

SONOMA
PUBLIC IMPROVEMENT DISTRICT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

SONOMA PUBLIC IMPROVEMENT DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the City Council of the
City of McLendon-Chisholm regarding the
Sonoma Public Improvement District

We have audited the accompanying financial statements of Sonoma Public Improvement District (the "District"), which comprise the statement of assets, liabilities, and net assets—cash basis as of September 30, 2016, and the related statement of revenues and expenses and changes in net assets—cash basis 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 these financial statements in accordance with the cash basis of accounting as described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the 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 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.

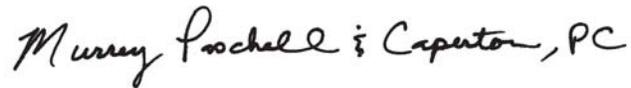
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Sonoma Public Improvement District as of September 30, 2016, and its revenues and expenses and changes in net assets for the year then ended in accordance with the cash basis of accounting as described in Note A.

BASIS OF ACCOUNTING

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Murrey Paschall & Caperton, PC". The signature is written in a cursive, flowing style.

Murrey Paschall & Caperton, P.C.

Forney, Texas

March 1, 2017

SONOMA PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS-CASH BASIS
SEPTEMBER 30, 2016

ASSETS

Current Assets:	
Cash - Administrative Acct	\$ 25,660
Cash - Bond Pledged Rev Acct	2,750
Cash - Delinquent Reserve Acct	22,123
Cash - Pledged Rev Acct	107
Cash - Prepayment Reserve Acct	14,749
Cash - Improvement Acct	192,485
Cash - Reserve Acct	<u>571,350</u>
Total Current Assets	<u>829,224</u>
Fixed Assets:	
Construction in Progress (Note C)	<u>-</u>
Total Fixed Assets	<u>-</u>
Total Assets	<u><u>\$ 829,224</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Longterm Debt - PID Bonds (Note D)	\$ 7,450,000
Longterm Debt - Developer Reimbursement (Note D)	<u>2,895,000</u>
Total Liabilities	<u>10,345,000</u>
Net Assets:	
Unrestricted	<u>(9,515,776)</u>
Total Net Assets	<u>(9,515,776)</u>
Total Liabilities and Net Assets	<u><u>\$ 829,224</u></u>

The accompanying notes are an integral part of the financial statements.

SONOMA PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF REVENUES AND EXPENSES AND CHANGES
IN NET ASSETS-CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Changes in Unrestricted Net Assets

Revenue:

Pledged Income	\$ 854,786
Bond Pledged Revenue	2,750
Interest Income	<u>480</u>

Total Revenue	<u>858,016</u>
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Operating Expenses:

Bond Issuance Cost	17,775
Administrative Fees	45,600
Developer Note Interest Expense (Note D)	7,989
Bond Interest Expense (Note D)	<u>403,688</u>

Total Expenses	<u>475,052</u>
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Increase (Decrease) in unrestricted net assets	382,964
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Net assets at beginning of year	(1,143,092)
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Developer Assets Contributed to the City (Note C)	<u>(8,755,649)</u>
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Net assets at end of year	<u>\$ (9,515,776)</u>
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The accompanying notes are an integral part of the financial statements.

SONOMA PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the Sonoma Public Improvement District (District) are discussed in subsequent sections of this Note. The remaining notes are organized to provide explanations, including required disclosures of the District's financial activities for the fiscal year ended September 30, 2016.

Organization

On September 10, 2007, the City of McLendon-Chisholm City Council passed and approved Resolution No. 2007-21 approving and authorizing the creation of Sonoma Public Improvement District ("PID") to finance the costs of certain public improvements for the benefit of property in the PID, all of which is located within the City of McLendon-Chisholm.

The funding of the District's operations, approved by the City of McLendon-Chisholm, will be paid from assessments on the real property in the District. These costs will be allocated to the assessed property on the basis of the total equivalent units anticipated to be built on each parcel, once the property is fully developed and resulting in the method of allocation to be imposed in equal shares of the PID costs to parcels similarly benefited. There are a total of 365 units (356 residential, 8 office and 1 church) in phase 1. Each unit is giving an equivalent unit factor based off of 1 acre (1 acre= 1, ½ acre= .83, 90 ft= .64, etc.). The equivalent unit factor is multiplied by the number of units to calculate the total equivalent units. Annual assessments per equivalent unit is calculated by dividing the total principal and interest due for 2016 (\$806,870) by the total equivalent units (201.47). Administrative expenses per equivalent unit is calculated by dividing the total administrative expenses for 2016 (\$53,233) by the total equivalent units (201.47). Future assessment rates and levies will be set by the McLendon-Chisholm City Council according to procedures stipulated by Chapter 372 of the Texas Local Development Code.

The District has entered into a contract with the MuniCap, Inc. whereby MuniCap provides management, accounting, and other services for the District. Rockwall County provides assessment collection services for the District.

