

**HOLLYWOOD ENTERTAINMENT DISTRICT
BUSINESS IMPROVEMENT DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors

HOLLYWOOD PROPERTY OWNERS ALLIANCE

(Managing Entity for Hollywood Entertainment District

Business Improvement District)

Hollywood, CA 90028

We have reviewed the accompanying financial statements of Hollywood Entertainment District Business Improvement District (the "District"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

GTL, LLP

Certified Public Accountants

March 14, 2020

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

ASSETS

Current Assets:

| | |
|--|--------------|
| Cash and cash equivalents | \$ 1,170,357 |
| Assessments receivable (Note 4) | 391,557 |
| Allowance for doubtful accounts (Note 4) | (118,745) |
| Prepaid expenses | 54,649 |
| Other | 803 |

Total Current Assets 1,498,621

Property and Equipment, net (Note 3) 6,386

Total Assets \$ 1,505,007

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses \$ 678,443

Total Liabilities 678,443

Commitments (Note 8) -

Without Donor Restrictions Net Assets:

Undesignated 826,564

Total Net Asset 826,564

Total liabilities and net assets \$ 1,505,007

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

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

STATEMENTS OF ACTIVITIES AND CHANGE IN UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2019

| | |
|---|-------------------|
| Changes in Net Assets Without Donor Restrictions: | |
| Property assessment income (Note 4) | \$ 6,841,280 |
| Alley overlay | 87,009 |
| Tourism overlay | 250,000 |
| | <u>7,178,289</u> |
| General benefit received from the City of Los Angeles | 243,715 |
| Collection of penalties, interest and other | 33,429 |
| | <u>277,144</u> |
| Total Revenue Without Donor Restrictions | <u>7,455,433</u> |
| Functional Expenses: | |
| Clean, safe, beautification | 5,728,200 |
| Alley overlay | 89,000 |
| Tourism overlay | 130,179 |
| Operations, communications, city fee, delinquent assessments | <u>681,490</u> |
| Total Expenses | <u>6,628,869</u> |
| Increase in Net Assets Without Donor Restrictions | 826,564 |
| Net Assets, Beginning of Year | <u>-</u> |
| Net Assets, End of Year | <u>\$ 826,564</u> |

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

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

| | |
|--|---------------------|
| Cash Flows from Operating Activities: | |
| Increase in Net Assets Without Donor Restrictions | \$ 826,564 |
| Adjustments to reconcile increase in net assets without donor restrictions to net cash provided by operating activities: | |
| Depreciation | 1,597 |
| Increased in allowance for doubtful accounts | 118,745 |
| Changes in operating assets and operating liabilities: | |
| Assessments receivable | (391,557) |
| Prepaid expenses | (54,649) |
| Other | (803) |
| Accounts payable and accrued expenses | 678,443 |
| Net cash provided by operating activities | <u>1,178,340</u> |
| Cash Flows from Investing Activities: | |
| Payments on acquired office furniture | <u>(7,983)</u> |
| Net cash (used-in) investing activities | <u>(7,983)</u> |
| Cash Flows from Financing Activities: | |
| Borrowings from line of credit | 500,000 |
| Payments on line of credit | <u>(500,000)</u> |
| Net cash (used-in) financing activities | <u>-</u> |
| Net Increase in Cash and Cash Equivalents | 1,170,357 |
| Cash and Cash Equivalents, Beginning of Year | <u>-</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,170,357</u> |
| Supplemental Disclosure of Cash Flow Information: | |
| Interest paid during the year | <u>\$ 5,901</u> |

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

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(1) NATURE OF OPERATIONS

The Hollywood Entertainment Business Improvement District (the "District" or "BID") was first organized under the State of California's Streets and Highways Code as a property-based 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. Through City Ordinance No. 185642 dated June 26, 2018, the City Council of the City of Los Angeles renewed the District for a period starting January 1, 2019 through 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 (HPOA) acting as the non-profit corporation for the administration of the District from January 1, 2019 through December 31, 2028.

The name of the renewed and expanded property-based Business Improvement District is the Hollywood Entertainment District Business Improvement District (the "HED"). The HED 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 HED area. The HED will fund continued activities, including Clean, Safe, Beautification and Operations. Each of the programs was designed to meet the goals of the HED; to improve the safety of each individual assessed parcel within the HED, to increase building occupancy and lease rates, to encourage new business development; and attract ancillary businesses and services for assessed parcels within the HED.

The boundary of the HED 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 HED 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).

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(1) NATURE OF OPERATIONS - CONT'D

In order to match assessment rates to benefits, four benefit zones were created within the HED. 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.

The primary purpose of the HED is to manage programs, activities, and contracts with the aim of promoting community revitalization efforts, quality of life, public safety, security, streetscape improvements, tourism, economic development and business interests on behalf of the owners of assessed properties within the HED boundaries. The HED 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. In 2019, the HPOA adopted a 5-year strategic plan entitled "Hollywood in Focus" to further guide and focus the programs and services funded by the HED.

(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.

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(a) Financial Statement Presentation - Cont'd

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.

(b) 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.

(c) 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, 2019, there was a balance of \$1,094,075 in a "Bank Deposit Sweep Program" (held by different "Program-Banks" each with balances under \$250,000), which are considered to be cash equivalents.

