

**CHALK HILL PUBLIC IMPROVEMENT DISTRICT NO. 2
CITY OF CELINA, TEXAS**

**AUDITED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2023, AND 2022**

CUSIP NUMBERS:

Phase 1 Project

15114CBG8

Phases #2-3 Major Improvement Project

15114CBH6

Phases #2-3 Direct Improvement Project

15114CGG3

15114CGH1

15114CGJ7

**CHALK HILL
PUBLIC IMPROVEMENT DISTRICT NO. 2**

**ANNUAL FINANCIAL STATEMENTS
SEPTEMBER 30, 2023, AND 2022**

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Independent Auditor's Report

The Honorable Mayor and Members of the City Council
Chalk Hill Public Improvement District No. 2
Celina, Texas

Opinion

We have audited the financial statements of the Chalk Hill Public Improvement District No. 2 (PID), as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the PID's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the PID, as of September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 PID and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 PID's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PID's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the PID's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Forvis Mazars, LLP

**Dallas, Texas
July 8, 2024**

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the financial performance of the Chalk Hill Public Improvement District No. 2 (the "PID") provides an overall review of the PID's financial activities for the fiscal years ended September 30, 2023, and 2022. The intent of this discussion and analysis is to look at the PID's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the PID's financial performance.

Financial Highlights

1. The Chalk Hill Public Improvement District No. 2 was created pursuant to the PID Act and Resolution No. 2017-212R, which was passed and approved by the City Council of the City of Celina (the "City Council") on December 12, 2017, to finance the costs of certain public improvements for the benefit of property in the PID, all of which is located within the City of Celina (the "City").
2. The PID has issued three sets of bonds (the "PID Bonds"):
 - a. The \$4,325,000 Series 2018 Special Assessment Revenue Bonds, Phase #1 Project (the "Phase #1 Bonds") were issued on April 12, 2018.
 - b. The \$3,690,000 Series 2018 Special Assessment Revenue Bonds, Phases #2-3 Major Improvement Project (the "Phases #2-3 MI Bonds") were issued on April 12, 2018.
 - c. The \$7,633,000 Series 2023 Special Assessment Revenue Bonds, Phases #2-3 Direct Improvement Project (the "Phases #2-3 Direct Bonds") were issued on August 9, 2023.
3. The PID bonds will be paid through the collection of assessments imposed on the chargeable properties benefiting from the public improvements.
4. Net position at September 30, 2023 and 2022 totaled (\$7,345,191) and (\$6,893,063), respectively.
5. Capital assets totaled \$3,255,680 as of September 30, 2023 for the Phase #2-3 Direct. There were no capital assets for Phase #1 and Phase #2-3 MI as of September 30, 2023 and 2022, due to the acceptance and conveyance of all improvements to the City in fiscal year 2021, totaling \$4,225,272 for Phase #1 and \$2,493,479 for Phases #2-3 MI.
6. Annual assessments of \$709,085 were imposed on the property owners for the 2022-2023 assessment year to be collected in fiscal year 2023. Annual assessments of \$724,680 were imposed on the property owners for the 2021-2022 assessment year to be collected in fiscal year 2022. The annual assessments are remitted to the PID by January 31 of each year. As of September 30, 2023, all annual assessments had been

remitted to the PID.

7. Special assessments of \$736,514 were imposed on the property owners in tax year 2023 for collection in fiscal year 2024. As of May 31, 2024, \$736,095 had been remitted to the PID.
8. On July 11, 2023, the City entered into a reimbursement agreement with MM Chalk Hill, LLC (the “Developer”) to finance a portion of the costs of the Phase #2-3 Direct improvements not paid with the proceeds of the Phase #2-3 Direct Bonds to a maximum of \$1,612,000. In addition, the developer deposited \$1,950,772 with the trustee at the issuance of the Bonds to fund costs of any improvements not funded with the proceeds of the Bonds and reimbursement agreement. As of September 30, 2023, \$528,137 was drawn on the developer’s escrow and charged to the RA Note.

