

SONOMA
PUBLIC IMPROVEMENT DISTRICT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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
McLendon-Chisholm, Texas

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, 2017, 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, 2017, and its support, 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

January 23, 2018

SONOMA PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS-CASH BASIS
SEPTEMBER 30, 2017

ASSETS

Current Assets:

Cash - Administrative Acct	\$	61,319
Cash - Redemption Fund		1,093
Cash - Principal & Interest Acct		12
Cash - Delinquent Reserve Acct		44,582
Cash - Pledged Rev Acct		94,514
Cash - Prepayment Reserve Acct		29,722
Cash - Improvement Acct		11,558
Cash - Reserve Acct		<u>571,534</u>
Total Current Assets		<u>814,334</u>

Fixed Assets:

Construction in Progress (Note C)		<u>-</u>
Total Fixed Assets		<u>-</u>
Total Assets	\$	<u><u>814,334</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Longterm Debt - PID Bonds (Note D)	\$	7,255,000
Longterm Debt - Developer Reimbursement (Note D)		<u>2,886,666</u>
Total Liabilities		<u>10,141,666</u>

Net Assets:

Unrestricted		<u>(9,327,332)</u>
Total Net Assets		<u>(9,327,332)</u>
Total Liabilities and Net Assets	\$	<u><u>814,334</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, 2017

Changes in Unrestricted Net Assets

Revenue:

Pledged Income	\$	885,752
Interest Income		3,713

Total Revenue		889,465
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Operating Expenses:

Administrative Fees		32,298
Developer Note Interest Expense (Note D)		91,730
Bond Interest Expense (Note D)		396,004

Total Expenses		520,032
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Increase (Decrease) in unrestricted net assets		369,433
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Net assets at beginning of year		(9,515,776)
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Developer Assets Contributed to the City (Note C)		(180,988)
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Net assets at end of year		\$ (9,327,332)
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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, 2017

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, 2017.

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 2017 (\$795,466) by the total equivalent units (201.47). Note, equivalent units can change if a resident chooses to pay their entire PID assessment up front. Administrative expenses per equivalent unit is calculated by dividing the total administrative expenses for 2017 (\$91,850) 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 \$885,752 was collected as of September 30, 2017.

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

SONOMA PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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.

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, 2017

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>09/30/16</u>	<u>Additions</u>	<u>Transfers</u>	<u>09/30/17</u>
Construction in Progress				
Street Improvements	\$ -	\$ -	\$ -	\$ -
Draw 1 – Street/Engineering	-	-	-	-
Draw 2 – Sewer/Engineering	-	-	-	-
Draw 3 – Street/Water/Sewer	-	-	-	-
Draw 4 – Sewer/Eng/Water	-	-	-	-
Draw 5 – Sewer/Engineering	-	-	-	-
Draw 6 – Street/Drainage	-	-	-	-
Draw 7 – Street/Engineering	-	-	-	-
Draw 8 – Sewer/Eng/Drainage	-	-	-	-
Draw 9 – Drainage/Contractor	-	-	-	-
Draw 10 – Drainage/Contractor	-	<u>180,988</u>	<u>(180,988)</u>	-
Total	<u>\$ -</u>	<u>\$ 180,988</u>	<u>\$ (180,988)</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, 2017 for the PID Bonds is \$7,255,000. The balance at September 30, 2017 for the original \$3,100,000 reimbursement of Phase 1 Costs that continue to be funded under the Reimbursement Agreement is \$2,886,666. The Bonds were issued April 30, 2015, in the amount of \$7,600,000 and bear simple interest rate calculated in the SAP. The effective rate is currently 6.35%. Interest payments totaling \$396,004 were made during the fiscal year 2016-17. The note payable from the Reimbursement Agreement has an effective interest rate of 6.35%. Interest payments on the developer reimbursement note totaled \$91,730

SONOMA PUBLIC IMPROVEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

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

	<u>Principal</u>	<u>Interest</u>
2018	\$ 175,000	\$ 387,437
2019	175,000	378,687
2020	200,000	369,938
2021	200,000	359,688
2022 and subsequent years	<u>6,705,000</u>	<u>4,073,561</u>
TOTAL	\$ 7,255,000	\$ 5,569,311

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

	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 183,833
2019	-	183,833
2020	-	183,833
2021	-	183,833
2022 and subsequent years	<u>2,886,666</u>	<u>4,253,276</u>
TOTAL	\$ 2,886,666	\$ 4,988,608

NOTE F. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after September 30, 2017 up through January 23, 2018, the date of the report. During this period, there were no subsequent events requiring disclosure.

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

January 23, 2018

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, 2017, and have issued our report thereon dated January 23, 2018. 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 September 28, 2017. 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, 2017. 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.

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 January 23, 2018.

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.

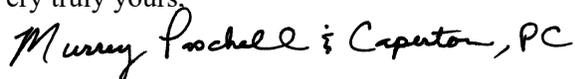
Other Audit Findings or Issues

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.

- During 2016 and 2017, issues still arose with proper accounting of the PID books. These issues were discussed with management and agreed upon to change. They included:
 - In FY 15-16, the PID transferred \$8,755,649 of infrastructure assets to the City. In FY 16-17, draw number ten took place, leaving \$180,988 in construction in progress. Since all of the assets were transferred to the City in FY 15-16, this account should have been \$0 at the time of the audit. We noted this issue was discussed in prior year communication letter.
 - During the current fiscal year, initially, all interest payments were being posted to only the bond interest expense account. The interest should have been booked to the bond and developer interest account based off of the payment schedules in the original bond package. We noted this issue was discussed in prior year communication letter.
 - An individual paid their assessment in full during FY 16-17. This payment was originally posted in part to bond interest expense and the developer principal. This payment should have been posted against the bond principal and developer principal.

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,



Murrey Paschall & Caperton, P.C.