

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

(A component unit of the City of Lake Dallas)

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

SEPTEMBER 30, 2006

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

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**HANKINS, EASTUP, DEATON,
TONN & SEAY**
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Dallas Community Development Corporation
Lake Dallas, Texas

Members of the Board:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lake Dallas Community Development Corporation (the "Corporation") as of and for the year ended September 30, 2006, which collectively comprises the Corporation's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities and each major fund of the Corporation as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have issued a report dated December 28, 2006, on our consideration of the Corporation's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Corporation. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Hankins, Eastup, Deaton, Tom & Seay

Hankins, Eastup, Deaton, Tom & Seay
A Professional Corporation
Certified Public Accountants

December 28, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

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**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

As management of the Lake Dallas Community Development Corporation, we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Corporation's basic financial statements.

Financial Highlights

- The assets of the Corporation exceeded its liabilities at September 30, 2006 by \$150,790. All of this amount is available to meet the Corporation's objective of promoting community development.
- The Corporation's total net assets increased by \$53,454. The majority of this increase is attributable to an increase in sales tax revenue, as well as unexpected delays in incurring some anticipated expenditures.
- As of September 30, 2006, the Corporation's governmental funds reported combined ending fund balances of \$150,790, an increase of \$53,454 in comparison with the beginning of the year. \$27,790 of this amount is available for spending at the Corporation's discretion (*unreserved fund balance*).

Overview of the Financial Statements

The management discussion and analysis are intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increase or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of activities presents information showing how the Corporation's net assets changed during the most recent period. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

**LAKE DALLAS COMMUNITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

In the Statement of Net Assets and the Statement of Activities, the Corporation is divided between two kinds of activities:

- **Governmental activities.** All of the Corporation's basic services are reported here. Primarily sales taxes finance those services.
- **Business-type activities.** The Corporation may charge a fee to customers to help it cover all or most of the cost of certain services it provides. The Corporation had no business-type activities during the current period.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the Corporation as a whole. Some funds are required to be established by state law or bond covenants. However, the Board of Directors may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the Corporation are considered governmental funds.

Governmental Funds. All of the Corporation's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at period-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Corporation's general operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The Corporation maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Corporation does not currently have any fiduciary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and funds financial statements.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information highlighting budgetary information for the general fund.

Government-wide Financial Analysis

The Corporation's combined net assets were \$150,790 as of September 30, 2006. The Corporation first implemented GASB Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*, for fiscal year 2004. The following analysis presents both current and prior year data and discusses significant changes in the accounts. This analysis focuses on the net assets (Table 1) and general revenues (Table 2) and changes in net assets (Table 3) of the Corporation's governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2006	2005
Current and other assets	\$151,231	\$97,336
Capital assets	-	-
Total assets	<u>151,231</u>	<u>97,336</u>
Long-term liabilities outstanding	-	-
Other liabilities	441	-
Total liabilities	<u>441</u>	<u>-</u>
Net assets:		
Unrestricted	<u>150,790</u>	<u>97,336</u>
Total net assets	<u>\$150,790</u>	<u>\$97,336</u>

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

The following table provides a summary of the Corporation's operations for the years ended September 30, 2006 and 2005:

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 9,161	\$ 6,000
General revenues:		
Sales taxes	252,500	226,041
Interest earnings	4,249	2,401
Transfers in	<u>469,535</u>	<u>-</u>
	<u>735,445</u>	<u>234,442</u>
Expenses:		
Administration	41,643	32,070
Economic Development	<u>640,348</u>	<u>164,901</u>
	<u>681,991</u> ✓	<u>196,971</u> ✓
Increase in net assets	53,454 ✓	37,471 ✓
Net assets – October 1 (beginning)	<u>97,336</u>	<u>59,865</u>
Net assets – September 30 (ending)	<u>\$ 150,790</u>	<u>\$ 97,336</u>

Financial Analysis of the Government's Funds

Governments Funds. The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the period.