Overview of the Financial Statements

This annual report consists of two parts – (i) Management’s Discussion and Analysis and (ii) the basic financial statements consisting of a *Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows*, and related footnotes. The Statement of Net Position represents the financial position of the PID and provides information about the activities of the PID, including all short-term and long-term financial resources and obligations. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total financial position. The Statement of Cash Flows reflects how the PID finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Summary Statements of Net Position:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Current and other assets	\$ 7,461,151	\$ 876,059	\$ 828,769
Capital assets	3,255,680	-	-
Total assets	<u>10,716,831</u>	<u>876,059</u>	<u>828,769</u>
Liabilities:			
Current liabilities	1,038,250	194,122	189,344
Long-term debt	17,023,772	7,575,000	7,725,000
Total Liabilities	<u>18,062,022</u>	<u>7,769,122</u>	<u>7,914,344</u>
Net Position			
Net investment in capital assets	(931,395)	-	-
Restricted	1,269,166	874,398	828,762
Unrestricted	(7,682,962)	(7,767,461)	(7,914,337)
Total Net Position	<u>\$ (7,345,191)</u>	<u>\$ (6,893,063)</u>	<u>\$ (7,085,575)</u>

The negative net position is due primarily to the issuance of the Phase #2-3 Direct Bonds and acceptance of the Phase #1 and Phase #2-3 MI public improvements by the City in fiscal year 2021.

Summary Statements of Revenues, Expenses, and Changes in Net Position:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues	\$ 729,073	\$ 751,897	\$ 673,006
Operating Expenses	<u>(72,395)</u>	<u>(64,956)</u>	<u>(70,598)</u>
Operating Income	656,678	686,941	602,408
Non-operating Revenues/(Expenses)	(1,108,806)	(494,429)	(510,292)
Donated capital assets	<u>-</u>	<u>-</u>	<u>(6,718,751)</u>
Change in Net Position	<u>\$ (452,128)</u>	<u>\$ 192,512</u>	<u>\$ (6,626,635)</u>

The negative change in net position in fiscal year 2023 is due primarily to bond issuance costs and additional interest expense.

Capital Assets

Capital assets totaled \$3,255,680 as of September 30, 2023 for the Phase #2-3 Direct improvements. Capital assets represent construction in progress of road, water, sewer, and storm drainage improvements in the PID. There were no capital assets as of September 30, 2022, due to the acceptance and conveyance of all improvements to the City in fiscal year 2021. The acceptances, totaling \$4,225,272 for Phase #1 and \$2,493,479 for Phases #2-3 MI were reported as “donated capital assets” on the financial statements.

Long-Term Debt

The \$4,325,000 Phase #1 Bonds were issued on April 12, 2018, bearing interest at 6.250% with a final maturity of September 1, 2048.

The \$3,690,000 Phases #2-3 Major Improvement Bonds were issued on April 12, 2018, bearing interest at 6.625% with a final maturity of September 1, 2048.

The \$7,633,000 Phase #2-3 Direct Bonds were issued on August 9, 2023, bearing interest at rates from 5.000% to 6.000% with a final maturity of September 1, 2053.

The PID Bonds issuances represent 89% of the PID’s long-term debt balance, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Indentures of Trust (the “Indentures”) between the City and U.S. Bank, National Association (the “Trustee”).

The PID’s debt will be paid through the collection of assessments imposed on the chargeable

properties benefiting from the public improvements, as well as through a portion of the tax increment reinvestment zone (the “TIRZ”) revenues collected by the City from each parcel of assessed property that pays City taxes in a given year.

The proceeds from the PID Bonds are being used to finance construction of certain public infrastructure improvements within the PID, to pay a portion of the interest on the PID Bonds during and after the period of acquisition and construction of the improvements, to fund a debt service reserve fund, to pay costs of issuing the PID Bonds, and to pay the initial administrative expenses of the PID.

Mandatory sinking fund payments began on September 1, 2020, for the Phase #1 Bonds, September 1, 2021, for the Phases #2-3 MI Bonds, and payments will begin on September 1, 2025 for the Phase #2-3 Direct Bonds. Sinking fund payments are made from the pledged revenues received by the PID after the payment of administrative expense.

On July 11, 2023, the City entered into a reimbursement agreement with the Developer to finance a portion of the costs of the improvements not paid with the proceeds of the Bonds. The Developer agreed to contribute approximately \$3.3 million to the project, \$1,950,772 of which was a cash contribution at the issuance of the Bonds (the “Developer’s Escrow Deposit”). Costs up to \$1,612,000 will be charged against a developer-held note (the “RA Note”) bearing interest at 5.95% until maturity on September 1, 2052. Principal and interest on the RA Note will be paid from the pledged revenues each year in a pre-determined amount. The balance on the Developer’s Escrow Deposit at September 30, 2023, was \$1,422,635, which represents approximately 8% of the PID’s long-term debt balance. Any funds remaining in the Developer’s Escrow Deposit upon completion of the public improvements will be returned to the Developer. As of September 30, 2023, \$528,137 was drawn on the developer’s escrow deposit and charged to the RA Note, which represents approximately 3% of the PID’s long-term debt balance.

