

North Lake Highlands Public Improvement District

Financial Statements and
Independent Auditors' Report
December 31, 2021

NORTH LAKE HIGHLANDS PUBLIC IMPROVEMENT DISTRICT

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Independent Auditors' Report

Board of Directors
North Lake Highlands Public Improvement District

Opinion

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, 2021, and the related statements of activities and changes in net assets, statement of functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

North Lake Highlands Public Improvement District
Statement of Financial Position
December 31, 2021

Assets

Current Assets	
Cash	\$ 239,574
Due to/from Lake Highlands PID	50
Tax assessments receivable	<u>542,960</u>
Total current assets	<u>782,584</u>
 Total Assets	 <u><u>\$ 782,584</u></u>

Liabilities and Net Assets

Current Liabilities	
Tax assessments - deferred revenue	\$ <u>542,960</u>
Total current liabilities	<u>542,960</u>
 Net Assets	
Net assets without donor restrictions	239,624
Net assets with donor restrictions	<u>-</u>
Total net assets	<u>239,624</u>
 Total Liabilities and Net Assets	 <u><u>\$ 782,584</u></u>

North Lake Highlands Public Improvement District
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2021

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Revenue:			
Assessments	\$ 481,976	\$ -	\$ 481,976
Interest and dividend income	66	-	66
In-kind rent contribution	15,300	-	15,300
Less: City and county fees	<u>(8,104)</u>	<u>-</u>	<u>(8,104)</u>
Total Revenue	489,238	-	489,238
Expenses			
Program	358,164	-	358,164
Supporting	62,662	-	62,662
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>420,826</u>	<u>-</u>	<u>420,826</u>
Change in Net Assets	68,412	-	68,412
Net Assets at beginning of year	<u>171,212</u>	<u>-</u>	<u>171,212</u>
Net Assets at end of year	<u>\$ 239,624</u>	<u>\$ -</u>	<u>\$ 239,624</u>

North Lake Highlands Public Improvement District
Statement of Functional Expenses
For the Year Ended December 31, 2021

	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Security & public safety	\$ 243,930	\$ -	\$ -	\$ 243,930
Improvements	106,609	-	-	106,609
Promotion	7,625	-	-	7,625
Administration	-	53,890	-	53,890
Audit	-	6,805	-	6,805
Insurance	-	1,967	-	1,967
Total functional expenses	<u>\$ 358,164</u>	<u>\$ 62,662</u>	<u>\$ -</u>	<u>\$ 420,826</u>

North Lake Highlands Public Improvement District
Statement of Cash Flows
For the Year Ended December 31, 2021

Cash flows from operating activities	
Change in net assets	\$ 68,412
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	(105,787)
Increase (decrease) in due to/from to Lake Highlands PID	(7,216)
Increase (decrease) in deposits and deferred income	<u>100,850</u>
Net cash provided by (used in) operating activities	<u>56,259</u>
Net increase (decrease) in cash	56,259
Cash and cash equivalents at beginning of year	<u>183,315</u>
Cash and cash equivalents at end of year	<u>\$ 239,574</u>

North Lake Highlands Public Improvement District
Notes to Financial Statements
December 31, 2021

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 2021 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, 2021

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, 2021.

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, 2021. The District has not incurred losses related to its cash and believes it is not exposed to any significant credit risk on cash.

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 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

North Lake Highlands Public Improvement District
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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 2021 tax assessment levy receivable as of December 31, 2021 is \$542,960.

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 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, 2021.

North Lake Highlands Public Improvement District
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Income Tax Status(continued)

LHIDC's federal Return of Organization Exempt from Income Tax (Form 990) for 2018, 2019, and 2020 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, 2021 the in-kind contribution revenue recognized was \$15,300.

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 \$782,534.

North Lake Highlands Public Improvement District
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2020 levy in the amount of \$1,389 are netted against assessment collections received from the County by the City in January 2021 for its collection services during 2020. The 2021 collection fees will be netted against collections received in 2022.

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 \$6,715 for the year ended December 31, 2021.

In addition to remitting the net assessment collections received from the County, the City paid the District interest of \$66.

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.

North Lake Highlands Public Improvement District
Notes to Financial Statements
December 31, 2021

7. NEW AND PENDING ACCOUNTING PRONOUNCEMENT

In February 2016, the FASB issued ASU 2016-02, codifying Accounting Standards Codification (ASC) 840, Leases. This update requires lessees to recognize leases on consolidated balance sheet and disclose key information about leasing arrangements. Leases will be recognized as finance or operating, with recognition affecting the pattern and classification of expense recognition in the consolidated income statement and retained earnings/members' capital. The guidance is effective for annual and interim periods beginning after December 15, 2021 and will require application of the new guidance at the beginning of the earliest comparable period presented. Currently, the District is assessing the effect of adopting the Standard. Although permitted, the District does not plan to early adopt.

8. 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.

9. SUBSEQUENT EVENTS

Subsequent to year end, the District is in the process of renewing the public improvement district.

The District has evaluated subsequent events through April 10, 2022, the date the financial statements were available to be issued.