

Louisville Downtown Management District
Financial Statements
Year Ended December 31, 2021

Louisville Downtown Management District
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Year Ended December 31, 2021

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Independent Auditor's Report

The Board of Directors
Louisville Downtown Management District

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of Louisville Downtown Management District (the "District") as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 10 and budgetary comparison information on page 22 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "MCM CPAs & Advisors LLP". The signature is stylized, with the "MCM" being particularly prominent and the "& Advisors LLP" written in a more cursive, flowing script.

Louisville, Kentucky
March 17, 2022

**Louisville Downtown Management District
Management's Discussion and Analysis
Year Ended December 31, 2021**

Our discussion and analysis of the Louisville Downtown Management District's (the "District") financial performance provides an overview of the District's activities for the fiscal year ended December 31, 2021. This discussion and analysis is a required part of the financial statements and should be read in conjunction with the District's financial statements that begin on page 11.

Nature of Organization and Reporting Entity

Louisville's Business Improvement District, the first in Kentucky, was established by a City of Louisville ordinance on August 27, 1991 to enhance the economic, residential and cultural vitality of Louisville's Central Business District ("CBD"). The District's mission is to promote Downtown's quality of life by creating a safe, clean and enjoyable environment. As a result, the majority of the District's budget is devoted to providing "safe, clean & hospitality" operations through its Downtown Ambassadors; undertaking public space enhancement projects such as public art installations and beautification programs; communicating and marketing the amenities and attractions of Downtown to workers, residents and guests; and providing detailed data regarding the economic vitality of Downtown to those helping to drive the continued growth of the area.

By Kentucky statute and Louisville Metro ordinance, the District may only provide services within its boundaries that are supplemental to any services which may be provided by Louisville Metro.

In 2013, the District entered into a management agreement with the Downtown Development Corporation ("DDC") for DDC to manage and administer the District's operations and activities. This agreement was revised and renewed in 2017.

Financial Highlights

As a result of this year's operations, the District's net position decreased by \$32,911. The assets of the District exceeded its liabilities by \$751,208 at fiscal year-end. Of this amount, \$57,750 is invested in capital assets. The District's remaining unrestricted net position can be used to meet the District's ongoing obligations and creditors in accordance with its designation and fiscal policies.

Operational Highlights

Despite the ongoing disruptions caused by the COVID-19 pandemic in 2021, the District and Downtown Louisville continued on the path towards revitalization and the vision of building a neighborhood open and welcoming for everyone in the community.

Despite repeated delays in workers returning to the office with each new COVID-19 variant, Downtown witnessed a healthy return of leisure tourism, convention business and visits to attractions:

- Conventions rebounded from 160 in 2020 to 337 in 2021, of which 239 were in the latter half of the year.
- Visits to attractions recovered to approximately 80% of pre-pandemic levels.

With the significant return of guests and visitors, our Ambassador program returned to a pre-pandemic focus on hospitality and safety services, adding five additional Hospitality & Safety Ambassadors in the second half of the year to provide friendly, smiling faces on the streets of Downtown during major conventions, events, and in support of our downtown attractions and businesses. This emphasis on hospitality and safety was reflected in a nearly 200% increase in 2021 Ambassador hospitality contacts compared to 2020.

**Louisville Downtown Management District
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2021**

Operational Highlights (Continued)

This year also witnessed a nascent recovery for our downtown restaurants and retail businesses. As a direct result of the pandemic, Downtown experienced a net loss of 23 street-level businesses in 2020. In contrast, by the end of 2021, 30 new businesses had opened in Downtown and 17 had closed. However, these businesses continued to experience considerable headwinds with the absence of tens of thousands of downtown workers who had still not returned to the office. In response, the District and DDC made a concerted effort to promote and welcome new businesses. Ambassador contacts with our restaurant and retail store fronts increased more than 60% compared to 2020. With the end of most local, state and federal relief programs, Downtown businesses also lost critical lifelines. In response, the District and DDC worked with partner agencies and Louisville Metro to prepare and submit \$16 million dollars in American Rescue Plan ("ARP") grant proposals to support small business, attract new businesses (particularly minority-owned), and encourage adaptive reuse of older, underutilized buildings in the CBD. If approved, these initiatives will have a dramatic effect on Downtown's retail landscape.

