

**DOWNTOWN MOBILE DISTRICT MANAGEMENT
CORPORATION**

FINANCIAL STATEMENTS

June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 Buchalew, LLP

Mobile, Alabama
November 13, 2017

FINANCIAL STATEMENTS

DOWNTOWN MOBILE DISTRICT MANAGEMENT CORPORATION

**STATEMENTS OF FINANCIAL POSITION –
MODIFIED CASH BASIS
June 30, 2017 and 2016**

ASSETS	<u>2017</u>	<u>2016</u>
Current assets		
Cash	\$ 366,986	\$ 464,922
Certificates of deposit	226,509	341,349
Due from Urban Emporium	14,088	6,528
Refundable deposits	<u>225</u>	<u>-</u>
	607,808	812,799
Property and equipment, net	<u>252,439</u>	<u>71,481</u>
 Total assets	 <u><u>\$ 860,247</u></u>	 <u><u>\$ 884,280</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Payroll and withholding taxes	\$ 2,826	\$ 7,109
Due to Main Street Mobile	-	100
Deferred revenues - prepaid assessment income	416,095	286,897
Deferred revenues - prepaid annual meeting income	<u>-</u>	<u>12,400</u>
 Total liabilities	 <u>418,921</u>	 <u>306,506</u>
 Net assets - unrestricted	 <u>441,326</u>	 <u>577,774</u>
 Total liabilities and net assets	 <u><u>\$ 860,247</u></u>	 <u><u>\$ 884,280</u></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, 2017 and 2016**

	Unrestricted 2017	Unrestricted 2016
	<u> </u>	<u> </u>
Revenues		
Assessment income	\$ 863,800	\$ 711,699
Performance contracts:		
Retirement Systems of Alabama	251,940	335,920
City of Mobile	77,000	-
City Main Street Program	36,750	73,500
Mobile County	124,500	124,500
GSA	21,824	14,742
Annual meeting income	47,615	52,050
Downtown Mobile Alliance	22,000	22,000
Late charge income	12,930	14,121
Interest income	1,069	1,119
Miscellaneous income	299	-
	<u>1,459,727</u>	<u>1,349,651</u>
Expenses		
Business recruitment/retention	219,430	203,883
Communications and marketing	192,115	158,380
Public space management	758,918	738,476
Special projects/landscaping	37,894	35,166
Professional services	109,063	46,100
Annual meeting expenses	45,464	48,163
Operating expenses	233,291	235,309
	<u>1,596,175</u>	<u>1,465,477</u>
Increase (Decrease) in net assets	(136,448)	(115,826)
Beginning net assets	<u>577,774</u>	<u>693,600</u>
Ending net assets	<u>\$ 441,326</u>	<u>\$ 577,774</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.

Cash reserves

It is the Corporation's policy to maintain available cash equal to three months of expenses based on the monthly average for the prior fiscal year.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The corporation has evaluated subsequent events through November 13, 2017, 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:

	2017	2016
Furniture and equipment	\$ 211,424	\$ 201,068
Leasehold improvements	77,943	77,943
Warehouse	188,516	-
Software	27,029	27,029
	<u>504,912</u>	<u>306,040</u>
Less Accumulated Depreciation	<u>(252,473)</u>	<u>(234,559)</u>
	<u>\$ 252,439</u>	<u>\$ 71,481</u>

Depreciation expense was \$27,890 and \$24,254 for the years ended June 30, 2017 and 2016, 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 \$36,314 and \$39,297 for the years ended June 30, 2017 and 2016. Future minimum lease payments required under the operating leases are as follows:

Year Ended June 30:	
2018	\$ 35,635
2019	37,976
2020	36,000
2021	-
2022	-
Thereafter	-
	<u>\$ 109,611</u>

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 \$10,270 and \$17,134 for the years ended June 30, 2017 and 2016, 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, 2016 and 2017. 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 \$146,909 and \$90,665 in excess of FDIC insured limits at June 30, 2017 and 2016, respectively.

SUPPLEMENTARY INFORMATION

DOWNTOWN MOBILE DISTRICT MANAGEMENT CORPORATION

SCHEDULES OF OPERATING EXPENSES

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Business recruitment / retention:		
Business recruitment / retention	\$ 52,679	\$ 35,198
Payroll	147,266	146,833
Payroll taxes	10,639	10,765
Health insurance	6,243	4,107
Retirement plan	2,603	6,980
Total business recruitment / retention	<u>219,430</u>	<u>203,883</u>
Communications and marketing:		
Communications and marketing	53,110	25,695
Easter in the Square	1,451	2,486
Payroll	117,984	112,367
Payroll taxes	8,430	8,062
Health insurance	6,243	4,108
Retirement plan	4,897	5,662
Total communications and marketing	<u>192,115</u>	<u>158,380</u>
Public space management:		
Clean and safe contract expense	620,922	572,584
Equipment and supplies	43,745	53,164
Payroll	79,142	95,107
Payroll taxes	5,331	6,454
Health insurance	6,243	4,107
Retirement plan	2,770	4,492
Rent expense - warehouse	765	2,568
Total public space management	<u>758,918</u>	<u>738,476</u>
Special projects/landscape:		
Special projects/landscaping	6,950	28,088
Repairs and maintenance	30,944	7,078
Total special projects/landscape	<u>37,894</u>	<u>35,166</u>
Professional services:		
Accounting services	62,375	10,075
Legal services	9,617	4,530
Computer services	18,246	26,822
Professional services - miscellaneous	18,825	4,673
Total professional services	<u>109,063</u>	<u>46,100</u>

DOWNTOWN MOBILE DISTRICT MANAGEMENT CORPORATION

SCHEDULES OF OPERATING EXPENSES – CONTINUED

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating expenses:		
Main Street Program expenses:		
Advertising	9,094	21,915
Economic development	38,477	37,336
Marketing	1,000	6,307
Website	4,674	613
Newsletter	600	692
Total Main Street Program expenses	<u>53,845</u>	<u>66,863</u>
Other operating expenses:		
Bank service charges	1,246	1,030
Depreciation and amortization	27,890	24,254
Dues and subscriptions	7,597	8,141
Education and meetings	39,338	39,914
Equipment lease	6,314	6,729
Insurance	13,799	8,967
Office supplies	27,193	22,504
Postage	3,721	4,759
Rent expense - office	30,000	30,000
Telephone	11,492	11,541
Utilities	10,933	7,299
Taxes and licenses	(77)	3,308
Total other operating expenses	<u>179,446</u>	<u>168,446</u>
Total operating expenses	<u>\$ 233,291</u>	<u>\$ 235,309</u>