Downtown STL, Inc.

Financial Report
June 30, 2016

Contents

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
Downtown STL, Inc.
St. Louis, Missouri

Report on the Financial Statements
We have audited the accompanying financial statements of Downtown STL, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, 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 audits 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 STL, Inc. as of June 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.

RSM US LLP

St. Louis, Missouri
December 22, 2016

Downtown STL, Inc.

Statements of Financial Position
June 30, 2016 and 2015

		2016		2015
Assets				
Current assets:				
Cash and cash equivalents	**$**	**104,562**	$	89,651
Accounts receivable		**105,145**		69,898
Prepaid expenses		**45,939**		56,667
Due from Downtown St. Louis Community Improvement District, Inc.		**85,186**		88,972
Total current assets		**340,832**		305,188
Property and equipment, net		**33,385**		45,462
Total assets	**$**	**374,217**	$	350,650
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	**$**	**11,839**	$	25,923
Deferred membership dues		**1,967**		3,750
Accrued expenses		**120,276**		92,935
Capital lease obligation, current maturities		**1,661**		2,514
Current portion of other long-term liabilities		**11,354**		8,894
Total current liabilities		**147,097**		134,016
Capital lease obligation, less current maturities		**-**		1,661
Other long-term liabilities		**16,370**		27,808
Total liabilities		**163,467**		163,485
Commitment (Note 6)				
Net assets:				
Unrestricted		**210,750**		167,365
Temporarily restricted		**-**		19,800
Total net assets		**210,750**		187,165
Total liabilities and net assets	**$**	**374,217**	$	350,650

See notes to financial statements.

Downtown STL, Inc.

Statements of Activities
Years Ended June 30, 2016 and 2015

		2016		2015
Changes in unrestricted net assets:				
Support and revenue:				
Contract income:				
Downtown St. Louis Community Improvement District, Inc.	**$**	**1,853,584**	$	1,930,659
Other		**657,492**		507,951
Membership dues		**317,804**		294,483
Meeting/services/event income		**124,869**		117,596
Net assets released from restrictions		**19,800**		-
Total support and revenue		**2,973,549**		2,850,689
Expenses:				
Program services:				
Contract services:				
Downtown St. Louis Community Improvement District, Inc.		**1,853,584**		1,930,659
Other		**613,216**		452,919
Membership services		**194,976**		238,917
Supporting services:				
Management and general		**197,101**		141,081
Membership development		**71,287**		61,181
Total expenses		**2,930,164**		2,824,757
Increase in unrestricted net assets		**43,385**		25,932
Changes in temporarily restricted net assets:				
Support and revenue:				
Contributions		**-**		19,800
Net assets released from restrictions		**(19,800)**		-
(Decrease) increase in temporarily restricted net assets		**(19,800)**		19,800
Total increase in net assets		**23,585**		45,732
Net assets:				
Beginning of year		**187,165**		141,433
End of year	**$**	**210,750**	$	187,165

See notes to financial statements.

Downtown STL, Inc.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ 23,585**	$ 45,732
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	**17,642**	19,681
Loss on disposal of property and equipment	**369**	522
Decrease (increase) in assets:		
Accounts receivable	**(35,247)**	(1,344)
Prepaid expenses	**10,728**	(5,193)
Due from Downtown St. Louis Community Improvement District, Inc.	**3,786**	(16,697)
Increase (decrease) in liabilities:		
Accounts payable	**(14,084)**	(10,697)
Deferred membership dues	**(1,783)**	(1,163)
Other liabilities	**18,363**	12,050
Net cash provided by operating activities	**23,359**	42,891
Cash flows from investing activities:		
Purchases of property and equipment	**(5,934)**	(2,258)
Cash flows from financing activities:		
Payments on capital lease	**(2,514)**	(2,146)
Net increase in cash and cash equivalents	**14,911**	38,487
Cash and cash equivalents:		
Beginning	**89,651**	51,164
Ending	**$ 104,562**	$ 89,651

See notes to financial statements.

