

Deep Ellum Improvement District

Financial Statements and Independent Auditors' Report

December 31, 2022



Malnory, McNeal
& COMPANY, PC

ACCOUNTING • ADVISORY • ASSURANCE

DEEP ELLUM IMPROVEMENT DISTRICT

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Independent Auditors' Report

To the Board of Directors
of Deep Ellum Public Improvement District

Opinion

We have audited the accompanying financial statements of Deep Ellum Public Improvement District (the "District"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deep Ellum Public Improvement District as of December 31, 2022, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Deep Ellum Public Improvement 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 opinion.

Responsibilities of Management for the Financial Statements

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 Deep Ellum Public Improvement District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objective is 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 auditors' report that includes our opinion. 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Deep Ellum Public Improvement 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 Deep Ellum Public Improvement 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.



Dallas, Texas
April 24, 2023

Deep Ellum Public Improvement District
Statement of Financial Position
December 31, 2022

Assets

Current Assets	
Cash & cash equivalents	\$ 90,970
Tax assessments receivable	1,466,965
Total current assets	<u>1,557,935</u>
Fixed assets	<u>28,568</u>
Total Assets	<u>\$ 1,586,503</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 4,598
Due to DEF	45,957
Tax assessments-deferred revenue	1,485,019
Total current liabilities	<u>1,535,574</u>
Net Assets	
Net assets without donor restrictions	50,929
Net assets with donor restrictions	<u>-</u>
Total Net Assets	<u>50,929</u>
Total Liabilities and Net Assets	<u>\$ 1,586,503</u>

Deep Ellum Public Improvement
Statements of Activities and Changes in Net Assets
For the Period of December 31, 2022

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Revenue:			
Assessments	\$ 1,139,853	\$ -	\$ 1,139,853
Interest income	(167)	-	(167)
Less: City and county fees	<u>(14,273)</u>	<u>-</u>	<u>(14,273)</u>
Total Revenue	1,125,413	-	1,125,413
Expenses			
Program	1,028,529	-	1,028,529
Supporting	179,613	-	179,613
Fundraising	-	-	-
Total expenses	<u>1,208,142</u>	<u>-</u>	<u>1,208,142</u>
Changes in Net Assets	(82,729)	-	(82,729)
Net Assets at beginning of year	<u>133,658</u>	<u>-</u>	<u>133,658</u>
Net Assets at end of year	<u>\$ 50,929</u>	<u>\$ -</u>	<u>\$ 50,929</u>

Deep Ellum Improvement District
Statement of Functional Expenses
For the Period of December 31, 2022

	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Improvements/maintenance	\$ 183,469	\$ -	\$ -	\$ 183,469
Business development & recruitment	123,056	-	-	123,056
Marketing & promotion	187,532	-	-	187,532
Public safety	449,041	-	-	449,041
Adminstration	-	179,613	-	179,613
Financial audit and insurance	85,431	-	-	85,431
Total functional expenses	<u>\$ 1,028,529</u>	<u>\$ 179,613</u>	<u>\$ -</u>	<u>\$ 1,208,142</u>

Deep Ellum Public Improvement District
Statement of Cash Flows
For the Period of December 31, 2021

Cash flows from operating activities	
Changes in net assets	\$ (82,729)
Adjustments to reconcile changes in net assets to cash provided by (used in) operating activities	
Changes in operating assets and liabilities	
(Increase) decrease in accounts receivable	(322,586)
Increase (decrease) in accounts payable	(2,017)
Increase (decrease) in due to DEF	45,957
Increase (decrease) in deferred revenue	<u>318,194</u>
Net cash provided by (used in) operating activities	<u>(43,181)</u>
 Net increase (decrease) in cash	 <u>(43,181)</u>
 Cash and cash equivalents at beginning of period	 <u>134,151</u>
 Cash and cash equivalents at end of period	 <u><u>\$ 90,970</u></u>

Deep Ellum Public Improvement District
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Deep Ellum Public Improvement District (the “District”) is managed by the Deep Ellum Foundation (“DEF”), a nonprofit corporation, who is responsible for the management of services for the District.