Pledged Revenues

Pledged Revenues consist of assessments paid by the benefitted property owners and the TIRZ revenues deposited by the City with the Trustee. Annual assessments are to be imposed and collected to pay debt service and operating costs of the PID. The annual assessments are remitted by January of each year.

Annual assessments totaling \$709,085 were billed for the 2022-2023 assessment year to be collected in fiscal year 2023: \$365,485 for the Phase #1 Bonds and \$343,600 for the Phases #2-3 MI Bonds. As of September 30, 2023, all annual assessments had been remitted to the PID.

Annual assessments totaling \$724,680 were billed for the 2021-2022 assessment year to be collected in fiscal year 2022: \$382,075 for the Phase #1 Bonds and \$342,605 for the Phases #2-3 MI Bonds. As of September 30, 2022, all annual assessments had been remitted to the PID.

TIRZ revenue contributions totaled \$18,157 and \$1,831 for Phase #1 and Phases #2-3 MI, respectively for fiscal year 2023. TIRZ revenue contributions totaled \$2,982 and \$1,045 for Phase #1 and Phases #2-3 MI, respectively for fiscal year 2022.

Economic Factors and Future Outlook

Presently, the PID is not aware of any significant changes in conditions that would have a significant effect on the administrative expenses in the near future.

Contacting Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the PID's finances, and to reflect its accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to the PID's administrator, MuniCap, Inc., at 600 E. John Carpenter Freeway, Suite 150, Irving, TX 75062.

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III. FINANCIAL STATEMENTS

CHALK HILL PUBLIC IMPROVEMENT DISTRICT NO. 2
STATEMENTS OF NET POSITION
As of September 30,

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Restricted cash and cash equivalents	\$ 7,418,856	\$ 874,398
Accrued interest receivable	40,003	1,661
Prepaid expenses	2,292	-
Total Current Assets	<u>7,461,151</u>	<u>876,059</u>
Noncurrent Assets		
Construction in Progress	<u>3,255,680</u>	-
Total Noncurrent Assets	<u>3,255,680</u>	-
Total Assets	<u>10,716,831</u>	<u>876,059</u>
Liabilities		
Current Liabilities		
Accounts payable	44,790	27,898
Accrued liabilities	752,993	-
Accrued interest payable	105,467	41,224
Current portion of long-term debt	<u>135,000</u>	<u>125,000</u>
Total Current Liabilities	<u>1,038,250</u>	<u>194,122</u>
Noncurrent Liabilities		
Long-term debt	<u>17,023,772</u>	<u>7,575,000</u>
Total Noncurrent Liabilities	<u>17,023,772</u>	<u>7,575,000</u>
Total Liabilities	<u>18,062,022</u>	<u>7,769,122</u>
Net Position		
Net investment in capital assets	(931,395)	-
Restricted	1,269,166	874,398
Unrestricted	<u>(7,682,962)</u>	<u>(7,767,461)</u>
Net Position	<u>\$ (7,345,191)</u>	<u>\$ (6,893,063)</u>

The accompanying notes to the financial statements are an integral part of this statement.

CHALK HILL PUBLIC IMPROVEMENT DISTRICT NO. 2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ending September 30,

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Annual assessment revenues	\$ 709,085	\$ 724,680
Prepayment revenues	-	23,190
TIRZ contribution	19,988	4,027
Total Operating Revenues	<u>729,073</u>	<u>751,897</u>
Operating Expenses		
Administrative fees	68,448	60,865
Accounting and audit fees	3,947	4,091
Total Operating Expenses	<u>72,395</u>	<u>64,956</u>
Operating Income	<u>656,678</u>	<u>686,941</u>
Non-Operating Revenues/(Expenses)		
Interest and dividend income	118,680	7,039
Penalties and interest income	778	1,522
Developer's distribution	-	(60)
Bond issuance costs	(669,329)	-
Interest expense	(558,935)	(502,930)
Total Non-Operating Revenues/(Expenses)	<u>(1,108,806)</u>	<u>(494,429)</u>
Change in Net Position	(452,128)	192,512
Net Position, Beginning of Year	<u>(6,893,063)</u>	<u>(7,085,575)</u>
Net Position, End of Year	<u>\$ (7,345,191)</u>	<u>\$ (6,893,063)</u>

The accompanying notes to the financial statements are an integral part of this statement.