The ongoing impacts of the pandemic continued to disproportionately impact our most vulnerable people, with a sustained increase in Downtown's street population and those experiencing homelessness. Our Ambassadors and staff dedicated considerable resources trying to find help for those in need while also serving as a conduit to communicate the concerns of the business community about quality-of-life issues created by associated problematic street behaviors. While the number of biohazardous clean-ups decreased slightly in 2021 compared to 2020, there was still more than a 650% increase in clean-ups of needles and human waste compared to pre-pandemic levels.

The District also dedicated significant resources towards graffiti abatement in 2021. While the number of tags, murals, stickers, and marker scrawls decreased by more than 40% compared to 2020 (with much of the 2020 increase attributable to the civil rights protests), Downtown still experienced more than a 20% increase compared to 2019. Additionally, the number of large tags and murals, which required more time and expense to address, increased dramatically compared to prior years.

Overall, and in accordance with its primary mission, the District dedicated approximately 60% of its resources on core safe and clean operations within its boundaries in 2021. Taking the continued impacts of the pandemic into consideration, these activities included:

- Daily cleaning of the public right of ways, removing 123,256 pounds of litter and debris from sidewalks and alleys,
- Clean-up of 709 biohazardous materials,
- Abatement of 1,318 graffiti tags and stickers, still at higher levels than before the pandemic,
- 5,976 contacts with guests and visitors as a result of enhanced hospitality and safety patrols,
- 374 business check-ins and contacts with street-level restaurants and retailers,
- Cleaning of ice and snow on the sidewalk ramps and TARC bus shelters,
- Seasonal weed abatement and leaf removal in public right of ways, and
- Deployment, maintenance, and in multiple cases, restoration, of 144 self-watering planters across the District as part of the annual Flower Pot beautification program.

Economic Development & Marketing Activities

The District dedicates considerable resources in supporting the economic development of the CBD and in the marketing of Downtown to guests, visitors, workers, and residents. Downtown's economy is supported by three main pillars: 1) office workers (~61,000 pre-pandemic), 2) visitors, residents and office workers attending conventions, visiting attractions, going to events, and patronizing restaurants and retail shops, and 3) workers, patients and their families in the Louisville Medical & Education District (newly branded LouMed).

**Louisville Downtown Management District
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2021**

Economic Development & Marketing Activities (Continued)

While Downtown's hospitality sector showed meaningful signs of recovery from the COVID-19 pandemic, uncertainty about the emergence of additional COVID-19 variants continued to slow recovery, notably with the delays in office workers returning to pre-pandemic levels. Since the District had limited influence on the return of office workers, it focused on supporting the hospitality sector through encouraging events, promoting the safety and hospitality of Downtown, and helping to implement the recommendations of the Downtown Revitalization Team's action plan adopted in early 2021.

To help attract new events, the District released \$125,000 in reserve funds to directly sponsor and market low-barrier events. In 2021, \$75,000 of these funds and leveraged in-kind donations were used to help organizers produce fifteen diverse and inclusive events, notably at the Repurposed space on historic West Main Street. 70% of the funding supported minority-owned or woman-owned organizations. \$25,000 of the funding was dedicated to the acquisition and retrofit of a mobile projection vehicle that will be used across Downtown for art and community events. An additional \$12,500 in contributions from private donors was raised as a result of the District's initial investment in the mobile projection vehicle. The remaining \$25,000 was dedicated to event support and marketing, notably the creation of a comprehensive events calendar on the District's website which became the primary community resource regarding Downtown events, with traffic on the events page increasing from 6,217 views in 2020 to 125,886 in 2021.

The District also partnered with DDC to commission a Downtown Louisville Economic Impact Report to show the critical role a strong Downtown provides to the health and vibrancy of the entire county and metropolitan area. While the CBD is less than 0.5% of the county's land area, it provided more than 13% of the total jobs in the county in 2019. Salaries and wages in the CBD averaged \$71,600 compared to \$53,600 county-wide, with 62% of CBD workers making over \$40,000 per year. Economic activity in the CBD generated \$8.5 billion in annual gross domestic product and provided more than \$148 million in tax revenue (occupational taxes, real estate taxes, and net profit taxes). This report contributed a valuable perspective underpinning the proposals for ARP grant funds supporting workforce development and small businesses.