Deep Ellum Public Improvement District

On May 12, 1999, the owners of real property within the proposed District delivered to the City of Dallas (the “City”) a petition to create the District. On August 25, 1999, the City Council of the City of Dallas approved the petition and authorized the creation of the District. The District was to dissolve December 31, 2013, but instead was renewed by the owners of real property within the proposed District by a petition delivered to the City of Dallas on April 1, 2013 which was approved on August 14, 2013. The District would have automatically dissolved December 31, 2020, however, the District renewed through the petition and approval process as provided by law and is scheduled to automatically dissolve December 31, 2025.

The purpose of the District is to provide and enhance public safety, capital improvements and landscaping, improvements, administration, financial audit and insurance, marketing and promotion, business development and recruitment, and related activities as authorized by law. The funding of operations, approved by the City of Dallas, will be paid from assessments on the real property within the District. The assessment levied for 2022 is \$0.12 per \$100 of appraisal value by the Dallas Central Appraisal District. Future assessment rates will be set by the Dallas City Council and shall not exceed \$0.15 per \$100 of appraisal value. The Dallas County Tax Office provides assessment collection services for the District.

Management Contract

On March 7, 2007, DEF entered into a contract with the City of Dallas whereby DEF provides management, accounting, and other services for the District. This contract, as renewed and authorized by the City Council on September 12, 2018, will terminate December 31, 2026, or upon dissolution of the District.

Basis of Accounting

The District prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. The accompanying financial statements include only the accounts of the District and do not include any separate accounts related to the activities of DEF.

Deep Ellum Public Improvement District
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Financial Statements Presentation

For reporting purposes, resources are classified into two net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the District and changes therein are classified and reported as follows:

Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - net assets subject to donor-imposed stipulations that may or will be met either by actions of the District and/or the passage of time or subject to donor-imposed stipulations that are to be maintained permanently. Generally, the donors of these assets permit the District to use all or part of the income earned on any related investments for general or specific purposes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations, as net assets are released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets without donor restrictions. There were no net assets with donor restrictions as of December 31, 2022.

Financial Instruments

The District's financial instruments consist of cash only. It is the Board's opinion that the District is not exposed to significant interest rate or credit risk arising from the instrument. Unless otherwise noted, the fair value of the financial instrument is the market value of the financial instrument, and approximates their carrying value.

Cash & Concentration of Credit Risk

The District deposits its cash primarily with a major bank in Dallas, Texas. Accounts at the Institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. All deposits were adequately insured at December 31, 2022. The District has not incurred losses related to its cash and believes it is not exposed to any significant credit risk on cash.

Revenue Recognition

Revenue is recognized for the year as the Organization satisfies performance obligations under its service plan, in an amount that reflects the council approved consideration that it expects to receive in exchange for those projects or services. The annual amount and timing of revenue recognition varies based on the nature of the projects or services provided and the terms and conditions of the service plan.

Performance obligations are determined based on the nature of the projects or services provided by the Organization in accordance with the service plan. Revenue for performance obligations

Deep Ellum Public Improvement District
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

satisfied over time is recognized ratably over the period based on time elapsed. The Organization believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time is generally recognized when the projects or services are provided to residents or property owners at a single point in time and the Organization does not believe it is required to provide additional services related to that transaction. The Organization's revenue streams do not have significant financing components.

Property Assessment, Assessments Receivable, Assessments Allocable, and Revenue

The District presents an annual Service Plan and Assessment Plan to the City in September of each year. After due process and upon adoption, the City levies a property assessment against property in the District and provides for collection of the assessment to be used by the District for the approved services and improvements to property in the District during the following calendar year.