CHALK HILL PUBLIC IMPROVEMENT DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
For the Years Ending September 30,

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Cash receipts from property owners	\$ 729,072	\$ 751,897
Cash payments for administrative fees	(53,847)	(59,406)
Cash payments for accounting and audit fees	(3,947)	(5,000)
Net Cash Provided By Operating Activities	671,278	687,491
Cash Flows from Investing Activities		
Interest and dividends received on investments	80,338	5,385
Net Cash Provided by Investing Activities	80,338	5,385
Cash Flows from Capital and Related Financing Activities		
Proceeds from bond issuance	7,633,000	-
Developer's escrow deposit	1,950,772	-
Acquisition and construction of capital assets	(2,502,687)	-
Principal paid on bonds	(125,000)	(145,000)
Interest paid on bonds	(494,694)	(503,702)
Developer distribution	-	(60)
Penalties and interest received	778	1,522
Bond issuance costs paid	(669,327)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	5,792,842	(647,240)
Change in Cash Balance	6,544,458	45,636
Cash and Cash Equivalents, Beginning of Year	874,398	828,762
Cash and Cash Equivalents, End of Year	\$ 7,418,856	\$ 874,398
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 656,678	\$ 686,941
Adjustments		
Increase in accounts payable	16,892	550
Increase in prepaid expenses	(2,292)	-
Net Cash Provided by Operating Activities	\$ 671,278	\$ 687,491
Supplemental Information		
Construction in progress in accrued liabilities	\$ 752,993	\$ -

The accompanying notes to the financial statements are an integral part of this statement.

IV. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—FINANCIAL REPORTING ENTITY

The Chalk Hill Public Improvement District No. 2 (the “PID”) was created pursuant to the PID Act and Resolution No. 2017-212R, which was passed and approved by the City Council of the City of Celina (the “City Council”) on December 12, 2017, to finance the costs of certain public improvements for the benefit of property in the PID, all of which is located within the City of Celina (the “City”).

The \$4,325,000 Series 2018 Special Assessment Revenue Bonds, Phase #1 Project (the “Phase #1 Bonds”) were issued pursuant to the PID Act, and an ordinance adopted by the City Council on March 23, 2018, and an Indenture of Trust, (the “Phase #1 Indenture”) dated as of April 1, 2018, by and between the City and U.S. Bank, National Association (the “Trustee”). The Phase #1 Bonds were issued to finance certain infrastructure improvement projects provided for the benefit of the property in Phase #1 of the PID. Phase #1 consists of approximately 38.9 acres out of the total 94.8-acre PID and is anticipated to include 157 lots.

The \$3,690,000 Series 2018 Special Assessment Revenue Bonds, Phases #2-3 Major Improvement Project (the “Phases #2-3 MI Bonds”) were issued pursuant to the PID Act and an ordinance adopted by the City Council on March 23, 2018, and an Indenture of Trust, (the “Phases #2-3 MI Indenture”) dated as of April 1, 2018, by and between the City and the Trustee. The Phases #2-3 MIA Bonds were issued to finance certain infrastructure improvement projects provided for the benefit of the property in Phases #2- 3 of the PID. Phases #2-3 MI consist of approximately 55.9 acres out of the total 94.8-acre master planned development and is anticipated to include 284 lots.

The \$7,633,000 Series 2023 Special Assessment Revenue Bonds, Phases #2-3 Direct Improvement Project (the “Phases #2-3 Direct Bonds”) were issued pursuant to the PID Act and an ordinance adopted by the City Council on July 11, 2023, and an Indenture of Trust, (the “Phases #2-3 Direct Indenture”) dated as of August 1, 2023, by and between the City and the Trustee. The Phases #2-3 Direct Bonds were issued to finance a portion of the public improvements benefitting only the Phases #2-3, to finance a portion of the interest on the Phases #2-3 Direct Bonds during and after the period of acquisition and construction of the public improvements, to fund a reserve fund, to pay a portion of the costs incidental to the organization of the PID, and to pay costs of issuing the Phases #2-3 Direct Bonds.