(d) Equipment and Improvements

Equipment and improvement purchases with a cost of \$5,000 or greater are capitalized. 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 contributions without donor restrictions, unless the donor has restricted the donated asset for a specific purpose, then they are reported as contributions with donors restrictions. Depreciation/amortization is provided using the straight-line basis over estimated useful lives of the assets ranging from 3 to 5 years or the life of the lease or the remaining life of the current BID.

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(e) 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, 2019.

(f) 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 2017 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 2016 and beyond.

(g) Subsequent Events

The District has evaluated events subsequent to December 31, 2019, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 14, 2020, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

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 District cannot be reasonably estimated at this time.

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(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. At December 31, 2019, the District's bank balances exceeding the "FDIC" limit were none.

(3) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 consisted of the following:

| | |
|---------------------------------------|------------------------|
| Furniture and equipment | \$ 7,983 |
| Accumulated depreciation/amortization | <u>(1,597)</u> |
| | <u><u>\$ 6,386</u></u> |

Depreciation expense for the year ended December 31, 2019 was \$1,597.

(4) MAJOR REVENUE SOURCE AND RELATED RECEIVABLE

For the year ended December 31, 2019, approximately 93% of the HED's revenue was derived from BID assessments levied by the County of Los Angeles on the property tax bills, plus penalties and interest collected on delinquent assessments amounting to \$7,178,289. At December 31, 2019 the amount of related receivable was \$391,557, which represents delinquent tax assessments from a combination of public and privately owned parcels (included in the \$391,557 is a balance of \$221,247 representing a delayed receivable due to parcel changes made by the City of Los Angeles). Management has evaluated the collectability of these amounts and determined it is appropriate to adjust the allowance for doubtful accounts to \$118,745 for publicly owned parcels for potential delinquency expense.

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(5) MAJOR VENDORS

For the year ended December 31, 2019, approximately 45% and 26% of the District's operating purchases were from two major vendors, Andrews Global Security, Inc. (security services) and CleanStreet (cleaning services) amounting to \$4,745,594. At December 31, 2019, there was \$315,049 due to these two vendors, which is included in accounts payable and accrued expenses in the Statement of Financial Position.

(6) 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 February 28, 2021, with scheduled annual rent increases.

Future minimum lease payments under this lease are as follows:

| <u>Year ending December 31,</u> | <u>Total</u> |
|---------------------------------|------------------|
| 2020 | \$ 81,442 |
| 2021 | 13,911 |
| | <u>\$ 95,353</u> |

Rent expense for the year ended December 31, 2019 totaled \$104,806, which includes parking, cleaning and janitorial monthly charges.

- (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 ending on December 31, 2020, with a floating libor interest rate plus two percent (3.76% at December 31, 2019) per annum, with certain financial covenants. At December 31, 2019, there was no outstanding balance on the line of credit.

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(7) 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 six months of service. The District matches employees' contributions equal to 100% of the elective deferrals, not to exceed 4% 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, 2019 was \$13,018.

(8) 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.

(9) 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.

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(10) 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, 2019.

| | | |
|---|----|-----------------------|
| Cash and cash equivalents | \$ | 1,170,357 |
| Assessments receivable, net | | 272,812 |
| Less funds needed for: | | |
| Payment of accounts payable and accrued expenses | | <u>(678,443)</u> |
| Net financial assets available at December 31, 2019 | \$ | <u><u>764,726</u></u> |

None of the financial assets are subject to donor or other contractual restrictions outside the District's mission that makes them unavailable for general expenditure within one year of the Statement of Financial Position. Accounts receivable are expected to be collected early in 2020. The District 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 District'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 District by early February every year, with the rest of the funds remitted in subsequent installments reaching approximately 97% in July. The District adheres to a strict annual operating budget. These factors make the District less susceptible to unanticipated liquidity needs. The District also has a \$1.0 million bank line of credit available to meet short-term needs in case of emergency cash flow needs. See Note 8(d) for information about this arrangement.

HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(11) SCHEDULE OF EXPENSES BY BOTH NATURE AND FUNCTION

The schedule below presents expenses by both their nature and function for the year ended December 31, 2019.

| | Functional Expenses | | | | Total |
|----------------------------|-----------------------------|------------------|-------------------|--|---------------------|
| | Clean, Safe, Beautification | Alley Overlay | Tourism Overlay | Operations, Communications, City Fee, Delinquent Assessments | |
| Salaries and benefits | \$ 481,819 | \$ - | \$ 3,234 | \$ 161,684 | \$ 646,737 |
| Contracted services | 4,727,321 | 89,000 | - | - | 4,816,321 |
| Contingencies | 125,505 | - | - | 70,076 | 195,582 |
| Landscape/street furniture | 120,957 | - | - | - | 120,957 |
| Marketing | - | - | - | 70,141 | 70,141 |
| Consultants | - | - | - | 130,760 | 130,760 |
| Legal | 19,979 | - | 134 | 6,704 | 26,817 |
| City fees | - | - | - | 36,165 | 36,165 |
| Office and occupancy | 252,619 | - | 126,811 | 85,618 | 465,048 |
| Depreciation | - | - | - | 1,597 | 1,597 |
| Uncollectable assessments | - | - | - | 118,745 | 118,745 |
| Total | \$ 5,728,200 | \$ 89,000 | \$ 130,179 | \$ 681,490 | \$ 6,628,869 |

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

(12) SIGNIFICANT ACCOUNTING PRONOUNCEMENTS

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, 2020, with early adoption permitted.