The District records property assessments as a receivable when levied by the City and a corresponding offset to assessments allocable to the respective organization. The Dallas County Assessment Office (the "County") mails property assessment statements to the property owners in October of each year, which are due and payable on October 1, and are delinquent if not paid on or before January 31. No allowance for uncollectible assessments is established because delinquent assessments are considered fully collectible. As collections are received by the County, they were remitted to the District through September 30, 2018. Effective October 1, 2018, collections were remitted to the City to be remitted to the District upon approved request. Assessments allocable are recognized as revenue without donor restrictions as of January 1 each year to correspond to the approved Service Plan's provision for services and improvements for the calendar year. The 2022 tax assessment levy receivable as of December 31, 2022 is \$1,466,965.

Functional Allocation of Expenses

The costs of providing the District's various programs, fundraising, management and general have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, fundraising, management and general categories based on the specific identification of costs or approximate percentage of time and other methods.

Deep Ellum Public Improvement District
Notes to Financial Statements
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Income Tax Status

DEF is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for Federal income taxes has been recorded in the accompanying financial statements. In addition, DEF has been classified as an organization that is not a private foundation. There was no unrelated business income or known Federal excise taxes for the year ended December 31, 2021. DEF's federal Return of Organization Exempt from Income Tax (Form 990) for 2019, 2020, and 2021 are open to examination by the IRS for a period of three years from the date the returns are filed.

Accounting for Uncertainty in Income Taxes

Management has concluded that any assessment provisions that would not meet the more-likely-than-not criterion of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740-10, Accounting for Income Taxes, would be immaterial to the financial statement taken as a whole. Accordingly, the accompanying financial statements do not include any provision of uncertain assessment positions, and no related interest or penalties have been recorded in the operating statements.

Concentration of Revenue Sources

The District's revenue is totally derived from annual assessments levied by the City. The current level of the District's operations and programs may be impacted if the City's annual assessment is not levied.

Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. PENSION PLAN

In 2019, the District adopted a pension and profit sharing plan for the primary purpose of providing retirement benefits to all eligible employees. The District's contributions each year are subject to the discretion of management. The District made a matching contribution to the plan of \$599 for the year ended December 31, 2022.

Deep Ellum Public Improvement District
Notes to Financial Statements
December 31, 2022

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date are cash and tax assessment receivable of \$1,557,935.

The District manages its liquidity and reserves the following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

4. VALUE CHANGES

Value changes occur when a property owner within the District disputes their original tax assessment amount and, as a result of negotiation and or litigation between owners and Dallas Central Appraisal District, the original assessment is increased or reduced. Any resulting changes in assessed valuation and related property assessment amounts may change amounts remitted from the County or result in refunds issued by the District.

5. COLLECTION FEES

Collection fees retained by the County for the 2021 levy in the amount of \$2,487 are netted against assessment collections received from the County by the City in January 2022 for its collection services during 2021. The 2022 collection fees will be netted against collections received in 2023.

The City reimbursed the City General Fund for administrative costs incurred for the day-to-day accounting responsibilities, administrative, and operational oversight of the District from the assessment collections received from the County in the amount of \$11,785 for the year ended December 31, 2022.

In addition to remitting the net assessment collections received from the County, the City incurred an unrealized loss of (\$520). The unrealized loss is related to the change in the fair value of the City's cash and investment pool. The present values of the City's investments decreased because the interest rates have been increasing in the fiscal year ending 2022. When interest rates increase, the bond price decreases. When interest rates decrease, the bond price increases. The City's practice is to hold investments to maturity so the values are expected to go up in the long-term.

6. TRANSACTIONS WITH AFFILIATES

The District purchased insurance policies brokered through an insurance agent that is a member of the board of directors in the amounts of \$5,465 for the year ended December 31, 2022, respectively.

Deep Ellum Public Improvement District
Notes to Financial Statements
December 31, 2022

7. COMMITMENTS

The District enters into various agreements for goods and services in the ordinary course of providing the various programs and other activities.

8. SERVICES

Services provided by the District are made in accordance with the annual Service Plan approved by the City as reported in the accompanying statements of activities and changes in net assets.

9. SUBSEQUENT EVENTS

The District has evaluated subsequent events through April 24, 2023, the date the financial statements were available to be issued.