Consolidated Financial Statements
September 30, 2016 and 2015

CONTENTS

WINDES
AUDIT | TAX | ADVISORY

www.windes.com

111 West Ocean Blvd.
Twenty-Second Floor
Long Beach, CA 90802
562.435.1191

18201 Von Karman Ave.
Suite 1060
Irvine, CA 92612
949.271.2600

601 South Figueroa St.
Suite 4950
Los Angeles, CA 90017
213.239.9745

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Downtown Long Beach Associates

We have audited the accompanying consolidated financial statements of Downtown Long Beach Associates (the Association), (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Downtown Long Beach Associates as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as whole. The supplemental consolidating statement of financial position and the consolidating statement of activities on pages 16 and 17 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Windes, Inc.

Long Beach, California
December 14, 2016

DOWNTOWN LONG BEACH ASSOCIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	September 30, 2016	September 30, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 1,169,905	$ 1,340,129
Investments	-	250,000
Accounts receivable	346,373	293,978
Prepaid expenses	109,467	21,003
	1,625,745	1,905,110
FURNITURE AND EQUIPMENT, net	168,226	129,946
OTHER ASSETS		
Deposits	16,434	3,762
TOTAL ASSETS	$ 1,810,405	$ 2,038,818

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 264,862	$ 263,069
Unearned revenue	875	-
Capital lease obligation, current portion	3,766	3,766
Deferred revenue (Note 5)	1,528,086	1,767,352
	1,797,589	2,034,187
NONCURRENT LIABILITIES		
Capital lease obligation, net of current portion	1,316	4,631
COMMITMENTS AND CONTINGENCY (Note 6)		
UNRESTRICTED NET ASSETS	11,500	-
TOTAL LIABILITIES AND NET ASSETS	$ 1,810,405	$ 2,038,818

The accompanying notes are an integral part of these consolidated financial statements.

DOWNTOWN LONG BEACH ASSOCIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

	For the Year Ended September 30, 2016	2015
SUPPORT AND REVENUES		
City of Long Beach:		
Downtown Parking and Business Improvement Area (DPBIA) funds	$ 618,776	$ 593,681
City funds	726,115	615,581
Property Based Improvement District (PBID) funds	2,779,850	2,875,743
	4,124,741	4,085,005
OTHER SUPPORT		
Sponsorships	730,195	518,728
Program service revenue	278,379	266,606
Interest income	3,059	434
	1,011,633	785,768
Total Support and Revenues	5,136,374	4,870,773
EXPENSES		
Marketing and promotions	2,777,420	2,629,816
Operating expense	1,530,855	1,431,421
General and administrative	816,599	809,536
	5,124,874	4,870,773
CHANGE IN UNRESTRICTED NET ASSETS	11,500	-
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	-	-
UNRESTRICTED NET ASSETS, END OF YEAR	$ 11,500	$ -

The accompanying notes are an integral part of these consolidated financial statements.

DOWNTOWN LONG BEACH ASSOCIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 11,500	$ -
Adjustments to reconcile change in unrestricted net assets to net cash from operating activities:		
Depreciation	39,621	27,189
(Increase) decrease in:		
Accounts receivable	(52,395)	90,057
Other receivables	-	143,632
Prepaid expenses	(88,464)	103,879
Deposits	(12,672)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	1,793	82,621
Unearned revenue	875	(10,000)
Deferred revenue	(239,266)	(251,276)
Net Cash (Used In) Provided By Operating Activities	(339,008)	186,102
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(77,901)	(130,657)
Proceeds from sale of investments	250,000	-
Net Cash Provided By (Used In) Investing Activities	172,099	(130,657)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(3,315)	(3,105)
Net Cash Used In Financing Activities	(3,315)	(3,105)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(170,224)	52,340
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,340,129	1,287,789
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,169,905	$ 1,340,129

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – Summary of Significant Accounting Policies

Organization

Downtown Long Beach Associates (DLBA) is a California nonprofit corporation organized to attract, stimulate and enhance business activity in downtown Long Beach (the City). To meet these goals, DLBA conducts marketing and public relations campaigns, holds special events, and provides a range of services, including maintenance functions and a guide program for downtown businesses and residents. DLBA also addresses specific merchant issues in order to improve the business atmosphere in the City.

Long Beach Downtown Development Corporation (DDC) was incorporated on March 2, 2011 as a California nonprofit corporation. The Executive Committee of DLBA serves as the Board of Directors of DDC. DDC was organized to stimulate public and private investment, community partnerships and resources to support the revitalization of downtown Long Beach.

Consolidation

The consolidated financial statements include the accounts of DLBA and DDC (collectively referred to as the Association). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation of Financial Statements

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, the net assets of the Association are classified and reported as described below:

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions. At September 30, 2016 and 2015, all net assets of the Association were unrestricted.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Association and/or the passage of time. As restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation of Financial Statements (Continued)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the invested corpus.