The City and MM Chalk Hill, LLC (the “Developer”) entered into a reimbursement agreement (the “Reimbursement Agreement”) in the aggregate amount of \$1,612,000 to finance, refinance, provide, or otherwise assist in the acquisition, construction, and maintenance of the public improvements provided for the benefit of the property in Phases #2-3 Direct.

The City is located in north central Collin and Denton Counties, forty miles north of Dallas and fifteen miles northwest of the City of McKinney. The land in the PID is being developed by CADG Celina 156, LLC, a Texas limited liability company (the “Developer”). The PID consists of approximately 94.8 acres and is projected to consist of 441 lots and the infrastructure necessary to

provide road, water distribution, sanitary sewer collection, and storm drainage collection system improvements.

The Phase #1 Bonds, the Phases #2-3 MI Bonds and the Phases #2-3 Direct (together, the “PID Bonds”) are intended to be paid primarily from special assessments imposed by the City and collected by the Collin County Tax Assessor Collector (the “CCTAC”) on behalf of the City against the properties benefiting from the public improvements of the PID.

The PID’s debt will be paid through the collection of assessments imposed on the chargeable properties benefiting from the public improvements, as well as through a portion of the tax increment reinvestment zone (the “TIRZ”) revenues collected by the City from each parcel of assessed property that pays City taxes in a given year.

For a more detailed description on the Town’s Tax Increment Reinvestment Zones, refer to Note 1 of the Town’s Fiscal Year Ended September 30, 2023 Annual Comprehensive Financial Report (ACFR).

The PID’s management believes these financial statements present all activities for which the PID is financially accountable.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

A. Basis of Presentation

The PID’s basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. The PID uses enterprise fund accounting to maintain its financial records during the fiscal year. Enterprise fund accounting focuses on the determination of operating income, financial position and changes in net position, and cash flows.

B. Measurement Focus and Basis of Accounting

The PID’s financial activity is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the PID are included within the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The Statements of Cash Flows reflects how the PID finances and meets its cash flow needs.

Net Position is segregated into Net Investment in Capital Assets, Restricted, and Unrestricted components, if applicable.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, and measurement focus relates to the timing of the measurements made. The PID uses the accrual basis of accounting and the flow of economic resources measurement focus for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Cash and Cash Equivalents

Cash received by the PID is deposited with a financial institution or invested. Deposits and investments having an original maturity of three months or less at the time they are purchased are presented in the financial statements as Cash and Cash Equivalents.

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their acquisition value on the date that they will be donated. All infrastructure assets are capitalized. The PID does not depreciate capital assets as all assets will be donated to the City upon completion/acquisition.

E. Net Position

Net position represents the difference between assets and liabilities. Net Position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the PID, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The PID first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the PID. For the PID, these revenues are special assessments. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the PID. All revenues and expenses not meeting this definition are reported as non-operating.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Income Taxes

The PID is a governmental entity, and therefore, is exempt from all federal and state income taxes.

I. Future Accounting Standards

GASB has issued new standards that will become effective in future fiscal years. The PID will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE 3—CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of September 30, 2023, and 2022:

	<u>2023</u>	<u>2022</u>
US Treasury money market funds	\$ 7,418,856	\$ 874,398
Total	<u>\$ 7,418,856</u>	<u>\$ 874,398</u>

Cash and cash equivalents consist of investments in money market accounts. Such underlying securities are held by financial institutions in their trust departments in the PID's name.

A. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the PID's deposits may not be returned. There is no custodial credit risk to these accounts as the entire bank balance is required to be invested in accordance with the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "Investment Act") and as authorized by the City's official investment policy.

B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. As a means of limiting exposure to fair value losses arising from rising interest rates, the Phase #1 Indenture, the Phases #2-3 MI Indenture and the Phases #2-3 Direct Indenture (together, the "Indentures") require the investment of moneys in all funds in accordance with the Investment Act and the City's official investment policy.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indentures specify that investments in time deposits or certificates of deposit must be secured in the manner required by law for public funds, or be invested in direct obligations of the United States of America, in obligations of any agencies or instrumentalities thereof, or in such other investments as are permitted under the Investment Act, provided that all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time. For purposes of maximizing investment returns, to the extent permitted by law, money in such funds may be invested in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository bank. Investments at September 30, 2023 and 2022 were in compliance with the Indentures.

All funds held in the accounts created by the Indentures, which are on deposit with any bank, will be continuously secured in the manner required by the Indentures and the Investment Act.