As of the end of the current period, the Corporation's governmental funds reported combined ending fund balances of \$150,790, an increase of \$53,454 in comparison with the beginning of the period. \$27,790 of this amount constitutes unreserved fund balance, which is available for spending at the Corporation's discretion. \$123,000 of this amount constitutes reserved fund balance, because it has already been encumbered or committed to fund an existing parks construction project.

General Fund Budgetary Highlights

During the current year, the Board of Directors of the Corporation did not amend the Corporation's budget.

The original budget reflected that the activity for the year would increase available fund balance by \$946,000. The available fund balance for the general fund actually increased in the amount of \$53,454. This increase was due primarily to more actual sales tax revenue than had been budgeted, plus a delay in the planned expenditures under a parks construction contract.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

Capital Asset and Debt Administration

Capital Assets. During the current fiscal year, the Corporation had no capital assets.

Long-term Debt. During the current fiscal year, the Corporation had no long-term debt.

Economic Factors and Next Year's Budgets

The funding for the Community Development Corporation (CDC) comes from a ½ percent add-on to the City's sales tax. This revenue source normally rises at roughly the rate of inflation (normally 3%) in the market place but this past year the growth rate hit 12%, attributed to new businesses locating in existing spaces, replacing less productive business and new businesses in brand new spaces. For FY 2007 a modest 4% growth rate plus an additional \$12,000 for newly completed retail spaces on Swisher Road that will be occupied in 2007 has been budgeted.

During 2006 the CDC initiated implementation of two major parks projects and one neighborhood park. The neighborhood park was completed using CDC annual funds while the scope of the major projects was such that the CDC borrowed \$1.0 million to fund most of the improvements. Two grants from Texas Parks and Wildlife totaling \$150,000 and contributions from businesses totaling \$45,000 will be added to CDC funds to finish the projects.

The CDC through the work of its consultant Schrickel, Rollins and Associates approved a master plan of improvements to Main Street and submitted a transportation grant request to TXDOT for Main Street improvements. The grant was not funded by the State because it pulled funding for this program for disaster relief projects. The Main Street project of improvements include: brick sidewalks, brick or stone crosswalks, street furnishings (benches, trash cans, bike racks), landscaping (shade and ornamental trees, grasses, potted plants), entrance features and street lights. The total cost for all project elements totals over \$3.0 million and the CDC will be making some decisions in the spring of 2007 for funding of approximately \$1.3 million of the project elements.

The CDC continued to fund the efforts of the Keep Lake Dallas Beautiful committee and is funding a business directory of local businesses to be published and provided throughout the Lake Cities area. The CDC also assisted the EDC in the cost to update the website.

Requests for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lake Dallas Community Development Corporation, 212 Main St., Lake Dallas, Texas, 75065.

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BASIC FINANCIAL STATEMENTS

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**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	<u>Primary Government</u>
	<u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and Investments	\$ 131,872
Receivables:	
Sales taxes	<u>19,359</u>
Total Assets	<u>151,231</u> ✓
LIABILITIES	
Accounts Payable	275
Due to City of Lake Dallas	<u>166</u>
Total Liabilities	<u>441</u> ✓
NET ASSETS	
Unrestricted Net Assets	<u>150,790</u> /
Total Net Assets	<u>\$ 150,790</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 41,643	\$ -	\$ -
Community Development	<u>640,348</u>	<u>-</u>	<u>9,161</u>
Total Governmental Activities	<u>681,991</u>	<u>-</u>	<u>9,161</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 681,991</u> ✓	<u>\$ -</u>	<u>\$ 9,161</u> ✓

GENERAL REVENUES:

Taxes:
 Sales taxes
Interest Earnings
Transfers in
 Total General Revenues

Change in Net Assets

NET ASSETS, October 1 (beginning)

NET ASSETS, September 30, (ending)

The accompanying Notes are an integral part of this statement.