Research and data sharing also remained a vital component of the District's mission to facilitate and strengthen commerce, as well as stimulate quality development in and around the Downtown. The District's research department collects and publishes a myriad of relevant data, including census, commercial, development, hospitality, parking, residential, and transportation information. This research, along with detailed maps and commercial, residential and development listings, is available on our website and is used by developers, public agencies, and other private and public entities to make informed decisions about their activities and investments in Downtown Louisville.

**Louisville Downtown Management District
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2021**

Report Components

This annual report consists of four parts as follows:

1. Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities with the difference being reported as net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenditures are reported in the statements for some items that will only result in cash flows in future fiscal periods (e.g. deferred assessment revenue).

The government-wide financial statements include not only the District itself, but also legally separate entities which have a significant operational or financial relationship with the District. The District has one such entity, Louisville Civic Ventures ("LCV"), which is presented as a blended component unit.

2. Fund Financial Statements: The fund financial statements focus on the individual parts of the District. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.
3. Governmental Funds: Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the organization's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

4. Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.
5. Required Supplementary Information: This Management's Discussion and Analysis and the budgetary comparison information presented on page 22 represent the financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**Louisville Downtown Management District
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2021**

Financial Analysis of the District's Funds

The majority of the District's revenue is provided by assessments on all benefited properties within the District as authorized by Kentucky Revised Statutes 91.705 through 91.762 and City of Louisville ordinance. The District budgets finances accordingly.

A condensed Statement of Net Position is as follows:

**Louisville Downtown Management District
Statements of Net Position
December 31, 2021 and 2020**

| | <u>2021</u> | <u>2020</u> | <u>\$ variance</u> | <u>% variance</u> |
|---------------------------------------|-------------------|-------------------|--------------------|-------------------|
| Assets | | | | |
| Cash and investments | \$ 1,353,616 | \$ 1,467,499 | \$ (113,883) | -8% |
| Accounts receivable | 7,399 | 8,905 | (1,506) | -17% |
| Other assets | <u>68,155</u> | <u>38,938</u> | <u>29,217</u> | <u>75%</u> |
| Total assets | 1,429,170 | 1,515,342 | (86,172) | -6% |
| Liabilities | | | | |
| Accounts payable and accrued expenses | <u>83,469</u> | <u>90,497</u> | <u>(7,028)</u> | <u>-8%</u> |
| Total liabilities | 83,469 | 90,497 | (7,028) | -8% |
| Deferred inflows of resources | | | | |
| Deferred assessment revenue | <u>594,493</u> | <u>640,726</u> | <u>(46,233)</u> | <u>-7%</u> |
| Total deferred inflows of resources | 594,493 | 640,726 | (46,233) | -7% |
| Net position | | | | |
| Investment in capital assets | 57,750 | 29,270 | 28,480 | 97% |
| Unrestricted | <u>693,458</u> | <u>754,849</u> | <u>(61,391)</u> | <u>-8%</u> |
| Total net position | <u>\$ 751,208</u> | <u>\$ 784,119</u> | <u>\$ (32,911)</u> | <u>-4%</u> |

The District's total net position decreased by \$32,911 compared to 2020, primarily driven by the release of \$125,000 from reserves to support and promote Downtown events to help mitigate the on-going, negative impacts of the COVID-19 pandemic.

The District made several new capital investments during the year, including the purchase of two new All Terrain Light Vehicles to enhance the mobility of our Hospitality & Safety Ambassador team, and the acquisition of a new radio system to replace aging assets from 2012.

**Louisville Downtown Management District
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2021**

Financial Analysis of the District's Funds (Continued)

The District contracts with the Jefferson County Property Valuation Administration ("PVA") to include the District's assessment as part of each owner's total property tax bill, which are sent to owners in November of each year. Property owners have the option to receive a discount if they pay their property taxes (including District assessments) before the end of the year.

