

SONOMA
PUBLIC IMPROVEMENT DISTRICT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

SONOMA PUBLIC IMPROVEMENT DISTRICT
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M **Murrey Paschall & Caperton PC**
Certified Public Accountants

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, 2015, 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, 2015, 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.

Murray Paschall & Caperton, PC

Murray Paschall & Caperton, P.C.

Forney, Texas

March 31, 2016

SONOMA PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS-CASH BASIS
SEPTEMBER 30, 2015

ASSETS

Current Assets:

Cash - Cap Interest Acct	\$	5
Cash - Cost of Issuance Acct		37,776
Cash - Improvement Acct		3,821,200
Cash - Reserve Acct		<u>571,207</u>

Total Current Assets		<u>4,430,188</u>
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Fixed Assets:

Construction in Progress (Note C)		<u>2,026,721</u>
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Total Fixed Assets		<u>2,026,721</u>
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Total Assets	\$	<u><u>6,456,908</u></u>
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LIABILITIES AND NET ASSETS

Liabilities:

Longterm Debt - PID Bonds (Note D)	\$	7,600,000
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Total Liabilities		<u>7,600,000</u>
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Net Assets:

Unrestricted		<u>(1,143,092)</u>
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Total Net Assets		<u>(1,143,092)</u>
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Total Liabilities and Net Assets	\$	<u><u>6,456,908</u></u>
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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, 2015

Changes in Unrestricted Net Assets

Revenue:

Bond Premium	\$ 40,883
Interest Income	<u>182</u>

Total Revenue	<u>41,064</u>
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Operating Expenses:

Bond Issuance Cost	
Underwriter Fee & Counsel	227,000
Developer Startup Cost	226,065
Bond & Issuer Counsel	176,660
Municipal Service Fee	152,000
Financial Advisor	152,000
Developer Counsel	51,000
Assessment Consultant	34,548
Trustee	8,000
Printing	5,500
Bond Interest Expense	<u>151,383</u>

Total Expenses	<u>1,184,156</u>
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Increase (Decrease) in unrestricted net assets	(1,143,092)
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Net assets at beginning of year	<u>-</u>
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Net assets at end of year	<u><u>\$ (1,143,092)</u></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, 2015

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, 2015.

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. The assessment levied for 2016 will be .90 per \$100 of appraisal value. 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. No taxes were collected as of September 30, 2015.

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.

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.

SONOMA PUBLIC IMPROVEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015

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.

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>09/30/14</u>	<u>Additions</u>	<u>Transfers</u>	<u>09/30/15</u>
Construction in Progress				
Street Improvements	\$ -	\$ 1,042,528	\$ -	\$ 1,042,528
Draw 1 – Street / Engineering	-	601,752	-	601,752
Draw 2 – Sewer / Engineering	-	<u>382,441</u>	-	<u>382,441</u>
Total	\$ -	\$ 2,026,721	\$ -	\$ 2,026,721

Once completed, all assets are expected to be transferred to the City of McLendon Chisholm and included in the City’s depreciation schedule.

SONOMA PUBLIC IMPROVEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015

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 balance of \$3,100,000 in Phase 1 Costs continue to be funded under the Reimbursement Agreement. These Bonds were issued April 30, 2015, in the amount of \$7,600,000 and bear interest at the rate of 5% - 5.5%. Interest payments began in September 2015 (\$151,382.81) and Principal payments are scheduled to begin in September 2016 with expected payoff in 2040.

Principal and interest payments projected for the following five years:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 150,000	\$ 403,688
2017	175,000	396,188
2018	175,000	387,437
2019	175,000	378,687
2020 and subsequent years	<u>6,925,000</u>	<u>4,803,188</u>
TOTAL	\$ 7,600,000	\$ 6,369,188

NOTE F. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after September 30, 2015 up through March 31, 2016, the date of the report. During this period, there were no subsequent events requiring disclosure.

M **Murrey Paschall & Caperton PC**
Certified Public Accountants

March 31, 2016

To the City Council of the

City of McLendon Chisholm regarding the
Sonoma Public Improvement District

We have audited the financial statements of Sonoma Public Improvement District for the year ended September 30, 2015, and have issued our report thereon dated March 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 24, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sonoma Public Improvement District, are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the year ended September 30, 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following misstatements detected as a result of audit procedures were corrected by management:

- An adjustment related to remove a duplicated expense and offsetting reimbursement.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 31, 2016.

Management Consultations with Other Independent Accountants

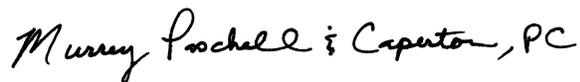
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management of Sonoma Public Improvement District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

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.