Net (Expense) Revenue and
Change in Net Assets

Governmental
Activities

\$ (41,643) ✓
(631,187) ✓
(672,830) ✓

(672,830)

252,500
4,249
469,535
726,284

53,454

97,336

\$ 150,790

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and Investments	\$ 131,872	\$ 131,872
Receivables:		
Sales taxes	<u>19,359</u>	<u>19,359</u>
Total Assets	<u>\$ 151,231</u> ✓	<u>\$ 151,231</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 275	\$ 275
Due to City of Lake Dallas	<u>166</u>	<u>166</u>
Total Current Liabilities	<u>441</u> ✓	<u>441</u>
 Fund Balance:		
Reserved for Encumbrances	123,000	123,000
Undesignated and Unreserved	<u>27,790</u>	<u>27,790</u>
Total Fund Balance	<u>150,790</u> ✓	<u>150,790</u>
Total Liabilities and Fund Balance	<u>\$ 151,231</u> ✓	<u>\$ 151,231</u>

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total Fund Balances – Governmental Funds	\$ 150,790
Reconciling Items	<u>-0-</u>
Net Assets of Governmental Activities	<u>\$ 150,790</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues:		
Sales tax	\$252,500	\$252,500
Donations	9,161	9,161
Interest income	4,249	4,249
Total Revenues	<u>265,910</u> ✓	<u>265,910</u> ✓
Expenditures:		
Economic development grant	21,250	21,250
Willow Grove Park costs	319,105	319,105
Thousand Oaks Park costs	7,402	7,402
River Oak Park costs	49,761	49,761
City Park costs	193,852	193,852
Keep Lake Dallas Beautiful campaign	4,206	4,206
Special events	118	118
Consultant services	3,375	3,375
Downtown development costs	30,091	30,091
Infrastructure	5,855	5,855
Legal and audit fees	2,000	2,000
Park maintenance and operations	5,333	5,333
Staff services	30,000	30,000
Office expenses	517	517
Travel and training	551	551
Web site development	8,575	8,575
Total Expenditures	<u>681,991</u> ✓	<u>681,991</u> ✓
Excess of Revenue Over (Under) Expenditures	<u>(416,081)</u> ✓	<u>(416,081)</u> ✓
Other Resources (Uses):		
Transfers in	491,179	491,179
Transfers out	<u>(21,644)</u> ✓	<u>(21,644)</u> ✓
Total Other Resources (Uses)	<u>469,535</u> ✓	<u>469,535</u> ✓
Net Change in Fund Balance	53,454 ✓	53,454 /
Fund Balance – October 1 (beginning)	<u>97,336</u>	<u>97,336</u>
Fund Balance – September 30 (ending)	<u>\$ 150,790</u>	<u>\$ 150,790</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total Net Change in Fund Balances – Governmental Funds	\$ 53,454
Reconciling Items	<u>-0-</u>
Change in Net Assets of Governmental Activities	<u>\$ 53,454</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lake Dallas Community Development Corporation (the "Corporation") are presented in accordance with generally accepted accounting principles applicable to state and local governmental units as set forth by the Governmental Accounting Standards Board ("GASB").

In fiscal year 2004, the Corporation implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, GASB Statement No. 38, *Certain Financial Statement Disclosures*, which changes note disclosures requirements for governmental entities, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, which clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where difference have arisen, or potentially could arise, in interpretation and practice of GASB Statement No. 34.

GASB Statements No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the use of account groups to the already required fund financial statements and notes. GASB Statement No. 37 provides additional guidance in reporting infrastructure, program revenues and major criteria.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that the government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the more significant accounting policies.

A. Reporting Entity

Lake Dallas Community Development Corporation is a Texas non-profit industrial development corporation formed on January 1, 2003 under the Development Corporation Act of 1979, with the approval of the City Council of the City of Lake Dallas, Texas, and governed by Section 4B of the Act. The Corporation is managed by a five-member Board of Directors

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

The purpose of the Corporation is to promote economic development within the City of Lake Dallas, Texas in order to eliminate unemployment and underemployment, to promote and encourage employment and the public welfare of the City, and to provide parks, park facilities and municipal buildings such as library facilities by developing, implementing and financing such projects. The primary source of funding for the Corporation is a one-quarter cent sales tax approved by the voters of the City of Lake Dallas in Fall, 2002.