Note 1. Nature of Entity

Downtown STL, Inc. (the Organization), formerly The Partnership for Downtown St. Louis, is a private, nonprofit corporation organized to assist the development and marketing of the downtown area of St. Louis, Missouri. There are approximately 190 members of the Organization representing primarily business and professional firms. The Organization is responsible for administrating and managing the Downtown St. Louis Community Improvement District, Inc. (the District) through a cooperative services agreement.

Note 2. Summary of Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of presentation: The Organization reports 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, which are based on the existence or nature of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets: Unrestricted net assets are not subject to donor-imposed restrictions.

Temporarily restricted net assets: Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. Restricted contributions received and released in the current year are reported as unrestricted net asset activity. The Organization had temporarily restricted net assets of $-0- and $19,800 as of June 30, 2016 and 2015, respectively. The restrictions on these amounts and the related release from restrictions were for the purpose of development of North Riverfront and homelessness.

Permanently restricted net assets: Permanently restricted net assets are subject to donor-imposed stipulations, and they are maintained permanently by the Organization. The Organization had no permanently restricted net assets as of June 30, 2016 and 2015.

Cash and cash equivalents: The Organization considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Cash and cash equivalents as of June 30, 2016 and 2015, includes $1,370 restricted for security services to be provided in a specific geographic area of downtown not included within the District boundaries.

Accounts receivable: Accounts receivable are considered to be fully collectible.

Prepaid expenses: Prepaid expenses are for goods and services paid for but not yet received. The prepaid expenses will be realized upon receipt of the goods and services.

Property and equipment: Property and equipment are stated at cost. Depreciation of property and equipment is recognized on a straight-line method over their estimated useful lives ranging from three to 10 years. Leasehold improvements are capitalized and amortized over the lesser of the term of the lease or the estimated useful life of the asset. The amortization on assets acquired under capital leases is included with depreciation expense on owned assets.

Note 2. Summary of Accounting Policies (Continued)

Other long-term liabilities: The Organization leases property with escalating rent payments. The rent expense each year is recognized on a straight-line basis over the life of the lease. The Organization accrues rent expense on the leases in an amount such that total rent expense under the lease will be recognized ratably over the term of the lease, resulting in a deferred rent liability. The Organization also received payment in advance for tenant improvements under the terms of an operating lease; this payment is recorded as a long-term liability and recognized as a reduction in rent expense over the term of the lease.

Revenue recognition: The Organization's support and revenue are recognized as follows:

Contract income: Revenue is recognized as contracted services are provided or as expenses are incurred. Other contract income and other contract expense on the accompanying statements of activities relate to management services provided to nonprofit organizations other than the District and is recognized as services are provided or as expenses are incurred.

Membership dues: Membership dues revenue is recognized on a straight-line basis over the term of the membership.

Meeting/event income: Meeting and event income is recognized as events occur.

Functional allocation of expenses: The costs of providing the 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.

Income taxes: The Organization is exempt from federal income taxes under section 501(c)(6) of the Internal Revenue Code and similar provisions of state law. The Organization files federal information returns. The statutes of limitations for information returns filed for the tax years ended June 30, 2013 through 2015, have not expired and, therefore, are subject to examination.

Management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration risk: Approximately 63 percent and 67 percent of the Organization's support and revenue is from the cooperative services agreement with the Downtown St. Louis Community Improvement District, Inc. for the years ended June 30, 2016 and 2015, respectively.