A summary of the District's Statement of Activities is presented as follows:

**Louisville Downtown Management District
Statements of Activities
Years Ended December 31, 2021 and 2020**

| | <u>2021</u> | <u>2020</u> | <u>\$ variance</u> | <u>% variance</u> |
|---------------------------------|--------------------------|--------------------------|---------------------------|-------------------|
| Expenses | | | | |
| Program services | \$ 1,549,514 | \$ 1,376,155 | \$ 173,359 | 13% |
| General administration | <u>200,248</u> | <u>177,845</u> | <u>22,403</u> | <u>13%</u> |
| Total expenses | 1,749,762 | 1,554,000 | 195,762 | 13% |
| Revenues | | | | |
| Contract services | 179,752 | 209,385 | (29,633) | -14% |
| Incremental services and events | 9,013 | 14,730 | (5,717) | -39% |
| Property assessments | 1,509,351 | 1,431,039 | 78,312 | 5% |
| Other income | <u>18,735</u> | <u>18,879</u> | <u>(144)</u> | <u>-1%</u> |
| Total general revenues | <u>1,716,851</u> | <u>1,674,033</u> | <u>42,818</u> | <u>3%</u> |
| Change in net position | (32,911) | 120,033 | (152,944) | -127% |
| Net position, beginning of year | <u>784,119</u> | <u>664,086</u> | <u>120,033</u> | <u>18%</u> |
| Net position, end of year | <u><u>\$ 751,208</u></u> | <u><u>\$ 784,119</u></u> | <u><u>\$ (32,911)</u></u> | <u><u>-4%</u></u> |

Compared to prior year, the District experienced a significant increase in both total expenses (up \$195,762) and total revenue (up \$42,818). The increase in expenses reflected a return to pre-pandemic levels of operations and a focus on supporting Downtown events. The relevance and importance of Downtown to the greater metropolitan area was reflected in the increased revenue generated by property assessments. The decline in income from contract services reflected the continued challenges posed by the pandemic to many of the District's institutional and business partners.

**Louisville Downtown Management District
Management's Discussion and Analysis (Continued)
Year Ended December 31, 2021**

Budgetary Information

For 2021, total actual revenue was less than budgeted revenue by \$9,129 and actual expenditures exceeded budgeted expenses by \$23,782, resulting in a net negative budget variance of \$32,911. The shortfall in revenue compared to budget was principally due a decline in special project income and payments in lieu of assessments as a result of the continued negative impacts of the COVID-19 pandemic. This shortfall was partially offset by higher-than-budgeted receipts for property assessments. The primary reason for the negative budgetary variance in expenditures was the release of \$125,000 in reserves to support and promote Downtown events, largely mitigated by a reduction of expenses associated with the management agreement with DDC.

Financial Analysis of the District's Financial Position and Results of Operations and Individual Funds

The focus of the District's general fund is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of an organization's resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the District's general fund reported an ending fund balance of \$1,287,951. Approximately 99% of this total constitutes unassigned fund balance. The remainder of the fund balance is attributable to amounts expended which are attributable to future periods.

Capital Asset and Long-term Debt Activity

Capital Assets

The District's investment in capital assets as of December 31, 2021 amounts to \$57,750 (net of accumulated depreciation of \$173,908). This investment in capital assets includes vehicles for "safe & clean" operations, streetscape fixtures, office equipment and leasehold improvements, and website development. The District had fixed asset additions in 2021 with the purchase of a new radio system for the Ambassador program and two new Kawasaki mules. The District recognized a net gain of \$3,184 from the sale and disposal of paid off assets no longer needed for District operations. Depreciation expense amounted to \$15,072 for the year ended December 31, 2021.

Long-term Debt

Although authorized to incur up to \$500,000 in short-term and long-term debt by the enabling City of Louisville ordinance, the District has not incurred such debt to date.

Economic Factors and Budget and Rates

The District again adopted a property rate assessment of seven point four five cents (\$0.0745) per one hundred dollars (\$100) of assessed value for real property for the fiscal year ended December 31, 2021, which is below the maximum rate of eight point three one cents (\$0.0831) allowed by the enabling City of Louisville ordinance.

Other than COVID-19, no external factors are known that are expected to have an impact on future financial position.

Government-wide Financial Statements

Louisville Downtown Management District
Statement of Net Position
December 31, 2021

| | <u>Governmental activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 937,546 |
| Certificates of deposits | 416,070 |
| Accounts receivable | 7,399 |
| Prepaid expenses | 10,405 |
| Capital assets, net of accumulated depreciation | <u>57,750</u> |
| Total assets | 1,429,170 |
| Liabilities | |
| Accounts payable and accrued expenses | 83,469 |
| Deferred inflows of resources | |
| Deferred assessment revenue | <u>594,493</u> |
| Total deferred inflows of resources | <u>594,493</u> |
| Total liabilities and deferred inflow of resources | 677,962 |
| Net position | |
| Investment in capital assets | 57,750 |
| Unrestricted | <u>693,458</u> |
| Total net position | <u><u>\$ 751,208</u></u> |

See accompanying independent auditor's report and notes to financial statements.

