



Downtown Kalamazoo, Inc.

Financial Statements and Supplementary Information Years Ended December 31, 2017 and 2016

Downtown Kalamazoo, Inc.

Financial Statements and Supplementary Information
Years Ended December 31, 2017 and 2016

Downtown Kalamazoo, Inc.

Contents

Independent Auditor's Report	3-4
Financial Statements:	
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	8-11
Supplementary Information:	
Independent Auditor's Report on Supplementary Information	12
Statements of Revenues, Expenses, and Changes in Unrestricted Net Assets - Budget and Actual	13-14



Independent Auditor's Report

Board of Directors
Downtown Kalamazoo, Inc.
Kalamazoo, Michigan

We have audited the accompanying financial statements of Downtown Kalamazoo, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows 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 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 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 entity'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 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 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 financial position of Downtown Kalamazoo, Inc., as of December 31, 2017 and 2016, 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.

BDO USA, LLP

Kalamazoo, Michigan
May 17, 2018

Financial Statements

Downtown Kalamazoo, Inc.

Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Current:		
Cash and cash equivalents	\$ 229,555	\$ 244,523
Designated cash	33,000	36,000
Accounts receivable	19,323	7,500
Prepaid expenses	1,394	2,990
Total Current Assets	283,272	291,013
Property and Equipment:		
Furniture and equipment	176,577	176,577
Less accumulated depreciation	(174,206)	(172,164)
Net Property and Equipment	2,371	4,413
Total Assets	\$ 285,643	\$ 295,426
 Liabilities and Unrestricted Net Assets		
Current:		
Accounts payable	\$ 149,426	\$ 187,629
Event security deposits	-	1,790
Deferred revenue	33,053	36,295
Total Current Liabilities	182,479	225,714
Unrestricted Net Assets:		
Designated	33,000	36,000
Undesignated	70,164	33,712
Total Unrestricted Net Assets	103,164	69,712
Total Liabilities and Unrestricted Net Assets	\$ 285,643	\$ 295,426

See accompanying notes to financial statements.

Downtown Kalamazoo, Inc.

Statements of Activities

<i>Year ended December 31,</i>	2017	2016
Changes in Unrestricted Net Assets:		
Unrestricted Support and Revenue:		
Service fees	\$ 488,577	\$ 471,000
Grants	128,967	78,511
Sponsorships	30,800	28,600
Festivals	18,457	26,487
Program revenues	3,867	2,450
Fundraising	250	250
Interest	177	242
Miscellaneous	900	-
Total Unrestricted Support and Revenue	671,995	607,540
Expenses:		
Management and general	223,457	275,759
Program services	415,086	466,286
Total Expenses	638,543	742,045
Increase (Decrease) in Unrestricted Net Assets	33,452	(134,505)
Unrestricted Net Assets, beginning of year	69,712	204,217
Unrestricted Net Assets, end of year	\$ 103,164	\$ 69,712

See accompanying notes to financial statements.

Downtown Kalamazoo, Inc.

Statements of Cash Flows

<i>Year ended December 31,</i>	2017	2016
Operating Activities:		
Cash received from service fees and other	\$ 659,996	\$ 607,889
Cash paid to suppliers and employees	(678,141)	(671,971)
Interest received	177	242
Cash Used in Operating Activities	(17,968)	(63,840)
Cash Used in Investing Activities -		
Capital expenditures	-	(830)
Decrease in Cash and Cash Equivalents	(17,968)	(64,670)
Cash and Cash Equivalents, beginning of year	280,523	345,193
Cash and Cash Equivalents, end of year	\$ 262,555	\$ 280,523
Reconciliation of Increase (Decrease) in Unrestricted Net Assets to		
Cash Used in Operating Activities:		
Increase (decrease) in unrestricted net assets	\$ 33,452	\$ (134,505)
Depreciation	2,042	2,001
Changes in operating assets and liabilities:		
Accounts receivable	(11,823)	591
Prepaid expenses	1,596	4,078
Accounts payable	(38,203)	71,049
Other liabilities	(5,032)	(7,054)
Cash Used in Operating Activities	\$ (17,968)	\$ (63,840)

See accompanying notes to financial statements.

Downtown Kalamazoo, Inc.

Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies

Downtown Kalamazoo, Inc. (the Organization) was established January 1, 1989. Its purpose is to plan and coordinate public and private development in downtown Kalamazoo and to assure that the downtown area is able to support retail, commercial, and residential activity in the interest of maintaining the central business district as the commercial core of the community.

Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with an initial maturity of three months or less when purchased to be cash equivalents, including cash that has been designated for the subsequent year.

Accounts Receivable

Accounts receivable are primarily service fees due from related parties (see Note 5).