D. Concentration of Credit Risk

Concentration of credit risk can arise by failing to adequately diversify investments. The Investment Act establishes limitations on portfolio composition to control concentration of credit risk.

E. Recurring Measurements

The PID’s investments in money market accounts are measured at the net asset value per share (or its equivalent) practical expedient. Accordingly, these investments have not been classified in the fair value hierarchy.

NOTE 4—CAPITAL ASSETS

The capital asset activity for the year ended September 30, 2023 was as follows:

2023	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Phases #2-3 Direct	\$ -	\$ 3,255,680	\$ -	\$ 3,255,680
Total Capital Assets	<u>\$ -</u>	<u>\$ 3,255,680</u>	<u>\$ -</u>	<u>\$ 3,255,680</u>

Capital assets totaling \$3,255,680 as of September 30, 2023 represent construction in progress of road, water, sewer, and storm drainage improvements in the for the Phases #2-3 Direct. There were no capital assets as of September 30, 2022, due to the acceptance and conveyance of all Phase #1 and Phases #2-3 MI public improvements in fiscal year 2021 that were reported as “donated capital assets” on the financial statements. The costs incurred were to provide road, water distribution system, sanitary sewer collection system, and storm drainage collection system improvements.

NOTE 5—LONG-TERM OBLIGATIONS

The PID’s long-term debt activity for the years ending September 30, 2023 and 2022, was as follows:

	Balance			Balance September 30, 2023	Due in one year
	October 1, 2022	Increase	Decrease		
2023					
Phase #1 Bonds	\$ 4,115,000	\$ -	\$ (70,000)	\$ 4,045,000	\$ 75,000
Phases #2-3 MI Bonds	3,585,000	-	(55,000)	3,530,000	60,000
Phases #2-3 Direct Bonds	-	7,633,000	-	7,633,000	-
Total Bonds Payable	7,700,000	7,633,000	(125,000)	15,208,000	135,000
RA Note	-	528,137	-	528,137	-
Developer's Escrow Deposit	-	1,950,772	(528,137)	1,422,635	-
Total Long-term Debt	\$ 7,700,000	\$ 10,111,909	\$ (653,137)	\$ 17,158,772	\$ 135,000
	Balance			Balance September 30, 2022	Due in one year
	October 1, 2021	Increase	Decrease		
2022					
Phase #1 Bonds	\$ 4,205,000	\$ -	\$ (90,000)	\$ 4,115,000	\$ 70,000
Phases #2-3 MI Bonds	3,640,000	-	(55,000)	3,585,000	55,000
Total Long-term Debt	\$ 7,845,000	\$ -	\$ (145,000)	\$ 7,700,000	\$ 125,000

A. Special Assessment Revenue Bonds, Series 2018

On April 12, 2018, the PID issued \$4,325,000 in Series 2018 Special Assessment Revenue Bonds, Phase #1 Project and \$3,690,000 in Series 2018 Special Assessment Revenue Bonds, Phases #2-3 Major Improvement Project (collectively, the “Series 2018 Bonds”), to finance construction of certain public infrastructure improvements within the respective areas, to pay a portion of the interest on the Series 2018 Bonds during and after the period of acquisition and construction, to fund debt service reserve funds, to pay costs of issuing the Series 2018 Bonds, and to pay the initial administrative expenses of the Series 2018 Bonds.

The Series 2018 Bonds are special obligations of the City payable solely from and secured by a pledge of assessments. They are not payable from funds raised or to be raised from taxation. The Series 2018 Bonds are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Indentures. Principal payments began on September 1, 2020, for the Phase #1 Bonds and September 1, 2021, for the Phases #2-3 MI Bonds, according to the mandatory sinking fund schedule.

Interest on the Series 2018 Bonds is payable according to the terms specified by the Indentures semiannually on March 1 and September 1 of each year commencing on September 1, 2018. Interest on the PID Bonds is calculated based on a 360-day year comprised of twelve 30-day months. Phase #1 Bonds’ interest payments totaled \$257,188 and \$262,552 for the years ended September 30, 2023, and 2022, respectively. Phases #2-3 MI Bonds’ interest payments totaled \$237,506 and \$241,150 for the years ended September 30, 2023, and 2022, respectively.