Louisville Downtown Management District
Statement of Activities
Year Ended December 31, 2021

Expenses

| | |
|--|----------------|
| Program services | |
| Business improvement district operations | \$ 1,042,438 |
| Economic development | 212,792 |
| Marketing and communications | <u>294,284</u> |
| Total program services | 1,549,514 |
| General administration | <u>200,248</u> |
| Total expenses | 1,749,762 |

Revenues

| | |
|---------------------------------|--------------------------|
| Program revenues | |
| Contract services | 179,752 |
| Incremental services income | 8,120 |
| Events | <u>893</u> |
| Total program revenues | 188,765 |
| General revenues | |
| Property assessments | 1,509,351 |
| Interest income | 8,844 |
| Other income | <u>9,891</u> |
| Total general revenues | <u>1,528,086</u> |
| Total revenues | <u>1,716,851</u> |
| Change in net position | (32,911) |
| Net position, beginning of year | <u>784,119</u> |
| Net position, end of year | <u><u>\$ 751,208</u></u> |

See accompanying independent auditor's report and notes to financial statements.

Fund Financial Statements

Louisville Downtown Management District
Balance Sheet - Governmental Fund
December 31, 2021

| | <u>General fund</u> |
|---------------------------------------|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 937,546 |
| Certificates of deposits | 416,070 |
| Accounts receivable | 7,399 |
| Prepaid expenses | <u>10,405</u> |
| Total assets | <u><u>\$ 1,371,420</u></u> |
| Liabilities | |
| Accounts payable and accrued expenses | <u>\$ 83,469</u> |
| Total liabilities | 83,469 |
| Fund balances | |
| Nonspendable | 10,405 |
| Unassigned | <u>1,277,546</u> |
| Total fund balances | <u>1,287,951</u> |
| Total liabilities and fund balance | <u><u>\$ 1,371,420</u></u> |

See accompanying independent auditor's report and notes to financial statements.

Louisville Downtown Management District
Reconciliation of the Balance Sheet - Governmental
Fund to the Statement of Net Position
December 31, 2021

| | |
|--|---------------------------------|
| Total fund balance per fund financial statement | \$ 1,287,951 |
| Amounts reported for governmental activities in the statement of net position are different because | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, not reported in the governmental funds. | 57,750 |
| Deferred revenue represents amounts that are not available to fund current expenditures and, therefore, are not reported as revenues in the governmental funds. | <u>(594,493)</u> |
| Total net position of governmental activities | <u><u>\$ 751,208</u></u> |

See accompanying independent auditor's report and notes to financial statements.

Louisville Downtown Management District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Fund
Year Ended December 31, 2021

| | <u>General fund</u> |
|--|----------------------------|
| Revenues | |
| Assessments | |
| Property - net | \$ 1,463,118 |
| Contract services | 179,752 |
| Incremental services income | 8,120 |
| Events | 893 |
| Earnings on investments | 8,844 |
| Other income | <u>9,891</u> |
| Total revenues | 1,670,618 |
| Expenditures | |
| Program administration | |
| Business improvement district operations | 1,040,853 |
| Economic development | 201,039 |
| Marketing and communications | <u>294,284</u> |
| Total program administration | 1,536,176 |
| Operations | 198,514 |
| Capital expenditures | <u>43,552</u> |
| Total expenditures | <u>1,778,242</u> |
| Net change in fund balances | (107,624) |
| Fund balance, beginning of year | <u>1,395,575</u> |
| Fund balance, end of year | <u><u>\$ 1,287,951</u></u> |

See accompanying independent auditor's report and notes to financial statements.