Property and Equipment

Property and equipment are stated at cost, or if contributed, at the approximate fair value at the date of the contribution. Such contributions are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed over the estimated useful lives of the assets ranging from three to 10 years using the straight-line method.

Contributions

Many individuals volunteer time and perform a variety of tasks that assist the Organization. No amounts have been reflected in the financial statements for such services.

Revenue Recognition

Service fee revenue is recognized when services have been performed. Grant revenue is earned when grantors' conditions are met.

Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

The Organization uses various forms of advertising to promote downtown Kalamazoo. All advertising costs are expensed as incurred. There was no advertising expense during the years ended December 31, 2017 and 2016.

Downtown Kalamazoo, Inc.

Notes to Financial Statements

Income Taxes

The Organization is tax-exempt under the Internal Revenue Code Section 501(c)(3) and, accordingly, no provision has been made for income taxes.

The Organization applies a more-likely-than-not recognition threshold for all tax uncertainties. Only those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities are recognized. Based on its evaluation, the Organization has concluded there are no significant uncertain tax positions requiring recognition in its financial statements.

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 and disclosures. Accordingly, actual results could differ from these estimates.

2. Cash and Cash Equivalents

The Organization maintains its cash balances at two financial institutions located in Kalamazoo. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 for each financial institution in which the Organization maintains a balance. At December 31, 2017 and 2016, the Organization's uninsured bank cash balance total was \$4,000 and \$46,000, respectively.

Due to the terms of service agreements and the flow of cash from the respective organizations at year-end, cash is designated for various programs, plans, and operations for the upcoming year. As of December 31, 2017 and 2016, \$33,000 and \$36,000, respectively, of the cash was designated.

3. Leases

The Organization leases its office facility under an operating lease agreement that started July 2011, and expired on June 30, 2016. The Organization has exercised an option to renew the lease agreement for an additional 24 months, commencing July 1, 2016, and terminating on June 30, 2018. The Organization pays a base rent adjusted annually by the percentage fluctuation in the Consumer Price Index, which is not to exceed 5%. Rent expense net of sublet revenue discussed below, was approximately \$19,000 and \$29,000 for the years ended December 31, 2017 and 2016, respectively. In December 2013, the Organization entered into a sublet agreement, effective February 2014 through July 2016, to lease a portion of their office space to Local Initiatives Support Corporation (LISC) for \$1,000 per month. This agreement was extended 12 months at \$2,400 per month beginning on August 1, 2016, with the option of continuation on a month-to-month basis beginning August 1, 2017. As part of the sublet agreement, the Organization will pay for parking for LISC employees. This sublet revenue is included in rent expense as an offset and was approximately \$29,000 and \$19,000 for the years ended December 31, 2017 and 2016, respectively.

Downtown Kalamazoo, Inc.

Notes to Financial Statements

The Organization entered into an agreement to lease a different office facility commencing July 1, 2018, continuing through June 30, 2021. Rent payments of \$21,000 will be made in 6-month increments through the term of the lease.

Future minimum rental payments with non-cancelable terms in excess of one year are as follows:

2018	\$	46,000
2019		42,000
2020		42,000
2021		21,000
<hr/>		
Total	\$	151,000

4. Pension Plan

The Organization contributes to a simplified, defined contribution pension plan that covers qualified employees. Contributions to the plan are discretionary and were 5% of employee gross wages for the years ended December 31, 2017 and 2016, respectively. Total contributions from the Organization for the years ended December 31, 2017 and 2016, were \$8,000 and \$9,000, respectively.

5. Related Party Transactions

The Organization performs various services for the Downtown Development Authority of the City of Kalamazoo (DDA) and Downtown Tomorrow, Inc. (DTI). Although the day-to-day activities of these organizations are performed by the Organization, each organization remains a separate entity governed by its own board of directors.

Service fees received consist of the following:

<i>Year ended December 31,</i>	2017	2016
<hr/>		
DDA:		
Service agreement fees	\$ 232,050	\$ 221,000
TPM (transportation, parking and mobility) service fees	80,000	70,000
CIP (brand and engagement/business development)	64,027	50,000
TIF service fees	75,000	35,000
DTI -		
Service agreement fees	37,500	95,000
<hr/>		
Total Service Fees	\$ 488,577	\$ 471,000

In addition, several business incentive grants have been awarded to business owners who are also board members of DDA and DTI. Awards of \$2,600 and \$16,900 were awarded to business owners who were committee members of DKI during 2017 and 2016, respectively. The Organization had approximately \$4,000 and \$5,000 of accounts receivable from DDA at December 31, 2017 and 2016, respectively.

Downtown Kalamazoo, Inc.