1. Optional Redemption

The City reserves the right and option to redeem the Series 2018 Bonds before their scheduled maturity dates, in whole or in part, on any date on or after September 1, 2028, at the redemption price of 100% of the principal amount, plus accrued interest to the date of redemption.

2. Extraordinary Optional Redemption

The Series 2018 Bonds are subject to extraordinary optional redemption by the City prior to their scheduled maturity, on the first day of any month, at the redemption price of 100% of the principal amount of the bonds, or portions thereof, to be redeemed plus accrued interest to the redemption date, from amounts on deposit in the Redemption Fund as a result of assessment prepayments, unexpended proceeds transferred from the Project Fund to the Redemption Fund, and transfers to the Redemption Fund from the monies in the Reserve Fund.

B. Special Assessment Revenue Bonds, Series 2023

On August 9, 2023, the PID issued \$7,633,000 in Series 2023 Special Assessment Revenue Bonds, Phases #2-3 Direct Improvement Project (the “Series 2023 Bonds”) to fund a portion of the public improvements benefitting only the Phases #2-3, to finance a portion of the interest on the Series 2023 Bonds during and after the period of acquisition and construction of the public improvements, to fund a reserve fund, to pay a portion of the costs incidental to the organization of the PID, and to pay costs of issuing the Series 2023 Bonds.

The Series 2023 Bonds are intended to be paid primarily from assessments imposed and collected by the City against the properties benefiting from the public improvements. If an assessment is not paid in full, the PID Act authorizes the City to collect interest and collections costs on the outstanding special assessment. The City covenanted in the Indentures that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

The Series 2023 Bonds are special obligations of the City payable solely from and secured by a pledge of assessments. They are not payable from funds raised or to be raised from taxation.

The Series 2023 Bonds were issued in three terms as follows:

	<u>Par Value</u>	<u>Rate</u>	<u>Final Maturity</u>
Term 2030	\$ 471,000	5.00%	September 1, 2030
Term 2043	\$ 2,034,000	5.75%	September 1, 2043
Term 2052	\$ 5,128,000	6.00%	September 1, 2053

Interest on the Series 2023 Bonds is payable according to the terms specified by the Indentures semiannually on March 1 and September 1 of each year commencing on March 1, 2024. Interest on the Series 2023 Bonds is calculated based on a 360-day year comprised of twelve 30-day months. No interest was paid for the year ending September 30, 2023.

1. Optional Redemption

The City reserves the right and option to redeem the Series 2023 Bonds before their scheduled maturity dates, in whole or in part, on any date on or after September 1, 2031, at the redemption price of 100% of the principal amount, plus accrued interest to the date of redemption.

2. Extraordinary Optional Redemption

The Series 2023 Bonds are subject to extraordinary optional redemption by the City prior to their scheduled maturity, at the redemption price of 100% of the principal amount of the bonds, or portions thereof, to be redeemed plus accrued interest to the redemption date, from amounts on deposit in the Redemption Fund as a result of assessment prepayments, unexpended proceeds transferred from the Project Fund to the Redemption Fund, and transfers to the Redemption Fund from the monies in the Reserve Fund.

C. Mandatory Sinking Fund Redemption

The PID Bonds are required to be redeemed each September 1 in the years and in the amounts set forth below:

For year ending September 30:	Phase #1		Phases #2-3 MI	
	Principal	Interest	Principal	Interest
2024	\$ 75,000	\$ 252,813	\$ 60,000	\$ 233,863
2025	80,000	248,125	65,000	229,888
2026	80,000	243,125	70,000	225,581
2027	85,000	238,125	70,000	220,944
2028	95,000	232,813	75,000	216,306
2029-2033	555,000	1,068,750	465,000	999,381
2034-2038	740,000	873,750	635,000	824,150
2039-2043	1,000,000	612,188	880,000	583,000
2044-2048	1,335,000	257,500	1,210,000	251,419
Total	<u>\$ 4,045,000</u>	<u>\$ 4,027,189</u>	<u>\$ 3,530,000</u>	<u>\$ 3,784,532</u>

For year ending September 30:	Phase #2-3 Direct		Total Bonds	
	Principal	Interest	Principal	Interest
2024	\$ -	\$ 475,574	\$ 135,000	\$ 962,250
2025	70,000	448,185	215,000	926,198
2026	71,000	444,685	221,000	913,391
2027	78,000	441,135	233,000	900,204
2028	81,000	437,235	251,000	886,354
2029-2033	471,000	2,120,953	1,491,000	4,189,084
2034-2038	741,000	1,956,425	2,116,000	3,654,325
2039-2043	993,000	1,716,593	2,873,000	2,911,781
2044-2048	1,351,000	1,385,880	3,896,000	1,894,799
2049-2053	3,777,000	708,180	3,777,000	708,180
Total	<u>\$ 7,633,000</u>	<u>\$ 10,134,845</u>	<u>\$ 15,208,000</u>	<u>\$ 17,946,566</u>

