HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

CONTENTS

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, 2018, 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.

GTL LLP

Certified Public Accountants
March 11, 2019

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

ASSETS

Current Assets:		
Cash and cash equivalents	$	470,166
Assessments receivable (Note 4)		184,364
Allowance for doubtful accounts (Note 4)		(84,955)
Due from affiliate (Note 6)		75,591
Prepaid expenses		32,771
Total Current Assets		677,937
Property and Equipment, net (Note 3)		-
Total Assets	$	677,937

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	$	325,010
Total Liabilities		325,010
Commitments (Note 8)		-
Without Donor Restrictions Net Assets:		
Undesignated		352,927
Total Net Assets		352,927
Total Liabilities and Net Assets	$	677,937

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

Changes in Net Assets Without Donor Restrictions:	
Property assessment income (Note 4)	$ 3,669,131
Collection of penalties, interest and other	18,756
Contract income - CHC	195,287
Fellowship grant and contributions	81,397
Total Revenue Without Donor Restrictions	3,964,571
Functional Expenses:	
Security	1,721,158
Maintenance	1,095,521
Marketing	334,948
Alley services	68,610
General and administrative	792,487
	4,012,724
Uncollectible assessments	29,829
Contract expenses - CHC	189,196
Total Expenses	4,231,749
Decrease in Net Assets Without Donor Restrictions	(267,178)
Net Assets, Beginning of Year	620,105
Net Assets, End of Year	$ 352,927

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows from Operating Activities:		
Decrease in Net Assets Without Donor Restrictions	$	(267,178)
Adjustments to reconcile decrease in unrestricted net assets to net cash (used-in) operating activities:		
Depreciation/amortization		93,079
Increased in allowance for doubtful accounts		29,828
Changes in operating assets and operating liabilities:		
Assessments receivable		(82,058)
Due from affiliate		(5,986)
Prepaid expenses		(3,272)
Accounts payable and accrued expenses		19,059
Net cash (used-in) operating activities		(216,528)
Cash Flows from Financing Activities:		
Payments on contract equipment payable		(62,356)
Net cash (used-in) financing activities		(62,356)
Net Decrease in Cash and Cash Equivalents		(278,885)
Cash and Cash Equivalents, Beginning of Year		749,051
Cash and Cash Equivalents, End of Year	$	470,166

Supplemental Disclosure of Cash Flow Information:		
Interest paid during the year	$	5,088

(1) NATURE OF OPERATIONS

Hollywood Entertainment Business Improvement District (the "District" or "BID") 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 District was renewed through 2028; See Note 14 - BID RENEWAL). 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 two classes of net assets: without donor restrictions and with donor restrictions. Net assets, revenue, contributions, fundraising, gains, and losses, are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subjected to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subjected to donor – (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

(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, 2018, there was a balance of $291,536 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 contribution without donor restrictions, unless the donor has restricted the donated asset to a specific purpose, then it is reported as a contribution with donor restrictions. 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, 2018.

(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 2015 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 2014 and beyond.

(f) Subsequent Events

The District has evaluated events subsequent to December 31, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 11, 2019, 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, 2018, the District's bank balances exceeded the "FDIC" limit by $221,590.

(3) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 consisted of the following:

Furniture and equipment	$ 182,397
Leasehold improvements	75,774
Accumulated depreciation/amortization	(258,171)
	$ -

Depreciation and amortization expense for the year ended December 31, 2018 was $93,079.

(4) MAJOR REVENUE SOURCE AND RELATED RECEIVABLE

For the year ended December 31, 2018, approximately 93% 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 $3,681,041. At December 31, 2018, the amount due was $184,364, 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 $84,955 for publicly owned parcels for potential delinquency expense.

(5) MAJOR VENDORS

For the year ended December 31, 2018, approximately 37% and 23% of the District's operating purchases were from two major vendors, U.S. Security Associates, Inc. (security services) and StreetPlus/CleanStreet (cleaning services) amounting to $2,537,682. At December 31, 2018, there was $158,790 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, 2018, the amount due from affiliate totaled $75,591. 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, 2018, the amount representing interest of $5,088 was calculated using the present value of an annuity with monthly payments at an imputed interest rate of 5%.

As of December 31, 2018 all monthly payments related to this lease liability had been made.

(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.

Future minimum lease payments under this lease are as follows:

Year ending December 31,	Total
2019	$ 79,070
2020	81,037
	$ 160,107

Rent expense for the year ended December 31, 2018 totaled $79,182, which includes parking, cleaning and janitorial monthly charges.

(8) COMMITMENTS - CONT'D

(b) In November 2018, the District entered into a service agreement with Andrews Global Security, Inc. to provide security services to the District through December 31, 2021. Payments are due within 30 days of each weekly invoice. This service agreement may be terminated by the District upon 30 days notice.

(c) In October 2018, the District entered into a service agreement with CleanStreet to provide maintenance services to the District through December 31, 2021. Payments are due within 30 days of each monthly invoice. This service agreement may be terminated by the District upon 30-90 days notice.