Note 2. Summary of Accounting Policies (Continued)

Pending accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this update make certain improvements that address many, but not all, of the identified issues about the current financial reporting for nonprofit entities. A second phase of the project is expected to address more protracted issues surrounding whether and how to define the term “operations” and align measures of operations (or financial performance) as presented in a statement of activities with measures of operations in a statement of cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The amendments should be initially adopted only for an annual fiscal period or for the first interim period within the fiscal year of adoption. The Organization is currently evaluating the impact this update will have on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Organization’s financial statements as the Organization has certain operating lease arrangements for which it is the lessee. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative-effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Note 3. Property and Equipment

Property and equipment consists of the following at June 30, 2016 and 2015:

	2016	2015
Furniture and equipment	$ 86,980	$ 84,702
Leasehold improvements	46,911	47,322
	133,891	132,024
Less accumulated depreciation and amortization	100,506	86,562
	$ 33,385	$ 45,462

Depreciation and amortization expense for the years ended June 30, 2016 and 2015, was $17,642 and $19,681, respectively.

Note 4. Cooperative Services Agreement

The Organization is responsible for administering and managing the Downtown St. Louis Community Improvement District, Inc. As part of this cooperative agreement between the two entities, the Downtown St. Louis Community Improvement District, Inc. reimburses the Organization for staff services, overhead and other related expenses. For the fiscal years ended June 30, 2016 and 2015, contract income from this agreement was $1,853,584 and $1,930,659, respectively. As of June 30, 2016 and 2015, the Organization was due $85,186 and $88,972, respectively, from the District for unreimbursed expenses incurred in connection with the agreement.

Note 5. Capital Lease Commitment

The Organization has a capital lease agreement for certain equipment with a remaining net book value of approximately $1,166 and $3,167 as of June 30, 2016 and 2015, respectively. The equipment and the related liability under the capital lease were recorded in 2012 at the present value of the future payments due under the lease, as determined with a 3.75 percent discount rate. The remaining related liability under the capital lease is due in monthly installments of $250 per month.

The remaining future lease payments totaling $1,750 are due in fiscal year 2017. The present value of the net minimum lease payments as of June 30, 2016, was $1,661.

Note 6. Operating Lease Commitments

The Organization is obligated under an operating lease for office space. The minimum rental commitments under the noncancelable term of the operating lease are as follows:

Years ending June 30:		
2017	$	164,761
2018		167,221
2019		27,939
Total minimum payments required	$	359,921

Rental expenses for the operating lease was $156,558 for each of the years ended June 30, 2016 and 2015. In accordance with the cooperative services agreement outlined in Note 4, the Organization charges the District for space used by the District under this operating lease. These charges totaled approximately $139,300 for each of the years ended June 30, 2016 and 2015, and are included in the amounts charged under the cooperative services agreement in Note 4.

Note 7. Related-Party Transactions

The Organization has a cooperative service agreement with the Downtown St. Louis Community Improvement District, Inc., a private, nonprofit entity related through common management as described in Note 4.

The Organization provides management and administrative services to Downtown Now!, a nonprofit entity related through certain common board members and management. During the fiscal years ended June 30, 2016 and 2015, the Organization received management fees of $35,000 and $30,000, respectively.

The Organization also provides maintenance services for a property owned by Downtown Now! These services are paid from a maintenance endowment fund held by Downtown St. Louis Foundation, Inc. For the fiscal years ended June 30, 2016 and 2015, the Organization received maintenance and programming fees totaling $9,439 and $13,617, respectively.

The Organization expended $32,954 and $11,468 during the years ended June 30, 2016 and 2015, respectively, for production of the annual meeting to a company whose executive manager is a Director of Downtown St. Louis Community Improvement District, Inc.

Note 8. Retirement Plan

The Organization maintains a Savings Incentive Match Plan for Employees (SIMPLE IRA) for employees meeting certain eligibility requirements. The plan allows participants to contribute up to limits specified under section 408(p)(2)(E) of the Internal Revenue Code. The Organization matches 100 percent of the participants' elective deferrals that do not exceed 3 percent of the participants' compensation. Employees vest in the plan immediately. Retirement expense for the years ended June 30, 2016 and 2015, was $37,576 and $36,456, respectively.

Note 9. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 22, 2016, the date the financial statements were available to be issued.

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