

Prestonwood Public Improvement District

Financial Statements and
Independent Auditors' Report
December 31, 2020

PRESTONWOOD PUBLIC IMPROVEMENT DISTRICT

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Independent Auditors' Report

Board of Directors
Prestonwood Homeowners' Association, Inc.

We have audited the accompanying financial statements of Prestonwood Public Improvement District (the "District"), which comprise the statement of financial position as of December 31, 2020, 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.

Management's Responsibility 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, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Prestonwood Public Improvement District
Statement of Financial Position
December 31, 2020

Assets

Current Assets	
Cash	\$ 259,582
Tax assessments receivable	425,363
Total current assets	<u>684,945</u>
 Total Assets	 \$ <u><u>684,945</u></u>

Liabilities and Net Assets

Current Liabilities	
Tax assessments - deferred revenue	\$ 445,791
Total current liabilities	<u>445,791</u>
 Net Assets	
Net assets without donor restrictions	<u>239,154</u>
Total Net Assets	<u>239,154</u>
 Total Liabilities and Net Assets	 \$ <u><u>684,945</u></u>

Prestonwood Public Improvement
Statement of Activities and Change in Net Assets
For the Period of December 31, 2020

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Revenue:			
Assessments	\$ 452,734	\$ -	\$ 452,734
Interest income	603	-	603
Less: City and county fees	<u>(10,776)</u>	<u>-</u>	<u>(10,776)</u>
Total Revenue	442,561	-	442,561
Expenses			
Program	340,413	-	340,413
Supporting	26,119	-	26,119
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>366,532</u>	<u>-</u>	<u>366,532</u>
Change in Net Assets	76,029	-	76,029
Net Assets at beginning of year	<u>163,125</u>	<u>-</u>	<u>163,125</u>
Net Assets at end of year	<u>\$ 239,154</u>	<u>\$ -</u>	<u>\$ 239,154</u>

Prestonwood Public Improvement District
Statement of Functional Expenses
For the Period of December 31, 2020

	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Admin expenses	\$ -	\$ 17,539	\$ -	\$ 17,539
Audit	-	8,580	-	8,580
Insurance	7,964	-	-	7,964
Public safety	332,449	-	-	332,449
Total functional expenses	<u>\$ 340,413</u>	<u>\$ 26,119</u>	<u>\$ -</u>	<u>\$ 366,532</u>

Prestonwood Public Improvement District
Statement of Cash Flows
For the Period of December 31, 2020

Cash flows from operating activities	
Change in net assets	\$ 76,029
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities	
Change in operating assets and liabilities	
(Increase) decrease in accounts receivable	19,331
Increase (decrease) in deposits and deferred income	<u>22,187</u>
Net cash provided by (used in) operating activities	<u>117,547</u>
 Net increase (decrease) in cash	 117,547
 Cash and cash equivalents at beginning of period	 <u>142,035</u>
 Cash and cash equivalents at end of period	 <u><u>\$ 259,582</u></u>

Prestonwood Public Improvement District
Notes to Financial Statements
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Prestonwood Homeowners' Association, Inc. ("PHA") is a nonprofit corporation, incorporated in the State of Texas. PHA was organized to assure the beauty, safety, and stability of an area known as Prestonwood and the surrounding community, all located in the City of Dallas, Texas.

Prestonwood Public Improvement District

On March 5, 1997, the owners of real property within the proposed Prestonwood Public Improvement District ("the District") delivered to the City of Dallas (the "City") a petition to create the District. On May 14, 1997, the City Council of the City of Dallas approved the petition and authorized the creation of the District. On May 23, 2018, the District was renewed for another seven years by the City. The District shall automatically dissolve December 31, 2025 unless the District is renewed through the petition and approval process, or the District is sooner terminated as provided by law.

The purpose of the District is to provide enhanced security within the District, primarily through the use of a supplemental twenty-four hour police patrol. The patrol is provided by the Dallas Police Department ("DPD") under an arrangement pursuant to the DPD's Expanded Neighborhood Patrol ("ENP") program whereby DPD officers patrol the District in a DPD patrol car and the District pays the officers directly while reimbursing the DPD for the use of the patrol car. The funding of operations, approved by the City of Dallas, will be paid from assessments on the real property in the District. The assessment levied for 2020 was \$.0825 per \$100 of appraisal value. Future assessment rates and levies, as proposed by the PHA Board, will be set by the Dallas City Council subject to a maximum assessment rate of \$.15 per \$100 of appraisal value and according to procedures stipulated by Chapter 372 of the Texas Local Development Code.

Management Contract

On December 1, 1997, PHA entered into a contract with the City of Dallas whereby PHA provides management, accounting, and other services for the District. This contract was renewed and authorized by the City Council on September 12, 2018, will terminate December 31, 2025, 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 accounts related to the other activities of PHA.

Prestonwood Public Improvement District
Notes to Financial Statements
December 31, 2020

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, 2020.

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. Some deposits exceeded the current Federal Deposit Insurance Corporation insurance limitations at December 31, 2020. The District has not incurred losses related to its cash and believes it is not exposed to any significant credit risk on cash.

Functional Allocation of Expenses

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

Prestonwood Public Improvement District
Notes to Financial Statements
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 District. 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 2020 tax assessment levy receivable as of December 31, 2020 is \$425,363.

Federal Income Tax Status

The PHA, a party to the management contract described above, is exempt from Federal income tax under Section 501(c)(4) of the Internal Revenue Code. Accordingly, no provision for Federal income taxes has been recorded in the accompanying financial statements. In addition, PHA has been determined by the Internal Revenue Service (“IRS”) not to be a “private foundation” within the meaning of section 509(a) of the Internal Revenue Service Code. There was no unrelated business income or known Federal excise taxes for the year ended December 31, 2020. PHA’s federal Return of Organization Exempt from Income Tax (Form 990) for 2017, 2018, and 2019 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.

Prestonwood Public Improvement District
Notes to Financial Statements
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 \$684,945.

The District manages its liquidity and reserves 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.

3. 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.

4. COLLECTION FEES

Collection fees retained by the County for the 2019 levy in the amount of \$2,960 are netted against assessment collections received from the County by the City in January 2020 for its collection services during 2019. The 2020 collection fees will be netted against collections received in 2021.

The City reimbursed the City General Fund for administrative costs incurred for the day-today accounting responsibilities, administrative, and operational oversight of the District from the assessment collections received from the Counting in the amount of \$7,816 for the year ended December 31, 2020.

Prestonwood Public Improvement District
Notes to Financial Statements
December 31, 2020

4. COLLECTION FEES (continued)

In addition to remitting the net assessment collections received from the County, the City paid the District interest of \$603.

5. 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.

6. COVID-19

The COVID-19 pandemic sweeping across the country has resulted in mandatory closure of many businesses resulting in layoffs of much of the workforce. The economic effects of those closures are not yet known but could potentially affect the District.

7. SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 28, 2021, the date the financial statements were available to be issued.