All tax assessment revenue is considered to be available for unrestricted use and is recognized as revenue when received from the taxing authorities. A total of \$857,536 was collected as of September 30, 2016.

Basis of Accounting

The District prepares its financial statements on the basis of cash receipts and disbursements. Under this basis, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred. The accompanying statements include only the accounts of the District and do not include any accounts related to the activities of the City.

SONOMA PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Financial Statement Amounts

Cash and Equivalents – The District invests 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. The District has not incurred losses related to its cash and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Capital Assets – The District’s bond revenue is to be used primarily for the construction of capital assets within the Sonoma Verde Development. All assets are recorded at historical cost if purchased or constructed and comprehensively reported in the financial statements. Donated capital assets are recorded at their estimated fair value at the date of donation. All capital assets are expected to be transferred to the City of McLendon-Chisholm upon completion, as such there will be no depreciation expense to the District.

Long-Term Obligations – In the financial statements, long-term debt and other long-term obligations are reported as liabilities. As the District’s financial statements are cash basis, all bond premiums as well as issuance costs are fully recognized when paid.

Income Taxes – The District is a political subdivision of the State of Texas and is exempt from federal income taxes.

Accounting for Uncertainty in Income Taxes – Management has concluded that any tax 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 statements taken as whole. Accordingly, the accompanying financial statements do not include any provision of uncertain tax positions, and no related interest or penalties have been recorded in the operating statement.

Estimates – The preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B. COLLECTION FEES

Collection fees, which are netted against tax assessment revenue, are paid to Rockwall County for its collection services.

SONOMA PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE C. CAPITAL ASSETS

The following table provides a summary of developer requested payments regarding the Phase 1 Projects of the Sonoma Public Improvement District:

	<u>09/30/15</u>	<u>Additions</u>	<u>Transfers</u>	<u>09/30/16</u>
Construction in Progress				
Street Improvements	\$ 1,042,528	\$ -	\$ (1,042,528)	\$ -
Draw 1 – Street/Engineering	601,752	-	(601,752)	-
Draw 2 – Sewer/Engineering	382,441	-	(382,441)	-
Draw 3 – Street/Water/Sewer	-	580,241	(580,241)	-
Draw 4 – Sewer/Eng/Water	-	450,671	(450,671)	-
Draw 5 – Sewer/Engineering	-	448,015	(448,015)	-
Draw 6 – Street/Drainage	-	947,035	(947,035)	-
Draw 7 – Street/Engineering	-	922,124	(922,124)	-
Draw 8 – Sewer/Eng/Drainage	-	214,630	(214,630)	-
Draw 9 – Drainage/Contractor	-	66,212	(66,212)	-
Developer Improvements	-	<u>3,100,000</u>	<u>(3,100,000)</u>	-
Total	<u>\$ 2,026,721</u>	<u>\$ 6,728,928</u>	<u>\$ (8,755,649)</u>	<u>\$ -</u>

All construction in progress draws, street improvements and developer improvements were transferred to the City of McLendon-Chisholm as assets and included in the City’s depreciation schedule for the 2015-16 FY.

NOTE D. LONG-TERM OBLIGATIONS

The City of McLendon-Chisholm issued Phase 1 PID Bonds in the total amount of \$7,600,000 in the form of its Special Assessment Revenue Bonds, Series 2015 (Sonoma Public Improvement District Phase One Project) (the “Phase 1A PID Bonds”), which are to be repaid from Assessments levied against the Phase 1 Assessed Property, replacing a portion of the Phase 1 Costs initially financed through the Reimbursement Agreement. The ending payable balance at September 30, 2016 for the PID Bonds is \$7,450,000. The balance at September 30, 2016 for the original \$3,100,000 reimbursement of Phase 1 Costs that continue to be funded under the Reimbursement Agreement is \$2,895,000. The Bonds were issued April 30, 2015, in the amount of \$7,600,000 and bear an effective interest rate of 5.31168%. Interest payments totaling \$403,688 were made during the fiscal year 2015-16. The note payable from the Reimbursement Agreement has an effective interest rate of 5.81168%. Interest payments on the developer reimbursement note totaled \$7,989

Principal and interest payments projected for the following five years on PID Bonds:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 175,000	\$ 396,188
2018	175,000	387,437
2019	175,000	378,687
2020	200,000	369,938
2021 and subsequent years	<u>6,725,000</u>	<u>4,433,249</u>
TOTAL	<u>\$ 7,450,000</u>	<u>\$ 5,965,499</u>

SONOMA PUBLIC IMPROVEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016

Principal and interest payments projected for the following five years on Developer Reimbursement:

	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ 183,833
2018	-	183,833
2019	-	183,833
2020	-	183,833
2021 and subsequent years	<u>2,895,000</u>	<u>4,253,276</u>
TOTAL	\$ 2,895,000	\$ 4,988,608

NOTE F. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after September 30, 2016 up through March 1, 2017, the date of the report. During this period, there were no subsequent events requiring disclosure.