Lake Highlands Public Improvement District

Financial Statements and
Independent Auditors’ Report
December 31, 2016 and 2015
LAKE HIGHLANDS PUBLIC IMPROVEMENT DISTRICT

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Board of Directors  
Lake Highlands Public Improvement District

We have audited the accompanying statements of cash receipts and disbursements of Lake Highlands Public Improvement District (the “District”) for the years ended December 31, 2016 and 2015, 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 1; 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 the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 in the first paragraph present fairly, in all material respects, the statements of cash receipts and disbursements of Lake Highlands Public Improvement District for the years ended December 31, 2016 and 2015, in accordance with the cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 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 that matter.

Dallas, Texas
April 18, 2017
LAKE HIGHLANDS PUBLIC IMPROVEMENT DISTRICT
STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDING DECEMBER 31,

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
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<tbody>
<tr>
<td>Cash receipts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net service plan year tax receipts</td>
<td>$316,065</td>
<td>$171,301</td>
</tr>
<tr>
<td>Restricted tax receipts released</td>
<td>94,749</td>
<td>127,225</td>
</tr>
<tr>
<td>Tax assessment refunds</td>
<td>-</td>
<td>(624)</td>
</tr>
<tr>
<td>Sponsorships and contributions</td>
<td>30,614</td>
<td>9,998</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>334</td>
<td>216</td>
</tr>
<tr>
<td>Total available receipts</td>
<td>441,762</td>
<td>308,116</td>
</tr>
<tr>
<td>Cash disbursements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security &amp; public safety</td>
<td>182,788</td>
<td>140,306</td>
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<tr>
<td>Improvements</td>
<td>61,727</td>
<td>59,268</td>
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<tr>
<td>Promotion</td>
<td>25,885</td>
<td>17,442</td>
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<tr>
<td>Administration</td>
<td>52,538</td>
<td>42,391</td>
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<tr>
<td>Audit</td>
<td>7,198</td>
<td>6,643</td>
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<tr>
<td>Insurance</td>
<td>6,609</td>
<td>8,381</td>
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<tr>
<td>Special project expenses</td>
<td>20,385</td>
<td>8,426</td>
</tr>
<tr>
<td>District renewal costs</td>
<td>-</td>
<td>22,860</td>
</tr>
<tr>
<td>Total cash disbursements</td>
<td>357,130</td>
<td>305,717</td>
</tr>
<tr>
<td>Restricted tax receipts received</td>
<td>206,371</td>
<td>94,749</td>
</tr>
<tr>
<td>Restricted tax receipts released</td>
<td>(94,749)</td>
<td>(127,225)</td>
</tr>
<tr>
<td>Increase (decrease) in cash</td>
<td>196,254</td>
<td>(30,077)</td>
</tr>
<tr>
<td>Cash at beginning of year</td>
<td>87,224</td>
<td>117,301</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>$283,478</td>
<td>$87,224</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Lake Highlands Public Improvement District

On April 1, 2008, the owners of real property within the proposed District delivered to the City of Dallas (the "City") a petition to create the District. On June 25, 2008, the City Council of the City of Dallas approved the petition and authorized the creation of the District. The District was to dissolve December 31, 2015, but instead was renewed by the owners of real property with the proposed District by a petition delivered to the City of Dallas on April 14, 2015 which was approved on August 12, 2015. 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 2016 and 2015 was $.13 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 $.15 per $100 of appraisal value. The Dallas County Tax Office provides assessment collection services for the District.

Management Contract

Effective January 1, 2009, LHIDC entered into a contract with the City of Dallas whereby LHIDC provides management, accounting, and other services for the District. This contract as renewed and approved by the City Council on August 12, 2015 will terminate December 31, 2022, or upon dissolution of the District.

Revenue

All tax assessment revenue is considered as revenues from the taxing authorities. Revenue recognized in 2016 and 2015 includes $206,371 and $94,749, respectively, in collections related to the current year tax assessment period, to be used for subsequent service plan disbursements.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-Kind Revenue

During the year, the District received in-kind rent for the use of office space. The in-kind rent and related expense amounts are not included in the accompanying financial statements.

Basis of Accounting

The District prepares its financial statements on the cash basis of accounting. 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 of cash receipts and disbursements include only the accounts of the District and do not include any accounts related to the activities of LHIDC.

Cash & Concentration of Credit Risk

The District maintains its cash balances in checking and money market accounts at a financial institution in Dallas, Texas, which at times may exceed insured limits. Accounts at the Institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash or its investments.

Federal Income Tax

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, 2016. LHIDC’s federal Return of Organization Exempt from Income Tax (Form 990) for 2013, 2014, and 2015 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 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 statement taken as whole. Accordingly, the accompanying financial statement does not include any provision of uncertain tax positions, and no related interest or penalties have been recorded in the statement of cash receipts and disbursements.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. COLLECTION FEES

Collection fees, which are netted against tax assessment revenue, are charged at the rate of $2.75 per parcel, which is paid to Dallas County for its collection services.

3. COMMITMENTS

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

4. SUBSEQUENT EVENTS

Subsequent to year end, the District paid approximately $30,000 for irrigation system repair invoices related to service provided during the year ending December 31, 2016. The payments are recorded when paid for the cash basis financial statement.

The District has evaluated subsequent events through April 18, 2017, the date the financial statements were available to be issued.