Notes to Financial Statements

6. Employment Contract

The Organization entered into an employment agreement with the new president in 2017. Under the agreement, the commitment includes annual wages and related benefits of \$103,000 through December 31, 2018. The Organization had an employment agreement with the former president in which the 2016 commitment included annual wages and related benefits of approximately \$126,000 and was effective through December 31, 2016.

7. Subsequent Events

The Organization's management has evaluated the period from January 1, 2018, through May 17, 2018, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements.

Supplementary Information



Tel: 269-382-0170
Fax: 269-345-1666
www.bdo.com

211 East Water Street, Suite 300
Kalamazoo, MI 49007

Independent Auditor's Report on Supplementary Information

Board of Directors
Downtown Kalamazoo, Inc.
Kalamazoo, Michigan

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is 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 audits 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.

BDO USA, LLP

May 17, 2018

Downtown Kalamazoo, Inc.

Statements of Revenues, Expenses, and Changes in Unrestricted Net Assets - Budget and Actual

	Budget	Actual	Variance - Favorable (Unfavorable)	Totals (Actual and Memorandum Only)	
				Year Ended December 31, 2017	2016
Support and Revenue:					
DDA:					
Service agreement fees	\$ 232,050	\$ 232,050	\$ -	\$ 232,050	\$ 221,000
TPM (transportation, parking and mobility) service fees	80,000	80,000	-	80,000	70,000
CIP (brand and engagement/business development)	130,000	64,027	(65,973)	64,027	50,000
TIF service fees	75,000	75,000	-	75,000	35,000
Interest income	150	177	27	177	242
DTI -					
Service agreement fees	37,500	37,500	-	37,500	95,000
Branding and Engagement:					
Grant revenue	70,000	70,000	-	70,000	70,000
Sponsorships	33,500	30,800	(2,700)	30,800	28,600
Festivals	18,458	18,458	-	18,458	26,487
Fundraising	250	250	-	250	250
Program revenues	2,167	3,867	1,700	3,867	2,450
Maintenance grant revenue	32,753	32,753	-	32,753	8,511
Patronicity	50,725	26,213	(24,512)	26,213	-
Miscellaneous	400	900	500	900	-
Total Support and Revenue	762,953	671,995	(90,958)	671,995	607,540
Operating Expenses:					
Salaries	290,172	282,333	7,839	282,333	332,083
Contractual and other services	84,200	78,232	5,968	78,232	93,052
Fringe benefits/payroll taxes	53,645	46,827	6,818	46,827	73,250
Festival place maintenance	-	-	-	-	26,487
Business development	80,000	14,027	65,973	14,027	22,697
Special projects	50,725	26,213	24,512	26,213	-
Legal services	2,000	-	2,000	-	9,000
Supplies	10,670	9,563	1,107	9,563	7,344
Downtown maintenance	32,753	32,649	104	32,649	8,511
Depreciation	-	2,042	(2,042)	2,042	2,001
Marketing	-	1,070	(1,070)	1,070	921
Downtown dollars	-	(178)	178	(178)	(59)

Downtown Kalamazoo, Inc.

Statements of Revenues, Expenses, and Changes in Unrestricted Net Assets - Budget and Actual (Concluded)

				<i>Totals</i>	
	<i>Budget</i>	<i>Actual</i>	<i>Variance - Favorable (Unfavorable)</i>	<i>(Actual and Memorandum Only)</i>	
				<i>Year Ended December 31,</i>	<i>2017</i>
				<i>2016</i>	
Operating Expenses (concluded):					
Branding and Engagement:					
Miscellaneous branding and engagement	\$ 37,367	\$ 34,972	\$ 2,395	\$ 34,972	\$ 43,566
Holiday parade	28,800	24,470	4,330	24,470	33,385
Santa's workshop	30,000	27,749	2,251	27,749	29,021
Sidewalk sales	20,000	19,497	503	19,497	26,509
Holly jolly trolley	16,000	15,795	205	15,795	19,698
Student connection	5,000	4,824	176	4,824	10,238
Horse patrol	-	-	-	-	1,500
Holiday decorations	15,000	17,553	(2,553)	17,553	1,253
Holiday programming	3,000	543	2,457	543	1,083
June jubilee	500	362	138	362	505
Total Operating Expenses	759,832	638,543	121,289	638,543	742,045
Increase (Decrease) in Unrestricted Net Assets	3,121	33,452	30,331	33,452	(134,505)
Unrestricted Net Assets, beginning of year	69,712	69,712	-	69,712	204,217
Unrestricted Net Assets, end of year	\$ 72,833	\$ 103,164	\$ 30,331	\$ 103,164	\$ 69,712

See accompanying independent auditor's report on supplementary information.