnote disclosures about the leases, significant judgments made in accounting for those leases and amounts recognized in the financial statements about those leases. The guidance will be effective for fiscal years ending after December 15, 2019, with early adoption permitted.

II. In August 2016, the FASB issued **ASU 2016-14, Presentation of Financial Statements of Non-for-Profit Entities**, which decreases the number of net assets classes from three to two, *net assets with donor restrictions* and *net assets without donor restrictions.*

The standard also:

(a) Requires non-profits to provide in the notes qualitative information on how it manages its liquid available resources and liquidity risks.

(b) Requires quantitative information that communicates the availability of the non-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year, to be presented on the face of the financial statement and/or in the notes;

(c) Requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature.

The guidance will be effective for fiscal years beginning after December 15, 2017, with early application of the standard permitted.