Contributions

Contributions, including endowment gifts and pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The cash flows are discounted at a discount rate commensurate with the risks involved, at the date the promise was made. When considered necessary, an allowance is recorded based on management's estimate of uncollectability, including such factors as prior collection history, type of contributions, and nature of fund-raising activities. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support and revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

At September 30, 2016 and at various times during the year, the Association maintained cash balances with financial institutions in excess of federally insured limits.

Investments

Investments consist of certificates of deposit purchased with an initial maturity of thirty days or more. Such investments are stated at fair value.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on management's assessment of the credit history and relationships regarding outstanding balances, it has concluded that realization of losses on balances outstanding at year-end will be immaterial.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation expense has been computed using the straight-line method over the estimated useful lives of three to nine years. Expenditures for repairs are expensed as incurred and major additions, renewals, and betterments are capitalized.

Advertising Costs

The Association expenses its advertising and promotion costs as incurred. Total advertising costs for the years ended September 30, 2016 and 2015 were $56,889 and $85,151, respectively.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Support and Revenue Recognition

The Economic Development contract with the Downtown Parking and Business Improvement Area (DPBIA) has a special assessment associated with business licenses in the area. This contract has the same fiscal year as the Association and has been ratified by the Long Beach City Council for the year ending September 30, 2017. The Association is being provided these funds to promote business in downtown Long Beach.

The Economic Development contract with the Property Based Improvement District (PBID) has a special assessment associated with the real properties in the area. The PBID contract was adopted by the City Council in January 2013, is effective through December 2022, and includes provisions for review and adjustment after five years. The Association is being provided these funds to promote business in downtown Long Beach.

The Association recognizes contract revenue from its City contracts when the revenues are fixed and determinable. The contract is adjusted monthly based on expenditures for the year. Any excess funds over expenditures are classified as deferred revenue and carried over into the next period.

The above contracts are contingent upon changes in rates on a year-to-year basis, success in collection of the above funds from the residents and businesses, and continued support from the Long Beach City Council. Also, in the event that the Association does not contract with the City in any year, the Association will return any funds in excess of expenditures classified as deferred revenue.

Income Taxes

The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c)(6) and exempt from California franchise tax under Revenue and Taxation Code Section 23701(e).

DDC has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements.

The Association recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes (continued)

than not sustain the position following an audit. The Association is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California purposes is four years.

Subsequent Events

The Association's management has evaluated subsequent events from the consolidated statement of financial position date through December 14, 2016, the date the consolidated financial statements were available to be issued for the year ended September 30, 2016, and determined that there were no other items to disclose.

NOTE 2 – Investments

Investments consist of the following:

	September 30,	
	2016	**2015**
Certificate of deposit	$ -	$ 250,000

NOTE 3 – Fair Value Measurement

The Association reports investments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTE 3 – Fair Value Measurement (Continued)

The following is a description of valuation methodologies used for Level 2 assets recorded at fair value:

Certificates of deposit: The fair value is measured using a quoted market price in a market that is not actively traded.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2015:

		September 30, 2015		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Assets:				
Certificate of deposit	$ 250,000	-	$ 250,000	-

NOTE 4 – Furniture and Equipment

Furniture and equipment consists of the following:

	September 30,	
	2016	**2015**
Office equipment	$ 156,904	$ 156,904
Operational equipment	134,535	56,634
Office furniture	86,562	86,562
	378,001	300,100
Less accumulated depreciation	(209,775)	(170,154)
	$ 168,226	$ 129,946

Depreciation expense for the years ended September 30, 2016 and 2015 was $39,621 and $27,189, respectively.

NOTE 5 – DPBIA and PBID Revenue

As discussed in Note 1, deferred revenue is recognized on contract revenue in excess of expenditures and is recorded as an increase (or decrease) of current year contract revenue.

Revenue reported consists of the following:

	For the Year Ended September 30, 2016	2015
Downtown Parking and Business Improvement Area funds (DPBIA)	$ 638,556	$ 608,516
Deferral adjustment	(19,780)	(14,835)
	$ 618,776	$ 593,681
Property Based Improvement District funds (PBID)	$ 2,446,009	$ 2,327,395
Deferral adjustment	333,841	548,348
	$ 2,779,850	$ 2,875,743

As of September 30, 2016, deferred revenue represents funds designated by the Board of Directors for future projects or to cease activities should the contract with the City be discontinued (see Note 1) as follows:

Three-month reserve for PBID contract	$ 602,730
Reserve for DPIA	166,073
Long Beach Transit Visitor Center	102,870
Planning and Consulting	63,067
Deferred Equipment Expense	161,640
Operations	68,368
Economic Development	49,837
Capital Improvements	313,501
	$ 1,528,086

NOTE 6 – Commitments and Contingency

Operating Leases

The Association entered into operating leases for the rental of an office facility and equipment through May 2023. Future minimum lease commitments are as follows:

For the Year Ending September 30,	
2017	$ 128,622
2018	132,481
2019	136,455
2020	140,549
2021	144,765
Thereafter	250,482
	$ 933,354

Office facility rental expense for the years ended September 30, 2016 and 2015 was $145,730 and $119,767, respectively. Equipment rental expense for the years ended September 30, 2016 and 2015 was $22,394 and $27,314, respectively.

