

**DOWNTOWN MOBILE DISTRICT MANAGEMENT
CORPORATION**

FINANCIAL STATEMENTS

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Downtown Mobile District Management Corporation
Mobile, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of Downtown Mobile District Management Corporation (a nonprofit Corporation), which comprise the statements of financial position – modified cash basis as of June 30, 2016 and 2015, and the related statements of activities – modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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 Organization'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 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 financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Downtown Mobile District Management Corporation as of June 30, 2016 and 2015, and its changes in net assets during the years then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Operating Expenses are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Smith, Duke and Huchalew, LLP

Mobile, Alabama
December 9, 2016

FINANCIAL STATEMENTS

DOWNTOWN MOBILE DISTRICT MANAGEMENT CORPORATION

**STATEMENTS OF FINANCIAL POSITION –
MODIFIED CASH BASIS
June 30, 2016 and 2015**

ASSETS	<u>2016</u>	<u>2015</u>
Current assets		
Cash	\$ 464,922	\$ 398,909
Certificates of deposit	341,349	340,733
Due from Urban Emporium	6,528	4,977
Due from Downtown Mobile Alliance	<u>-</u>	<u>11,984</u>
	812,799	756,603
Property and equipment, net	<u>71,481</u>	<u>56,525</u>
Total assets	<u>\$ 884,280</u>	<u>\$ 813,128</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Payroll and withholding taxes	\$ 7,109	\$ 7,318
Due to Main Street Mobile	100	1,625
Deferred revenues - prepaid assessment income	286,897	110,585
Deferred revenues - prepaid annual meeting income	<u>12,400</u>	<u>-</u>
Total liabilities	<u>306,506</u>	<u>119,528</u>
Net assets - unrestricted	<u>577,774</u>	<u>693,600</u>
Total liabilities and net assets	<u>\$ 884,280</u>	<u>\$ 813,128</u>

The Notes to Financial Statements are an integral part of these statements.

DOWNTOWN MOBILE DISTRICT MANAGEMENT CORPORATION

**STATEMENTS OF ACTIVITIES –
MODIFIED CASH BASIS
For the Years Ended June 30, 2016 and 2015**

	Unrestricted 2016	Unrestricted 2015
	<u> </u>	<u> </u>
Revenues		
Assessment income	\$ 711,699	\$ 819,087
Performance contracts:		
Retirement Systems of Alabama	335,920	335,920
City of Mobile	-	77,000
City Main Street Program	73,500	73,500
Mobile County	124,500	105,600
GSA	14,742	17,112
Annual meeting income	52,050	47,100
Special projects income	-	2,260
Downtown Mobile Alliance	22,000	22,000
Late charge income	14,121	19,486
Interest income	1,119	904
	<u>1,349,651</u>	<u>1,519,969</u>
Expenses		
Business recruitment/retention	203,883	177,047
Communications and marketing	158,380	171,069
Public space management	738,476	684,809
Special projects/landscaping	35,166	41,155
Professional services	46,100	44,273
Annual meeting expenses	48,163	42,841
Renewal expenses	-	15,909
Operating expenses	235,309	175,537
	<u>1,465,477</u>	<u>1,352,640</u>
Increase (decrease) in net assets	(115,826)	167,329
Beginning net assets	<u>693,600</u>	<u>526,271</u>
Ending net assets	<u>\$ 577,774</u>	<u>\$ 693,600</u>

The Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES

Downtown Mobile District Management Corporation (the “Organization”) is a non-profit corporation established pursuant to the Self-Help Business Improvement District Act as a district management corporation representing real property owners within a self-help business improvement district. The purpose of the Organization is to assist the City and County of Mobile, Alabama, the property owners within the downtown Mobile, Alabama district, and the public in promoting economic growth and development, employment and general welfare within, and preserving and enhancing the function and appearance of the geographical area comprising the District. The organization executes programs to improve the local business climate, and provides administrative and other supplemental services to benefit businesses, employees, residents and consumers within the District.

The Organization is supported primarily by annual assessments paid by the property owners within the District. Assessments are calculated based upon the fair market value of the property, as determined by the Mobile County Revenue Commissioner. As provided by State of Alabama law, the assessments shall be enforceable by a lien on the real property.

Other revenues are derived from performance contracts with the City of Mobile, County of Mobile, U.S. General Services Administration, and Retirement Systems of Alabama.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

Downtown Mobile District Management Corporation, Inc. prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified cash basis of accounting, certain revenues other than assessments and period-specific contract income, and the related assets are recognized when collected rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

Deferred revenues

Assessment income, annual meeting sponsorships, and period-specific contract income received in advance of the applicable period are recognized during the fiscal period for which they apply.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

Unrestricted Net Assets – not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets – subject to donor-imposed stipulations that may be fulfilled by actions of the Corporation to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets – subject to donor-imposed stipulations that they be retained and invested permanently by the Corporation.

The Corporation has no temporarily or permanently restricted net assets.

Cash and cash equivalents

The Corporation considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Property and equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed over the estimated useful lives of the assets, using primarily accelerated methods.

