



**Dallas CBD Enterprises
and Affiliate**

**Consolidated Financial Statements – Income Tax Basis
with Supplemental Information
December 31, 2016 and 2015**

Dallas CBD Enterprises and Affiliate

Contents

Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position – Income Tax Basis	4
Consolidated Statements of Activities – Income Tax Basis	5
Consolidated Statements of Cash Flows – Income Tax Basis	6
Notes to Consolidated Financial Statements – Income Tax Basis	7
Supplemental Information:	13
Consolidated Budget to Actual Comparison – Income Tax Basis	14



Independent Auditors' Report

The Board of Directors
Dallas CBD Enterprises and Affiliate

We have audited the accompanying consolidated financial statements of Dallas CBD Enterprises and Affiliate (nonprofit organizations) (collectively, the Organization), which comprise the consolidated statements of financial position – income tax basis as of December 31, 2016 and 2015 and the related consolidated statements of activities – income tax basis and cash flows – income tax basis for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The consolidated financial statements referred to above do not include financial activities of Central Dallas Association and Dallas CV, Inc., affiliated organizations, which should be included in order to conform with the basis of accounting the Organization uses for income tax purposes. If the omitted entities had been included, the assets, liabilities and support of the consolidated Organization would have increased by \$6,131,130, \$223, and \$1,883,053, respectively, as of and for the year ended December 31, 2016 and \$5,745,454, \$223, and \$2,555,571, respectively, as of and for the year ended December 31, 2015. Consolidated expenses over support for the year ended December 31, 2016 would have increased \$385,676 and net assets would have been \$8,138,003 as of December 31, 2016. Net consolidated expenses over support for the year ended December 31, 2015 would have increased \$599,842 and net assets would have been \$7,790,424 as of December 31, 2015.

The Organization has excluded from the consolidated statements of activities – income tax basis unearned assessment revenue that, in our opinion, should be included to conform to the income tax basis of accounting. If the effects of the unearned assessment revenue were included, current liabilities as of December 31, 2016 and 2015 would be decreased by \$1,330,179 and \$1,565,772, respectively, with corresponding increases to net assets.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraphs, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Dallas CBD Enterprises and Affiliate as of December 31, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with the basis of accounting the Organization uses for income tax purposes described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the basis of accounting the Organization uses for income tax purposes, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated budget to actual comparison – income tax basis is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Sutton Frost Cary".

A Limited Liability Partnership

Arlington, Texas
June 19, 2017

Dallas CBD Enterprises and Affiliate
Consolidated Statements of Financial Position – Income Tax Basis
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,950,232	\$ 3,044,615
Property and equipment:		
Leasehold improvements	191,435	191,435
Equipment	2,145,598	2,107,898
	2,337,033	2,299,333
Less accumulated depreciation	(1,949,989)	(1,732,983)
Property and equipment, net	387,044	566,350
Total assets	\$ 3,337,276	\$ 3,610,965
Liabilities and Net Assets		
Current liabilities:		
Unearned assessment revenue	\$ 1,330,179	\$ 1,565,772
Net assets:		
Unrestricted:		
Board designated	798,836	896,293
Undesignated	1,147,418	1,078,468
Total unrestricted net assets	1,946,254	1,974,761
Temporarily restricted	60,843	70,432
Total net assets	2,007,097	2,045,193
Total liabilities and net assets	\$ 3,337,276	\$ 3,610,965

See notes to consolidated financial statements.