Maintenance Service Contracts

The Association entered into an agreement for contracted maintenance services through June 2018. Minimum annual maintenance service expense associated with this agreement is approximately $585,000. The annual equipment rental associated with this contract is approximately $35,000. The Association also has a contract to include additional restroom host services through June 2018. The minimum annual service expense related to this contract is approximately $445,000. In addition, the Association has entered into two new contracts for pressure washing services through September 2019. Minimum annual expense for these contracts is $266,200.

NOTE 6 – Commitments and Contingency (continued)

Contingency

An audit may be performed by a City of Long Beach representative regarding the PBID and DPBIA contracts. Should such audit disclose any unallowable costs, the Association may be liable to the City of Long Beach for reimbursement of such costs. In the opinion of the Association's management, the effect of any disallowed costs would be immaterial to the consolidated financial statements at September 30, 2016.

NOTE 7 – Capital Lease Obligation

Capital Lease

The Association leases equipment under a capital lease. The lease agreement has no stated interest rate and, therefore, interest has been imputed at a rate of approximately 6.54%. The lease is secured by the related equipment.

The equipment classification presented in Note 4 includes the following amounts for the capitalized lease as of September 30, 2016:

Operational equipment	$ 15,400
Less accumulated depreciation	(11,165)
	$ 4,235

Future minimum lease payments consist of the following:

Year Ending September 30,	
2017	$ 3,766
2018	1,569
	5,335
Less amounts representing interest	253
	$ 5,082

NOTE 8 – Retirement Plans

The Association sponsors a discretionary salary savings plan, including a 401(k) provision, which allows employee contributions. The plan covers all salaried employees meeting certain eligibility requirements. Employer contributions for the years ended September 30, 2016 and 2015 was $15,727 and $19,688, respectively.

NOTE 9 – Supplemental Disclosures of Cash Flow Information

	For the Year Ended September 30, 2016	For the Year Ended September 30, 2015
Cash paid during the year for:		
Interest	$ 451	$ 660
Income taxes	$ None	$ None

DOWNTOWN LONG BEACH ASSOCIATES

SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2016

ASSETS

	DLBA	DDC	Elimination Entries	Consolidated Balance
CURRENT ASSETS				
Cash and cash equivalents	$ 1,158,405	$ 11,500	$ -	$ 1,169,905
Accounts receivable	346,373	-	-	346,373
Prepaid expenses	109,467	-	-	109,467
	1,614,245	11,500	-	1,625,745
FURNITURE AND EQUIPMENT, net	168,226	-	-	168,226
OTHER ASSETS				
Deposits	16,434	-	-	16,434
TOTAL ASSETS	$ 1,798,905	$ 11,500	$ -	$ 1,810,405

LIABILITIES AND NET ASSETS

	DLBA	DDC	Elimination Entries	Consolidated Balance
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 264,862	$ -	$ -	$ 264,862
Unearned revenue	875	-	-	875
Capital lease obligation, current portion	3,766	-	-	3,766
Deferred revenue	1,528,086	-	-	1,528,086
	1,797,589	-	-	1,797,589
NONCURRENT LIABILITIES				
Capital lease obligation, net of current portion	1,316	-	-	1,316
UNRESTRICTED NET ASSETS	-	11,500	-	11,500
TOTAL LIABILITIES AND NET ASSETS	$ 1,798,905	$ 11,500	$ -	$ 1,810,405

See Independent Auditors' Report

DOWNTOWN LONG BEACH ASSOCIATES

SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	DLBA	DDC	Elimination Entries	Consolidated Balance
SUPPORT AND REVENUES				
City of Long Beach:				
Downtown Parking and Business Improvement Area (DPBIA) funds	$ 618,776	$ -	$ -	$ 618,776
City funds	726,115	-	-	726,115
Property Based Improvement District (PBID) funds	2,779,850	-	-	2,779,850
	4,124,741	-	-	4,124,741
OTHER SUPPORT				
Sponsorships	668,695	263,340	(201,840)	730,195
Program service revenue	278,379	-	-	278,379
Interest income	3,059	-	-	3,059
	950,133	263,340	(201,840)	1,011,633
Total Support and Revenues	5,074,874	263,340	(201,840)	5,136,374
EXPENSES				
Marketing and promotions	2,727,420	251,840	(201,840)	2,777,420
Operating expense	1,530,855	-	-	1,530,855
General and administrative	816,599	-	-	816,599
	5,074,874	251,840	(201,840)	5,124,874
CHANGE IN UNRESTRICTED NET ASSETS	-	11,500	-	11,500
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	-	-	-	-
UNRESTRICTED NET ASSETS, END OF YEAR	$ -	$ 11,500	$ -	$ 11,500

See Independent Auditors' Report