

North Lake Highlands Public Improvement District

Financial Statements and  
Independent Auditors' Report  
December 31, 2020

NORTH LAKE HIGHLANDS PUBLIC IMPROVEMENT DISTRICT

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# Malnory, McNeal & Company, PC

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### Independent Auditors' Report

Board of Directors  
North Lake Highlands Public Improvement District

We have audited the accompanying financial statements of North Lake Highlands 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 these 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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Lake Highlands Public Improvement District as of December 31, 2020, 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.

A handwritten signature in blue ink that reads "Wally McPherson CPA PC". The signature is written in a cursive style with a large initial "W" and "M".

Dallas, Texas  
March 30, 2021

North Lake Highlands Public Improvement District  
Statement of Financial Position  
December 31, 2020

Assets

Current Assets	
Cash	\$ 183,315
Tax assessments receivable	437,173
Total current assets	<u>620,488</u>
Total Assets	<u>\$ 620,488</u>

Liabilities and Net Assets

Current Liabilities	
Tax assessments - deferred revenue	\$ 442,110
Payable to Lake Highlands Public Improvement District	7,166
Total current liabilities	<u>449,276</u>
Net Assets	
Net assets without donor restrictions	171,212
Net assets with donor restrictions	-
Total net assets	<u>171,212</u>
Total Liabilities and Net Assets	<u>\$ 620,488</u>

North Lake Highlands Public Improvement District  
 Statements of Activities and Change in Net Assets  
 For the Year Ended December 31, 2020

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Revenue:			
Assessments	\$ 419,319	\$ -	\$ 419,319
Interest and dividend income	407	-	407
In-kind rent contribution	15,300	-	15,300
Less: City and county fees	<u>(8,147)</u>	<u>-</u>	<u>(8,147)</u>
Total Revenue	426,879	-	426,879
Expenses			
Program	319,047	-	319,047
Supporting	62,054	-	62,054
Fundraising	-	-	-
Total expenses	<u>381,101</u>	<u>-</u>	<u>381,101</u>
Change in Net Assets	45,778	-	45,778
Net Assets at beginning of year	<u>125,434</u>	<u>-</u>	<u>125,434</u>
Net Assets at end of year	<u>\$ 171,212</u>	<u>\$ -</u>	<u>\$ 171,212</u>

North Lake Highlands Public Improvement District  
Statement of Functional Expenses  
For the Year Ended December 31, 2020

	<u>Program</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
Security & public safety	\$ 279,461	\$ -	\$ -	\$ 279,461
Improvements	30,494	-	-	30,494
Promotion	9,092	-	-	9,092
Administration	-	52,269	-	52,269
Audit	-	6,728	-	6,728
Insurance	-	3,057	-	3,057
Total functional expenses	<u>\$ 319,047</u>	<u>\$ 62,054</u>	<u>\$ -</u>	<u>\$ 381,101</u>

North Lake Highlands Public Improvement District  
Statement of Cash Flows  
For the Year Ended December 31, 2020

Cash flows from operating activities		
Change in net assets	\$	45,778
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities		
Change in operating assets and liabilities		
(Increase) decrease in tax assessments receivable		(11,613)
Increase (decrease) in payable to Lake Highlands Public Improvement District		7,166
Increase (decrease) in deposits and deferred income		<u>22,004</u>
Net cash provided by (used in) operating activities		<u>63,335</u>
 Net increase (decrease) in cash		 63,335
 Cash and cash equivalents at beginning of year		 <u>119,980</u>
 Cash and cash equivalents at end of year	 \$	 <u><u>183,315</u></u>

North Lake Highlands Public Improvement District  
Notes to Financial Statements  
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The North Lake Highlands Public Improvement District (the “District”) is managed by the Lake Highlands Improvement District Corporation (“LHIDC”), a nonprofit corporation, responsible for the management of services for the District.

North Lake Highlands Public Improvement District

On April 1, 2017, 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 9, 2017, the City Council of the City of Dallas approved the petition and authorized the creation of the District. The District shall automatically dissolve December 31, 2022, unless the District is renewed through the petition and approval process as provided by law.

The purpose of the District is to enhance security and public safety within the District, provide design and construct public infrastructure, promotion of the District, maintain common areas and lighting, produce pedestrian amenities and linkages and provide other improvements that are authorized by the Act. 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 2020 was \$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

Effective August 9, 2017, LHIDC entered into a contract with the City of Dallas whereby LHIDC provides management, accounting, and other services for the District. This contract as authorized and restated by the City Council on September 12, 2018 will terminate December 31, 2022, 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 LHIDC.

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 Organization and changes therein are classified and reported as follows:

North Lake Highlands Public Improvement District  
Notes to Financial Statements  
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Financial Statements Presentation (continued)

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 Organization 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 Organization 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 maintains its cash balances in checking and savings accounts at a financial institution 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, 2020. The District has not incurred losses related to its cash and believes it is not exposed to any significant credit risk on cash.

Newly Adopted Accounting Pronouncement

In May 2014, the FASB issued ASU No. 2014-09, *Revenue Recognition (Topic 606): Revenue from Contracts with Customers*. This ASU introduces a new five step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this accounting standard effective January 1, 2020, did not have a material impact on the Organization's financial position or changes in its net assets.

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

North Lake Highlands Public Improvement District  
Notes to Financial Statements  
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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 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 tax assessments – deferred revenue. 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 \$437,173.

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

North Lake Highlands Public Improvement District  
Notes to Financial Statements  
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses (continued)

based on the specific identification of costs or approximate percentage of time and other methods.

Federal Income Tax Status

LHIDC 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 statement. In addition, LHIDC 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, 2019. LHIDC’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.

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.

In-Kind Revenue

During the year, the District received in-kind rent for the use of office space. The District recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the annual estimated fair-value rental of the office space less the amount paid as rent expense by the District. The fair value of donated facilities is determined based on the amount of rent charged for comparative facilities in the area. At December 31, 2020 the in-kind contribution revenue recognized was \$15,300.

North Lake Highlands Public Improvement District  
Notes to Financial Statements  
December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 total financial assets of \$620,488.

The District manages its liquidity and reserves following three guiding principles: operating with 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 \$1,391 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-to-day accounting responsibilities, administrative, and operational oversight of the District from the assessment collections received from the County in the amount of \$6,756 for the year ended December 31, 2020.

In addition to remitting the net assessment collections received from the County, the City paid the District interest of \$407.

North Lake Highlands Public Improvement District  
Notes to Financial Statements  
December 31, 2020

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. COMMITMENTS

The District, upon acceptance by the City of Dallas, of certain assignment and assumption agreements by and between NLHIDC and a developer, is committed to provide maintenance and operating funds for certain non-standard public improvements and park land.

7. 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.

8. SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 30, 2021, the date the financial statements were available to be issued.