The accompanying financial statements present the Corporation and its component units, entities for which the Corporation is considered to be financially accountable. The criteria for including organizations as component units within the Corporation's reporting entity, as set forth in Section 2100 GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Corporation holds the corporate powers of the organization
- the Corporation appoints a voting majority of the organization's board
- the Corporation is able to impose its will on the organization
 - the organization has the potential to impose a financial benefit/burden on the Corporation
 - there is fiscal dependency by the organization on the Corporation

No component units, as defined by GASB standards, have been identified for inclusion in the reporting entity. However, because the Board of Directors of the Corporation are appointed by and serve at the pleasure of the City Council of the City of Lake Dallas, and because the Corporation exists primarily to benefit the City of Lake Dallas, the Corporation's financial activity is also included as a component unit in the financial statements of the City of Lake Dallas, Texas.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the Corporation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Corporation had no business-type activities during the period.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded for the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The Corporation had no proprietary funds or fiduciary funds during the period.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes and interest associated with the current fiscal period are both considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Corporation. The amount shown as sales tax receivable on the balance sheet consists of sales tax received from the State in October, 2006.

The Corporation reports the following major governmental fund:

General Fund – The General fund accounts for the resources used to finance the fundamental operations of the Corporation. It is the basic fund of the Corporation and includes all activities except those required to be accounted for in another fund. Currently, the Corporation uses no funds other than the General Fund.

Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

D. Cash and Investments

The Corporation's cash consists of demand deposits. The Corporation's investments consists of deposits in State investment pools.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Net Assets

Net assets represents the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Corporation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

G. Budgets and Budgetary Accounting

The Corporation follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. A proposed operating budget for the fiscal year commencing the following October 1, is submitted to the City of Lake Dallas City Council. The operating budget includes proposed expenditures and the means of financing them for the general fund.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance.
- d. Any revisions that alter the total expenditures for governmental type funds must be approved by the City of Lake Dallas City Council.

The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget was not amended during the year by the Corporation.

2. DEPOSITS AND INVESTMENTS

The Corporation's funds are required to be deposited and invested under the terms of a depository agreement. The depository bank deposits for safekeeping and trust with the Corporation's agent bank approved pledged securities in an amount sufficient to protect Corporation funds on a day-to-day basis during the period of the agreement. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

1. Cash Deposits:

At September 30, 2006, the carrying amount of the Corporation's deposits in checking accounts was \$5,571 and the bank balance was \$6,153. The Corporation's cash deposits at September 30, 2006 were entirely covered by FDIC insurance or by pledged collateral held by the Corporation's agent bank in the Corporation's name.

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Corporation to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Corporation to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptance, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Corporation to have independent auditors perform test procedures related to investment practices as provided by the Act. The Corporation is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the Corporation has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned to it. As of September 30, 2006, the Corporation's cash balances totaled \$6,153. This entire amount was either collateralized with securities held by the Corporation's financial institution's agent in the Corporation's name or covered by FDIC insurance. Thus, the Corporation's deposits are not exposed to custodial credit risk.
- b. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2006, the Corporation held all of its investments in the LOGIC public funds investment pool. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. **Credit Risk:** This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for LOGIC at year-end was AAA (Standard & Poor's).

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the LOGIC investment pool is less than 60 days.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At September 30, 2006, the Corporation was not exposed to foreign currency risk.
- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

The Corporation's investment at September 30, 2006 is shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
LOGIC Investment Pool	\$126,301	\$126,206
Total	<u>\$126,301</u>	<u>\$126,206</u>

3. COMMITMENT

During the year ended September 30, 2006 the Corporation entered into a contract with Dean Electric to perform \$1,318,000 in improvements to Willow Grove Park and City Park. \$1,000,000 of the total cost will be paid for with proceeds transferred in from the City from the \$1,635,000 of certificates of obligation proceeds received by the City during the current fiscal year. The remaining \$318,000 will be paid for by the Corporation with \$150,000 proceeds to be received from a Texas Parks and Wildlife grant, \$45,000 to be received in donations, and \$123,000 in Corporation revenues from sales tax collections.. At September 30, 2006 the construction contract is in progress.