Louisville Downtown Management District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Fund to the Statement of Activities
Year Ended December 31, 2021

| | |
|--|--------------|
| Net change in fund balances - total governmental funds | \$ (107,624) |
|--|--------------|

The change in fund balances reported for governmental activities in the statement of activities is different because

Governmental funds report capital outlays as expenditures and the proceeds from the sale of assets as other financing sources. However, in the statement of activities and changes in net position, the cost of those assets is depreciation over their estimated useful lives, and only the gain or loss is recorded when an asset is disposed or retired.

| | |
|---------------------------------|----------|
| Expenditures for capital assets | 43,552 |
| Depreciation | (15,072) |

Governmental funds report all revenues received as current financial resources. However, in the statement of activities and changes in net position, revenues relating to future periods are not reported but are recognized as deferred revenues.

| | |
|----------------------------|---------------|
| Change in deferred revenue | <u>46,233</u> |
|----------------------------|---------------|

| | |
|--|----------------------------------|
| Change in net position of governmental activities | <u><u>\$ (32,911)</u></u> |
|--|----------------------------------|

See accompanying independent auditor's report and notes to financial statements.

Louisville Downtown Management District
Notes to Financial Statements
Year Ended December 31, 2021

Note A - Summary of Significant Accounting Policies

The financial statements of Louisville Downtown Management District (the "District") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. **Financial Reporting Entity:** The Louisville Downtown Management District is a special non-taxing management district established pursuant to KRS 91.750 through 91.762. The purpose of the management district is providing and financing economic improvements that specifically benefit property within the District. The affairs of the District are managed and controlled by a Board of Directors composed of not more than 45 members, who shall be appointed for three-year terms and who are eligible for reappointment to one additional term. The District is not included in any other governmental "reporting entity" as defined in Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.
2. **Blended Component Units:** The organization listed below is, in substance, the same as the District, despite being legally separate from the District. Therefore, it is reported as part of the primary government. It has a governing body that is substantially the same as the governing body of the District; provides services entirely, or almost entirely, to the District; or otherwise exclusively, or almost exclusively, benefits the District even though it does not provide services directly to the District.

Louisville Civic Ventures, Inc., formerly known as Central Area Concepts, Inc., is a not-for-profit organization created in 1978. It has been granted tax exempt status under Section 501(a) of the Internal Revenue Code as described in Section 501(c)(3). Louisville Civic Ventures, Inc. is not classified as a private foundation.

3. **Government-wide Financial Statements:** The Statement of Net Position and the Statement of Activities display information about the overall government, and its blended component unit. Government-wide accounting is designed to provide a more comprehensive view of the District's operations and financial position as a single economic entity.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are clearly identifiable as being associated with a program or function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions income intended to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all assessments, are presented as general revenues.

4. **Fund Financial Statements:** The District uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

A Fund is a separate entity with a self-balancing set of accounts. Funds of the District are classified as governmental. The District reports the following major governmental funds:

- The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.
- The District has no proprietary (business), fiduciary, or non-major funds.

Louisville Downtown Management District
Notes to Financial Statements (Continued)
Year Ended December 31, 2021

Note A - Summary of Significant Accounting Policies (Continued)

5. Measurement Focus and Basis of Accounting: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sponsorships and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Revenues are recognized when they are both measurable and available. Revenues are considered measurable when the dollar amount is known or reasonably estimable. Expenditures generally are recorded when incurred, as under accrual accounting. Expenditures for capital assets are reported as current expenses, and such assets are not depreciated.

When the district incurs an expenditure or expense for which both restricted and unrestricted resources (the total of committed, assigned, and unassigned) are available for use, it is the District's policy to use restricted resources first. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by the assigned fund balance, and the unassigned fund balance will be applied last.

6. Cash and Cash Equivalents: The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents. Legal requirements and the District's policies governing deposits are discussed in Note B.
7. Receivables: In the government-wide and general fund financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The District has no allowance for uncollectible accounts at December 31, 2021, as management considers all receivables collectible.
8. Property Assessments: Property assessments are levied by October 1 on the assessed value listed as of the prior January 1 for all real property. Assessments are due on receipt of the assessment bill and are delinquent if not paid before January 1 of the year following the year in which the assessment is imposed. On April 1 of each year, an assessment lien attaches to property to secure the payment of all assessments, penalties, and interest ultimately imposed. Property assessment revenues are considered available when they become due or past due and receivable within the current period.
9. Budgetary Accounting: No later than two months prior to the beginning of each year, the Board of Directors shall prepare and submit to the Louisville Metro Council for its approval an annual budget for the District.