Dallas CBD Enterprises and Affiliate
Consolidated Statements of Activities – Income Tax Basis
Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted net assets:		
Revenue and support:		
Assessment revenue	\$ 6,262,911	\$ 5,732,814
Contributions	22,475	12,635
In-kind contributions	393,165	356,722
Interest income	2,979	1,155
Total unrestricted revenue and support	6,681,530	6,103,326
Net assets released from restrictions - satisfaction of usage restrictions	9,589	4,040
Total unrestricted revenue, support and reclassifications	6,691,119	6,107,366
Expenses:		
Program:		
Safety	2,623,852	2,354,142
Maintenance and beautification	1,069,519	1,073,912
Improvement programs	154,434	129,265
Communications and events	1,093,050	943,828
Transportation services	382,829	328,488
Total program expenses	5,323,684	4,829,635
General and administrative	1,395,942	1,175,087
Total expenses	6,719,626	6,004,722
Increase (decrease) in unrestricted net assets	(28,507)	102,644
Temporarily restricted net assets:		
Contributions	-	585
Net assets released from restrictions	(9,589)	(4,040)
Decrease in temporarily restricted net assets	(9,589)	(3,455)
Increase (decrease) in net assets	(38,096)	99,189
Net assets at beginning of year	2,045,193	1,946,004
Net assets at end of year	\$ 2,007,097	\$ 2,045,193

See notes to consolidated financial statements.

Dallas CBD Enterprises and Affiliate
Consolidated Statements of Cash Flows – Income Tax Basis
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (38,096)	\$ 99,189
Adjustment to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	217,006	231,629
Change in unearned assessment revenue	<u>(235,593)</u>	<u>1,059,150</u>
Net cash (used) provided by operating activities	(56,683)	1,389,968
Cash flows from investing activities -		
Capital expenditures	<u>(37,700)</u>	<u>(152,299)</u>
Increase (decrease) in cash and cash equivalents	(94,383)	1,237,669
Cash and cash equivalents at beginning of year	<u>3,044,615</u>	<u>1,806,946</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,950,232</u></u>	<u><u>\$ 3,044,615</u></u>

See notes to consolidated financial statements.

Dallas CBD Enterprises and Affiliate

Notes to Consolidated Financial Statements – Income Tax Basis

1. Organization

The accompanying consolidated financial statements include the accounts of Dallas CBD Enterprises (DCBDE) and Downtown Safety Patrol (DSP) (collectively, the Organization). The common objective of these corporations is to support positive development in downtown Dallas (Downtown).

DCBDE was created in 1982 for the purpose of promoting sound, effective civic and community development and redevelopment, and to combat deterioration in and around Downtown. On September 25, 1992, DCBDE began doing business as the Dallas Downtown Improvement District.

DSP was created in 2006 for the purpose of improving the safety of Downtown through the use of its safety patrol and through coordination with the Dallas Police Department.

The Organization is supported primarily by property assessments received from Dallas County and contributions from individuals and other organizations.

The Organization's board of directors overlaps with the board of directors of Central Dallas Association (CDA) and Dallas CV, Inc.

The Dallas Downtown Improvement District (District) was created under Chapter 372 of the Texas Local Government Code, by the City of Dallas, as a special assessment district. The District was created to supplement existing programs and services in the areas of security, maintenance, capital improvements, communications and events. The Organization receives assessment revenue from the District who collects it as property taxes from tenants in the Downtown area. The amount of assessment depends on the location of the property. At December 31, 2016 and 2015 the annual assessment equaled .129 for the District service area per \$100 valuation of taxable real property as determined by the Dallas Central Appraisal District. The special assessment is levied each October 1 and is due by the following January 31. The District automatically terminates on December 31, 2020, unless reauthorized by petition from the affected property owners.

The City of Dallas and the Organization signed a contract whereby the Organization is responsible for management services and other services and improvements approved by the City Council. This contract is effective through December 31, 2020, unless otherwise agreed to in writing by the parties.

2. Summary of Significant Accounting Policies

Consolidated Financial Statements

In accordance with the provisions of FASB ASC 958-810 Not-for-Profit Entities/Consolidations, the financial statements of DCBDE and DSP have been consolidated and all inter-organization transactions and accounts have been eliminated.

Dallas CBD Enterprises and Affiliate

Notes to Consolidated Financial Statements – Income Tax Basis

Income Tax Basis of Accounting

The Organization prepares its consolidated financial statements on the basis of accounting the Organization uses for income tax purposes; consequently, the Organization's accounting for revenue recognition and certain other expenses is as prescribed by the Internal Revenue Code and related regulations. Accordingly, the accompanying consolidated financial statements are not intended to present financial position, activities and cash flows in conformity with U.S. generally accepted accounting principles.