4. EXPENDITURES BY CHARACTER

The format of the Statement of Revenues, Expenditures, and Change in Fund Balance-Governmental Funds shows expenditures classified by project, meaning capital outlay directly associated with a particular project is charged to that account. Expenditures by character are as follows:

Current	\$ 95,413
Capital outlay	<u>586,578</u>
Total	<u>\$681,991</u> ✓

**LAKE DALLAS COMMUNITY
DEVELOPMENT CORPORATION**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Budgeted Amounts</u>		Actual Amounts (GAAP BASIS)	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales tax	\$ 225,000	\$ 225,000	\$ 252,500	\$ 27,500 ✓
Donations	-	-	9,161	9,161 ✓
Interest income	<u>1,000</u>	<u>1,000</u>	<u>4,249</u>	<u>3,249</u> ✓
Total Revenues	<u>226,000</u>	<u>226,000</u>	<u>265,910</u> ✓	<u>39,910</u>
Expenditures:				
Economic development grant	40,000	40,000	21,250	18,750
Willow Grove Park costs	-	-	319,105	(319,105)
Thousand Oaks Park costs	-	-	7,402	(7,402)
River Oak Park costs	-	-	49,761	(49,761)
City Park tennis court costs	-	-	193,852	(193,852)
Keep Lake Dallas Beautiful campaign	5,000	5,000	4,206	794
Special events	7,000	7,000	118	6,882
Consultant services	13,500	13,500	3,375	10,125
Downtown development costs	60,000	60,000	30,091	29,909
Infrastructure	21,000	21,000	5,855	15,145
City land and thoroughfare plan	25,000	25,000	-	25,000
Legal and audit fees	4,000	4,000	2,000	2,000
Park maintenance and operations	-	-	5,333	(5,333)
Office expenses	2,000	2,000	517	1,483
Staff services	30,000	30,000	30,000	-
Other professional fees	5,000	5,000	-	5,000
Dues and memberships	1,000	1,000	-	1,000
Travel and training	4,000	4,000	551	3,449
Web site development	<u>2,500</u>	<u>2,500</u>	<u>8,575</u>	<u>(6,075)</u>
Total Expenditures	<u>220,000</u>	<u>220,000</u>	<u>681,991</u> ✓	<u>(461,991)</u> ✓
Excess of Revenues Over (Under) Expenditures	<u>6,000</u>	<u>6,000</u>	<u>(416,081)</u> ✓	<u>(422,081)</u> ✓
Other Resources (Uses):				
Transfers in	1,000,000	1,000,000	491,179	(508,821)
Transfers out	<u>(60,000)</u>	<u>(60,000)</u>	<u>(21,644)</u>	<u>38,356</u>
Total Other Resources (Uses)	<u>940,000</u>	<u>940,000</u>	<u>469,535</u> ✓	<u>(470,465)</u> ✓
Net Change in Fund Balance	946,000	946,000	53,454 ✓	(892,546) ✓
Fund Balance – October 1 (beginning)	<u>97,336</u>	<u>97,336</u>	<u>97,336</u>	-
Fund Balance – September 30 (ending)	<u>\$1,043,336</u>	<u>\$1,043,336</u>	<u>\$150,790</u> ✓	<u>\$(892,546)</u> ✓

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED
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INDEPENDENT AUDITORS' REPORT
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Lake Dallas Community Development Corporation
Lake Dallas, Texas

We have audited the financial statements of the Lake Dallas Community Development Corporation as of and for the year ended September 30, 2006, and have issued our report thereon dated December 28, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lake Dallas Community Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under GOVERNMENT AUDITING STANDARDS.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by administration in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.