D. Reimbursement Agreement Note

On July 11, 2023, the City entered into a reimbursement agreement (the “Reimbursement Agreement”) with the Developer to finance a portion of the costs of the Phases #2-3 Direct improvements not paid with the proceeds of the Phases #2-3 Direct Bonds. The Developer agreed to contribute approximately \$3.3 million to the costs of the improvements, \$1,950,772 being funded through a contribution at the issuance of the Bonds. In return, as costs are spent, the Developer will be issued a note (the “RA Note”) for up to \$1,612,000 bearing interest at 5.95% until maturity on September 1, 2052. Any balance remaining on the RA Note on September 1, 2052, will be canceled. As of September 30, 2023, \$528,137 was drawn on the developer’s escrow and charged to the RA Note. No payments of principal or interest were made on the RA Note in fiscal year 2023.

The estimated future debt service payments on the RA Note, assuming all pledged revenues are collected, are as follows:

For year ending September 30:	Reimbursement Agreement Note		
	Principal	Interest	Total
2024	\$ -	\$ 98,845	\$ 98,845
2025	22,000	95,260	117,260
2026	23,000	93,921	116,921
2027	25,000	92,493	117,493
2028	26,000	90,976	116,976
2029-2033	156,000	428,875	584,875
2034-2038	209,000	374,999	583,999
2039-2043	280,000	302,558	582,558
2044-2048	372,000	206,346	578,346
2049-2053	499,000	81,218	580,218
Total	<u>\$ 1,612,000</u>	<u>\$ 1,865,491</u>	<u>\$ 3,477,491</u>

E. Developer Escrow Deposit

At bond issuance, the Developer deposited \$1,950,772 with the trustee to be held in escrow and used to fund costs of the public improvements in excess of the funds available from the proceeds of the Bonds. Any funds remaining at the completion of the public improvements will be returned to the Developer. As of September 30, 2023, \$528,137 was drawn on the developer’s escrow deposit and charged to the RA Note.

NOTE 6—REVENUES

Annual assessments are to be imposed and collected on all properties within the PID benefiting from the public improvements (excepting those for which the assessment lien has been prepaid), to pay debt service and operating costs of the PID. The annual assessments are remitted to the PID by January 31 of each year. The amount billed, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. The other amounts available include TIRZ contributions paid by the City to reduce the annual installment of assessments, the amount of which is calculated each year based on the Service and Assessment Plan (the “SAP”). In addition, the annual payment includes a 0.50% additional interest rate to fund the prepayment and delinquency reserve as described in the SAP. Assessments are payable to the City no later than February 1 of each year.

Annual assessments totaling \$709,085 were billed for the 2022-2023 assessment year to be collected in fiscal year 2023: \$365,486 for the Phase #1 Bonds and \$343,600 for the Phases #2-3 MI Bonds. As of September 30, 2023, all annual assessments had been remitted to the PID.

Annual assessments totaling \$724,680 were billed for the 2021-2022 assessment year to be collected in fiscal year 2022: \$382,075 for the Phase #1 Bonds and \$342,605 for the Phases #2-3 MI Bonds. As of September 30, 2022, all annual assessments had been remitted to the PID.

In fiscal year 2023, TIRZ contributions of \$18,157 and \$1,831 were received for Phase #1 and Phases #2-3 MI respectively. In fiscal year 2022, TIRZ contributions of \$2,982 and \$1,045 were received for Phase #1 and Phases #2-3 MI respectively.

NOTE 7—ARBITRAGE

When applicable, arbitrage calculations are performed on the PID’s funds to determine any arbitrage rebate or yield restriction liability. No liabilities for arbitrage rebate or yield restrictions were identified in the fiscal years ending September 30, 2023, and 2022.

NOTE 8—SUBSEQUENT EVENTS

Special assessments of \$736,514 were imposed on the property owners in tax year 2023 for collection in fiscal year 2024. As of May 31, 2024, \$736,095 had been remitted to the PID.