(d) On December 26, 2018, the District obtained an unsecured $1.0 million revolving line of credit agreement with a bank, with a floating libor interest rate plus two percent (3.002% at December 31, 2018) per annum, with certain financial covenants. At December 31, 2018, there was no outstanding balance on the line of credit.

(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, 2018 was $9,877.

(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, the District believes any ultimate resolution will not have a materially adverse effect on the financial condition of the District, as it would be covered under existing insurance policies at the time.

(12) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the District'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 within one year of the Statement of Financial Position at December 31, 2018.

Cash and cash equivalents	$	470,166
Assessments receivable, net		99,409
Less funds needed for:		
Payment of accounts payable and accrued expenses		(325,010)
Net financial assets available at December 31, 2018	$	244,565

As further discussed in Note 14, BID Renewal, the present BID ended on December 31, 2018 and a new expanded BID was created effective January 1, 2019 through December 31, 2028. In regard to the net financial assets available at December 31, 2018, in accordance with the 2009-2018 Management District Plan, such funds can be utilized (within a 10-year period) only to pay for one-time special expenses, capital improvements and infrastructure repairs solely intended to benefit the individual parcels within the boundaries of the 2009-2018 District.

(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, 2018.

	Program Activities					
	Security	Maintenance	Marketing	Alley Services	General and Administrative	Total
Wages and benefits	$ 48,648	$ 85,133	$ 81,079	$ -	$ 191,334	$ 406,194
Contracted services	1,576,553	892,519	-	68,610	189,196	2,726,878
Contingencies	73,628	-	122,444	-	13,605	209,677
Beautification	-	92,845	-	-	-	92,845
Marketing	-	-	48,454	-	-	48,454
Consultants	-	-	76,984	-	-	76,984
Legal	18,738	18,738	-	-	87,443	124,919
City Fees	-	-	-	-	36,920	36,920
Office and occupancy	3,591	6,286	5,987	-	180,910	196,774
Depreciation	-	-	-	-	93,079	93,079
Total	$ 1,721,158	$ 1,095,521	$ 334,948	$ 68,610	$ 792,487	$ 4,012,724

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 and benefits, which are allocated on the basis of estimates of time and effort to the benefiting programs or supporting functions.

(14) BID RENEWAL

Through City Ordinance No.185642 dated June 26, 2018, the City Council of the City of Los Angeles renewed and expanded the District for a period starting January 1, 2019 though December 31, 2028. On October 22, 2018, through contract No.C-132196, the City of Los Angeles entered into a new agreement with the Hollywood Property Owners Alliance acting as the non-profit corporation for the administration of the renewed and expanded District from January 1, 2019 through December 31, 2028.

(14) BID RENEWAL - CONT'D

The name of the renewed and expanded property-based Business Improvement District is the Hollywood Entertainment District Business Improvement District (the “New District”). The New District was re-established pursuant to Section 36600 et seq. of the California Streets and Highways Code, “The Property and Business Improvement District Law of 1994 as amended,” hereinafter referred to as State Law.

Developed by the Hollywood Entertainment District Renewal Ad-Hoc Steering Committee, the Hollywood Entertainment District Business Improvement District Management Plan provides guidance over the improvements and conveyance of special benefits to assessed parcels located within the New District area. The New District will provide continued activities, including Clean, Safe, Beautification and Operations. Each of the programs was designed to meet the goals of the New District; to improve the safety of each individual assessed parcel within the New District, to increase building occupancy and lease rates, to encourage new business development; and attract ancillary businesses and services for assessed parcels within the New District.

The boundary of the New District was created to include the 2009-2018 Hollywood Entertainment District and the expiring Sunset and Vine Business Improvement District area of Hollywood. The boundary of the New District incorporates two main east-west corridors in Hollywood, Hollywood Boulevard and Sunset Boulevard. Commercial parcels up to a block north and south of both streets are included from Hollywood’s western border (La Brea) and Sunset’s western border (Cassil Place) to the 101 Freeway on the East. Significant north-south arteries are included, such as Highland (from Franklin to Selma); Cahuenga (from Yucca to De Longpre); Vine (from Yucca to Santa Monica Blvd.); and Gower (from Hollywood to Fountain).

In order to match assessment rates to benefits, four benefit zones were created within the New District. Each zone receives a different level of services and a different level of benefit. Each zone pays an assessment rate that reflects 100% of the special benefit received. In addition to the four benefit zones, and in order to match assessment rates to special benefits received, there is an Alley Overlay and a Tourism Overlay.

(15) 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 May 2014, the Financial Accounting Standards Board (FASB) issued **Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers"**, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2018. Early application is not permitted. The standard permits the retrospective or cumulative effect transition method.

II. In preparation for the new revenue recognition standard the FASB Not-for Profit Advisory Council (NAC) at its March 2016, September 2016 and December 2016 meetings extensively discussed how this will affect not-for-profits accounting for grants and contracts and recognized the present diversity in practice; the two main issues were: (1) distinguishing a contribution (nonreciprocal) transaction from an exchange transaction (contract with a customer), and (2) distinguishing between a condition and a restriction. The difference is important because contributions must follow Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition, while exchanges must follow the revenue standard, which was codified as Topic 606, Revenue From Contracts With Customers.