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse; thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purpose. There are no permanently restricted net assets as of December 31, 2016 or December 31, 2015.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents. Cash is placed with high credit quality financial institutions to minimize risk.

The Organization maintains cash balances at a financial institution located in Texas. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016, the Organization's uninsured balances totaled \$2,082,139. At December 31, 2016, \$1,485,052 was covered by the Securities Investor Protection Corporation.

Dallas CBD Enterprises and Affiliate

Notes to Consolidated Financial Statements – Income Tax Basis

A substantial portion of the Organization's revenue is dependent on property assessments received from Dallas County. As such, economic cycles, government legislation and property values may have an impact on the assessment revenue of the Organization.

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (3 to 10 years). The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Revenue Recognition

Contributions are generally recorded only upon receipt and are considered available for unrestricted use unless specifically restricted by the donor. The Organization recognizes contribution revenue for certain services received at the fair value of those services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The Organization recognizes support and revenue on the basis of accounting the Organization uses for income tax purposes, with the exception of assessment revenue, which it recognizes when earned.

Income Taxes

The Organization is approved as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the consolidated financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2016 or 2015. The Organization had no significant uncertain tax positions for the years ended December 31, 2016 and 2015.

Dallas CBD Enterprises and Affiliate

Notes to Consolidated Financial Statements – Income Tax Basis

Estimates and Assumptions

The preparation of consolidated financial statements in conformity with the basis of accounting the Organization uses for income tax purposes requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain items in the 2015 consolidated financial statements have been reclassified for comparative purposes to conform with the presentation of the 2016 consolidated financial statements.

3. Related Party Transactions

The Organization has a service contract with CDA whereby CDA provides certain administrative, managerial and operating services to the Organization, as defined in the contract between the organizations. During the years ended December 31, 2016 and 2015, such services totaled \$500,431 and \$472,129, respectively, and have been allocated to various expense categories in the accompanying consolidated statements of activities – income tax basis, based upon the nature of the expense and the related service provided to the Organization by CDA. The Organization also reimbursed CDA for certain direct expenses totaling \$949,802 and \$867,180 for the years ended December 31, 2016 and 2015, respectively.

4. Description of Programs

The Organization's expenses during the years ended December 31, 2016 and 2015 support the following programs:

- Safety – To make Downtown safer and to help people feel more secure Downtown.
- Maintenance and beautification – To make Downtown's sidewalks, streets, walkways and public spaces clean and visually attractive.
- Improvement programs – To provide funds for Downtown capital improvements, including sidewalk enhancements, parks, landscaped portals and vacant lots, lighting and retail development.
- Communications and events – To make Downtown more appealing to Metroplex residents and employers, visitors and external corporations by supporting (a) development and distribution of Downtown information and (b) special events and promotions.
- Transportation services – To provide Downtown circulator operation and maintenance of mass transportation facilities.

Dallas CBD Enterprises and Affiliate
Notes to Consolidated Financial Statements – Income Tax Basis

5. Designations and Restrictions on Net Assets

Net assets are designated by the board of directors or temporarily restricted by donors for the following purposes at December 31:

	2016	2015
Board designated:		
Belo Garden	\$ 121,100	\$ 148,459
Clean Team equipment	84,828	67,411
Main Street Garden	85,128	41,943
Main Street Garden Retail	200,000	200,000
Playground equipment	91,658	104,781
Pegasus Plaza	21,651	22,911
Downtown Safety Patrol	-	1,000
Ferris Plaza	1,000	500
Public space improvements	193,121	309,288
Parking Day	350	-
Total board designated	\$ 798,836	\$ 896,293
Temporarily restricted:		
Camera	\$ 10,624	\$ 10,624
Lend-a-hand	219	219
Urban ambassador	-	7,608
Routh Street underpass	50,000	50,000
TX/OU barbeque cookoff	-	1,981
Total temporarily restricted	\$ 60,843	\$ 70,432

