

**HOLLYWOOD ENTERTAINMENT BUSINESS
IMPROVEMENT DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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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, 2016, 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 31, 2017

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

ASSETS

Current Assets:

| | | |
|--|----|----------|
| Cash and cash equivalents | \$ | 840,466 |
| Assessments receivable (Note 4) | | 77,143 |
| Allowance for doubtful accounts (Note 4) | | (56,626) |
| Due from affiliate (Note 6) | | 65,430 |
| Prepaid expenses | | 27,103 |

953,516

Property and equipment, net (Note 3)

186,285

\$ 1,139,801

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

| | | |
|--|----|---------|
| Accounts payable and accrued expenses | \$ | 259,122 |
| Contract equipment payable, short term | | 62,366 |

321,488

Contract equipment payable, net of short term (Note7)

62,361

Commitments (Note 8)

-

Unrestricted Net Assets

755,952

\$ 1,139,801

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

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT
STATEMENTS OF ACTIVITIES AND CHANGE IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | |
|---|-------------------|
| Revenue: | |
| Property assessment income (Note 4) | \$ 3,563,054 |
| Collection of penalties, interest and other | 28,720 |
| Contract income-CHC | 178,538 |
| Grant income and other | 14,796 |
| Total revenue | <u>3,785,108</u> |
| Operating Expenses: | |
| Security | 1,597,203 |
| Maintenance | 974,333 |
| Marketing | 97,432 |
| Alley services | 112,004 |
| Total operating expenses | <u>2,780,972</u> |
| General and Administrative Expenses: | |
| Accounting fees | 64,399 |
| Business meals | 4,895 |
| City fees | 35,867 |
| Dues and subscriptions | 3,652 |
| Insurance | 61,055 |
| Legal | 34,594 |
| Contingency | 22,542 |
| Depreciation/amortization | 45,565 |
| Minor office equipment/supplies | 19,858 |
| Payroll taxes | 27,027 |
| Rent | 53,653 |
| Salaries | 381,427 |
| Retirement | 11,589 |
| Telephone | 6,734 |
| Temporary help | 969 |
| Travel | 5,457 |
| Grant supported consulting | 13,132 |
| Miscellaneous | 3,151 |
| Contract expense-CHC | 167,156 |
| Total general and administrative expenses | <u>962,722</u> |
| Total expenses | <u>3,743,694</u> |
| Increase in Unrestricted Net Assets | 41,414 |
| Unrestricted Net Assets, Beginning of Year | 714,538 |
| Unrestricted Net Assets, End of Year | <u>\$ 755,952</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, 2016

| | |
|--|-------------------|
| Cash Flows from Operating Activities: | |
| Increase in unrestricted net assets | \$ 41,414 |
| Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities: | |
| Depreciation/amortization | 45,565 |
| Changes in operating assets and operating liabilities: | |
| Assessments receivable | 217,550 |
| Due from affiliate | (58,172) |
| Prepaid expenses | 6,988 |
| Accounts payable and accrued expenses | (8,731) |
| Net cash provided by operating activities | <u>244,614</u> |
| Cash Flows from Financing Activities: | |
| Payments on contract equipment payable | <u>(43,789)</u> |
| Net cash (used-in) financing activities | <u>(43,789)</u> |
| Net Increase in Cash and Cash Equivalents | 200,825 |
| Cash and Cash Equivalents, Beginning of Year | <u>639,641</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 840,466</u> |
| Supplemental Disclosure of Cash Flow Information: | |
| Interest paid during the year | <u>\$ 1,279</u> |
| Contract equipment purchased | <u>\$ 168,516</u> |
| Contract equipment payable | <u>\$ 124,727</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, 2016

(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, 2016

(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, 2016, there was a balance of \$623,086 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, 2016.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(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 2013 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 2012 and beyond.

(f) Subsequent Events

The District has evaluated events subsequent to December 31, 2016, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 31, 2017, 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, 2016, the District's bank balances exceeded the "FDIC" limit by \$373,086.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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

(i) Recent 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 reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments;
- (b) Requires non-profits to provide in the notes qualitative information on how it manages its liquid available resources and liquidity risks.
- (c) 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;
- (d) 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.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(3) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 consisted of the following:

| | |
|---------------------------------------|-------------------|
| Furniture and equipment | \$ 182,397 |
| Leasehold improvements | 75,774 |
| Accumulated depreciation/amortization | <u>(71,886)</u> |
| | <u>\$ 186,285</u> |

Depreciation and amortization expense for the year ended December 31, 2016 was \$45,565.

(4) MAJOR REVENUE SOURCE AND RELATED RECEIVABLE

For the year ended December 31, 2016, 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 \$3,591,306. At December 31, 2016, the amount due was \$77,143, 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 \$56,626 for publically owned parcels for potential delinquency expense.

(5) MAJOR VENDORS

For the year ended December 31, 2016, approximately 41% and 23% of the District's operating purchases were from two major vendors, Andrews International, Inc. (security services) and CleanStreet/StreetPlus (cleaning services) amounting to \$2,400,000, approximately. At December 31, 2016, there was \$146,202 due to these two vendors, which is included in accounts payable 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, 2016, the amount due from affiliate totaled \$65,430. Reimbursement of these balances is routinely done shortly thereafter.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(7) CONTRACT EQUIPMENT PAYABLE

As of December 31, 2016 the HPOA had 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. The 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. The amount representing interest of \$7,676 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, 2016:

| <u>Year Ending December 31,</u> | <u>Total</u> |
|--|------------------|
| 2017 | \$ 66,204 |
| 2018 | 66,199 |
| | <u>132,403</u> |
| Less amount representing interest | <u>(7,676)</u> |
| | 124,727 |
| Contract equipment payable, short term | <u>62,366</u> |
| Contract equipment payable, long term | <u>\$ 62,361</u> |

Total interest expense on the maintenance contract equipment payable amounted to \$1,279 for the year ended December 31, 2016.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(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:

| <u>Year ending December 31,</u> | <u>Total</u> | <u>Amount allocated to CHC</u> | <u>Amount allocated to the District</u> |
|---------------------------------|-------------------|--|---|
| 2017 | \$ 74,531 | \$ 16,397 | \$ 58,134 |
| 2018 | 76,767 | 16,889 | 59,878 |
| 2019 | 79,070 | 17,395 | 61,675 |
| 2020 | 81,037 | 17,828 | 63,209 |
| | <u>\$ 311,405</u> | <u>\$ 68,509</u> | <u>\$ 242,896</u> |

Rent expense for the year ended December 31, 2016 totaled \$53,652, 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.
- (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.

HOLLYWOOD ENTERTAINMENT BUSINESS IMPROVEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(9) RELATED PARTY TRANSACTION

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.

(10) 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.