The annual budget shall be presented in such form as shall be required by the Metro Government's Department of Finance and Budget or that Department's successor.

The Board of Directors may not take any action or expend any money pursuant to the proposed budget until such time as it is approved by the Metro Council. If the Metro Council has not approved the budget as of the first day of the new fiscal year, the budget of the previous year shall have full force and effect as if readopted until such time as a budget is approved.

10. Capital Assets: Capital assets owned by the District, including leasehold improvements, equipment, and vehicles are reported in the governmental activities on the government-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred.

Louisville Downtown Management District
Notes to Financial Statements (Continued)
Year Ended December 31, 2021

Note A - Summary of Significant Accounting Policies (Continued)

10. Capital Assets (Continued): All capital assets are depreciated using the straight-line depreciation method over the following estimated useful lives:

| | |
|------------------------|--------------|
| Office equipment | 3 - 7 years |
| Computer equipment | 3 - 7 years |
| General equipment | 3 - 7 years |
| Vehicles | 3 - 7 years |
| Leasehold improvements | 3 - 10 years |

11. Management's Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

12. Net Position/Fund Balances: In the Statement of Net Position, the difference between the District's assets and liabilities is recorded as net position. The two components of net position are as follows:

- *Unrestricted Net Position*: This category represents net assets not appropriated for expenditures or legally segregated for a specific future use.
- *Invested in Capital Assets*: This category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowing attributable to the acquisition, construction, or improvement of capital assets.

In the Balance Sheet - Governmental Funds, fund balances are segregated as follows:

- *Nonspendable*: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- *Unassigned*: This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

13. Subsequent Events: Subsequent events for the District have been considered through the date of the Independent Auditor's Report, which represents the date the financial statements were available to be issued.

14. Recent Accounting Pronouncements: In June 2017, the GASB issued statement No. 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this statement were originally effective for fiscal years beginning after December 15, 2019. With the release of GASB No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, GASB No. 87, *Leases*, has been delayed 18 months and will be effective for periods beginning after June 15, 2021. The District has commenced its evaluation of the standard and anticipates an immaterial impact to the financial statements upon adoption.

Louisville Downtown Management District
Notes to Financial Statements (Continued)
Year Ended December 31, 2021

Note B - Deposits

At December 31, 2021, the District's cash and cash equivalents consist of cash and interest-bearing savings accounts in the amount of \$937,546 held by financial institutions partially insured by the Federal Deposit Insurance Corporation ("FDIC") and the remainder collateralized by securities held by the pledging financial institution.

At December 31, 2021, the District's certificates of deposit amount to \$416,070 held by financial institutions insured by the FDIC.

Custodial Credit Risk - For a deposit, custodial credit risk is the risk that the deposit may not be returned to the District in the event of a bank failure. State statutes require all deposits to be collateralized by deposit insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. Consistent with the District's deposit policy and the state statutes, all unrestricted cash deposits were covered by FDIC insurance or a properly executed collateral security agreement at December 31, 2021.

Note C - Capital Assets

Capital asset activity for the fiscal year ended December 31, 2021 was as follows:

| | Beginning balance | Additions | Disposals | Ending balance |
|--|----------------------|------------------|-------------|-------------------|
| Cost | | | | |
| Vehicles | \$ 91,022 | \$ - | \$ (8,221) | \$ 82,801 |
| Leasehold improvements | 25,815 | 5,411 | (25,815) | 5,411 |
| Equipment | 19,599 | 14,734 | (14,849) | 19,484 |
| Office equipment | 10,476 | - | (9,144) | 1,332 |
| Computer equipment/software | 19,886 | - | (16,469) | 3,417 |
| Streetscape | 98,957 | - | (3,151) | 95,806 |
| Assets in progress | - | 23,407 | - | 23,407 |
| Total depreciable cost | 265,755 | 43,552 | (77,649) | 231,658 |
| Less accumulated depreciation | | | | |
| Vehicles | 91,022 | - | (8,221) | 82,801 |
| Leasehold improvements | 25,815 | 1,503 | (25,815) | 1,503 |
| Equipment | 19,599 | 1,585 | (14,849) | 6,335 |
| Office equipment | 10,473 | - | (9,144) | 1,329 |
| Computer equipment/software | 19,654 | 231 | (16,469) | 3,416 |
| Streetscape | 69,922 | 11,753 | (3,151) | 78,524 |
| Total accumulated depreciation | 236,485 | 15,072 | (77,649) | 173,908 |
| Governmental activities capital assets, net | <u>\$ 29,270</u> | <u>\$ 28,480</u> | <u>\$ -</u> | <u>\$ 57,750</u> |

Depreciation expense charged to governmental activities for the year ended December 31, 2021 was \$15,072.