6. Commitments

Operating Lease

The Organization has a non-cancelable operating lease agreement for cleaning equipment. The lease expires in June 2019. The following is a schedule of future minimum payments under the Organization's lease agreement for the years ending December 31:

2017	\$ 24,000
2018	24,000
2019	12,000

Dallas CBD Enterprises and Affiliate

Notes to Consolidated Financial Statements – Income Tax Basis

Service Agreement

The Organization entered into a service agreement on March 27, 2017 with a company to provide communications support through March 26, 2019. The following is a schedule of future minimum payments under the Organization’s service agreements for the years ending December 31:

2017	\$	12,263
2018		16,350
2019		4,088

7. In-Kind Contributions and Related Party Transactions

The Organization’s offices for Safety and Maintenance were housed in donated facilities. The donated rent was valued at \$77,714 and \$60,442 for the years ended December 31, 2016 and December 31, 2015, respectively, and is included in in-kind contributions and expense in the accompanying consolidated statements of activities – income tax basis.

The Organization’s administrative offices received donated rent from a building that is managed by a board member. The contribution was valued at \$296,280 for the years ended December 31, 2016 and 2015, respectively, and is included in in-kind contributions and expense in the accompanying consolidated statements of activities – income tax basis.

During the year ended December 31, 2016, the Organization received donated services related to program services with a fair market value of \$9,907, which is reflected in the accompanying consolidated statements of activities – income tax basis.

During the year ended December 31, 2016, the Organization received donated legal services from the law firm of a board member. The services had a fair market value of \$9,264 and are reflected in the accompanying consolidated statements of activities – income tax basis.

8. Subsequent Events

Management has evaluated subsequent events through June 19, 2017, the date which the consolidated financial statements were available to be issued, and concluded that no additional disclosures are required.

Supplemental Information

Dallas CBD Enterprises and Affiliate
Consolidated Budget to Actual Comparison – Income Tax Basis
Year Ended December 31, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenue and support:			
Assessment revenue	\$ 6,342,277	\$ 6,262,911	\$ (79,366)
Contributions	-	22,475	22,475
In-kind contributions	-	393,165	393,165
Interest income	-	2,979	2,979
Total revenue and support	<u>6,342,277</u>	<u>6,681,530</u>	<u>339,253</u>
Expenses:			
Safety	2,557,308	2,623,852	(66,544)
Maintenance and beautification	1,172,315	1,069,519	102,796
Improvement programs	430,899	154,434	276,465
Communications and events	1,334,503	1,093,050	241,453
Transportation	385,580	382,829	2,751
General and administrative	849,175	1,395,942	(546,767)
Total expenses	<u>6,729,780</u>	<u>6,719,626</u>	<u>10,154</u>
Decrease in net assets	<u>\$ (387,503)</u>	<u>\$ (38,096)</u>	<u>\$ 349,407</u>

See Independent Auditors' Report.

Dallas CBD Enterprises and Affiliate
Consolidated Budget to Actual Comparison – Income Tax Basis
Year Ended December 31, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenue and support:			
Assessment revenue	\$ 5,766,866	\$ 5,732,814	\$ (34,052)
Contributions	-	12,635	12,635
In-kind contributions	-	356,722	356,722
Interest income	-	1,155	1,155
Total revenue and support	<u>5,766,866</u>	<u>6,103,326</u>	<u>336,460</u>
Expenses:			
Safety	2,545,318	2,354,142	191,176
Maintenance and beautification	1,433,798	1,073,912	359,886
Improvement programs	554,936	129,265	425,671
Communications and events	1,116,416	943,828	172,588
Transportation	381,689	328,488	53,201
General and administrative	768,607	1,175,087	(406,480)
Total expenses	<u>6,800,764</u>	<u>6,004,722</u>	<u>796,042</u>
Increase (decrease) in net assets	<u>\$ (1,033,898)</u>	<u>\$ 98,604</u>	<u>\$ 1,132,502</u>

See Independent Auditors' Report.