Income taxes

The Corporation is exempt from federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code, Section 10-3A-1 of the Alabama Code, and Act No. 2004-382 of the Legislature of the State of Alabama, and, therefore, has no provision for income taxes. The Corporation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent events

The corporation has evaluated subsequent events through December 9, 2016, the date at which the financial statements were available to be issued. No subsequent events have occurred through that date that would have a material impact on the financial statements.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 201,068	\$ 161,858
Leasehold improvements	77,943	77,943
Software	<u>27,029</u>	<u>27,029</u>
	306,040	266,830
Less Accumulated Depreciation	<u>(234,559)</u>	<u>(210,305)</u>
	<u>\$ 71,481</u>	<u>\$ 56,525</u>

Depreciation expense was \$24,254 and \$20,124 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 – OPERATING LEASES

The Organization leases office and warehouse space and equipment from unrelated parties under non-cancelable operating leases. Rent expense under these leases was \$39,297 and \$35,684 for the years ended June 30, 2016 and 2015. Future minimum lease payments required under the operating leases are as follows:

Year Ended June 30:	
2017	\$ 34,561
2018	35,635
2019	37,976
2020	36,000
2021	-
Thereafter	-
	<u>\$ 144,172</u>

Property taxes under the office space lease are unpaid for the year ended June 30, 2016 due to late receipt of the billing.

NOTE 5 – RETIREMENT PLAN

The Organization sponsors a qualified 401(k) retirement plan, which covers substantially all employees. The plan is designed to be a Safe Harbor 401(k) plan. Participants may contribute a portion of their compensation to the plan, up to the maximum amount permitted under Section 401(k) of the Internal Revenue Code. Total employer contributions to the Plan were \$17,134 and \$15,834 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6 – RELATED PARTIES

The Organization provides administrative office space to a related party and receives payment for these services. Amounts charged and received for these services totaled \$22,000 for the years ended June 30, 2015 and 2016. Amounts due from related parties represent expenses paid by the Organization on the related parties' behalf, which will be subsequently reimbursed by the related parties. Likewise, amounts due to related parties represent expenses paid on the Organization's behalf, for which the Organization will reimburse the related party.

NOTE 7 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Organization had approximately \$90,665 and \$13,999 in excess of FDIC insured limits at June 30, 2016 and 2015, respectively.

SUPPLEMENTARY INFORMATION

DOWNTOWN MOBILE DISTRICT MANAGEMENT CORPORATION

SCHEDULES OF OPERATING EXPENSES

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Business recruitment / retention:		
Business recruitment / retention	\$ 35,198	\$ 16,167
Payroll	146,833	135,603
Payroll taxes	10,765	11,282
Health insurance	4,107	6,794
Retirement plan	6,980	7,201
Total business recruitment / retention	<u>203,883</u>	<u>177,047</u>
Communications and marketing:		
Communications and marketing	25,695	53,390
Easter in the Square	2,486	2,957
Payroll	112,367	95,271
Payroll taxes	8,062	7,874
Health insurance	4,108	6,794
Retirement plan	5,662	4,783
Total communications and marketing	<u>158,380</u>	<u>171,069</u>
Public space management:		
Clean and safe contract expense	572,584	517,376
Equipment and supplies	53,164	63,141
Payroll	95,107	84,106
Payroll taxes	6,454	6,884
Health insurance	4,107	6,794
Retirement plan	4,492	3,850
Rent expense - warehouse	2,568	2,658
Total public space management	<u>738,476</u>	<u>684,809</u>
Special projects/landscape:		
Special projects/landscaping	28,088	34,915
Repairs and maintenance	7,078	6,240
Total special projects/landscape	<u>35,166</u>	<u>41,155</u>
Professional services:		
Accounting services	10,075	9,940
Legal services	4,530	4,688
Computer services	26,822	26,024
Professional services - miscellaneous	4,673	3,621
Total professional services	<u>46,100</u>	<u>44,273</u>

DOWNTOWN MOBILE DISTRICT MANAGEMENT CORPORATION

SCHEDULES OF OPERATING EXPENSES – CONTINUED

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating expenses:		
Main Street Program expenses:		
Advertising	21,915	10,233
Economic development	37,336	17,651
Marketing	6,307	4,074
Website	613	1,275
Newsletter	692	-
Total Main Street Program expenses	<u>66,863</u>	<u>33,233</u>
Other operating expenses:		
Bank service charges	1,030	1,913
Depreciation and amortization	24,254	20,124
Dues and subscriptions	8,141	7,572
Education and meetings	39,914	28,770
Equipment lease	6,729	6,026
Insurance	8,967	8,500
Office supplies	22,504	17,126
Postage	4,759	1,934
Rent expense - office	30,000	27,000
Telephone	11,541	11,235
Utilities	7,299	8,612
Taxes and licenses	3,308	3,492
Total other operating expenses	<u>168,446</u>	<u>142,304</u>
Total operating expenses	<u>\$ 235,309</u>	<u>\$ 175,537</u>