Louisville Downtown Management District
Notes to Financial Statements (Continued)
Year Ended December 31, 2021

Note D - Leases

The District is obligated under non-cancelable operating leases for office space and office equipment. At December 31, 2021, obligations under operating leases with initial or remaining non-cancellable lease terms longer than one year were as follows:

| <u>Year ending December 31,</u> | |
|---------------------------------|------------------|
| 2022 | \$ 32,740 |
| 2023 | 32,740 |
| 2024 | <u>5,627</u> |
| Total | <u>\$ 71,107</u> |

For the year ended December 31, 2021, total lease expenditures amounted to \$35,246.

Note E - Related Party Transactions

The District has a service contract with Louisville Downtown Development Corporation ("LDDC") through December 31, 2022 to manage the District's operations and programs, including personnel services, for which the District pays a service fee as defined in the agreement. Service fees were \$432,008 for the year ended December 31, 2021.

In addition, the District subleased office space from LDDC through February 28, 2021. Terms of the lease required monthly rent of \$3,906. A new sublease was signed with LDDC beginning on March 1, 2021 through February 28, 2024. Terms of the new lease require monthly rent of \$2,700. Future obligations under these leases are included in Note D. Total rental expenditures paid to LDDC amounted to \$34,812 for year ended December 31, 2021.

At December 31, 2021, the District had a net payable of \$3,828 due to LDDC.

Note F - Contingency

In March 2020, the outbreak of COVID-19 was declared a United States and global pandemic. The District's operations have generally been impacted by the outbreak of COVID-19. Since the situation surrounding the pandemic is on-going, the duration, nature, and extent of the ultimate direct or indirect impact on the District's financial condition, liquidity, and/or future results of operations cannot be reasonably estimated at this time. Based on current circumstances, management believes the District has adequate financial resources and the liquidity to continue to sustain operations throughout the pandemic and for a period of at least one year beyond the date the accompanying financial statements were available to be issued.

Required Supplementary Information

Louisville Downtown Management District
Required Supplementary Information
Schedule of Revenue and Expenditures - Actual Results Compared to Budget
Year Ended December 31, 2021

| | <u>2021 actual</u> | <u>2021 budget</u> | <u>\$ variance</u> |
|--|--------------------|--------------------|--------------------|
| Expenditures | | | |
| Program services | | | |
| Business improvement district operations | \$ 1,042,438 | \$ 1,075,540 | \$ (33,102) |
| Economic development | 212,792 | 261,045 | (48,253) |
| Marketing and communications | <u>294,284</u> | <u>211,060</u> | <u>83,224</u> |
| Total program services | 1,549,514 | 1,547,645 | 1,869 |
| General administration | | | |
| Operations | <u>200,248</u> | <u>178,335</u> | <u>21,913</u> |
| Total general administration | 200,248 | 178,335 | 21,913 |
| Revenues | | | |
| Program revenues | | | |
| Contract services | 179,752 | 270,520 | (90,768) |
| Incremental services and events | <u>9,013</u> | <u>9,600</u> | <u>(587)</u> |
| Total program revenues | 188,765 | 280,120 | (91,355) |
| General revenues | | | |
| Property assessments | 1,509,351 | 1,437,100 | 72,251 |
| Interest income | 8,844 | 8,660 | 184 |
| Other income | <u>9,891</u> | <u>100</u> | <u>9,791</u> |
| Total general revenues | <u>1,528,086</u> | <u>1,445,860</u> | <u>82,226</u> |
| Change in net position | <u>\$ (32,911)</u> | <u>\$ -</u> | <u>\$ (32,911)</u> |

See accompanying independent auditor's report and notes to financial statements.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
Louisville Downtown Management District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Louisville Downtown Management District (the "District") as of and for the year ended December 31, 2021 and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated March 17, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards* (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Louisville, Kentucky
March 17, 2022