



**HILLSTONE POINTE PUBLIC IMPROVEMENT DISTRICT  
NO. 2  
TOWN OF LITTLE ELM, TEXAS**

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

**CUSIP NUMBERS:**

**Phase #1**

537098AJ4  
537098AK1

**Phase #2-3**

537098BH7  
537098BJ3  
537098BK0  
537098BL8

# **HILLSTONE POINTE PUBLIC IMPROVEMENT DISTRICT NO. 2**

## **ANNUAL FINANCIAL STATEMENTS SEPTEMBER 30, 2023 (AUDITED) AND 2022 (UNAUDITED)**

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## **Independent Auditor's Report**

The Honorable Mayor and Members of the Town Council  
Hillstone Pointe Public Improvement District No. 2  
Little Elm, Texas

### ***Opinion***

We have audited the financial statements of the Hillstone Pointe Public Improvement District No. 2 (PID), as of and for the year ended September 30, 2023, 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 the changes in financial position 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 (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 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 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 auditing standards generally accepted in the United States of America, 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.

### ***Other Matter***

Management is responsible for the accompanying 2022 statement of net position and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We did not audit, review or compile the 2022 financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

**FORVIS, LLP**

**Dallas, Texas  
May 30, 2024**

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## ***II. MANAGEMENT’S DISCUSSION AND ANALYSIS***

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The Management’s Discussion and Analysis of the financial performance of the Hillstone Pointe Public Improvement District No. 2 (the “PID”) provides an overall review of the PID’s financial activities for the 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 Hillstone Pointe Public Improvement District No. 2 was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement District Assessment Act (the “PID Act”) and Resolution No. 04041709, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the “Town Council”) on April 4, 2017, to finance certain infrastructure improvement projects for the benefit of the property in the PID.
2. The PID has issued two series of bonds (the “PID Bonds”):
  - a. The \$6,000,000, Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2017, (the “Phase #1 Bonds”) were issued on November 10, 2017.
  - b. The \$4,688,000, Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2018, (the “Phase #2-3 Bonds”) were issued on December 5, 2018.
3. The PID’s debt 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 (\$8,938,563) and (\$9,198,163), respectively, due primarily to the completion and subsequent donation of the public improvements to the Town prior to fiscal year 2022.
5. There were no capital assets at September 30, 2023, and 2022, respectively, reflecting the completion and acceptance by the Town of \$8,440,744 in public improvements during the fiscal year 2017 and 2019.
6. Annual installments of \$860,849 were imposed on the property owners for collection in fiscal year 2023. The annual installments are remitted to the PID monthly as they are received by the Denton County Tax Assessor Collector (the “DCTAC”). The DCTAC reports that as of September 30, 2023, approximately \$23 of these installments were delinquent. Annual installments of \$835,032 were imposed on the property owners for collection in fiscal year 2022. The DCTAC reports that as of September 30, 2023, all annual installments for fiscal year 2022 have been collected and remitted to the PID.

## **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.

## **Comparative Financial Statements**

### **Summary Statement of Net Position:**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Current assets	\$ 1,399,173	\$ 1,251,216	\$ 1,217,211
Total assets	<u>1,399,173</u>	<u>1,251,216</u>	<u>1,217,211</u>
Liabilities:			
Current liabilities	204,736	181,379	184,208
Long-term debt	<u>10,133,000</u>	<u>10,268,000</u>	<u>10,413,000</u>
Total Liabilities	<u>10,337,736</u>	<u>10,449,379</u>	<u>10,597,208</u>
Net Position			
Restricted	1,395,415	1,249,772	1,217,205
Unrestricted	<u>(10,333,978)</u>	<u>(10,447,935)</u>	<u>(10,597,202)</u>
Total Net Position	<u>\$ (8,938,563)</u>	<u>\$ (9,198,163)</u>	<u>\$ (9,379,997)</u>

Bond proceeds were used to finance the construction of improvements and administrative costs of the PID. The negative net position is due primarily to the donation of assets to the Town of Little Elm (the “Town”) in 2017 and 2019.

### **Summary Statement of Revenues, Expenses, and Changes in Net Position:**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues	\$ 883,190	\$ 869,583	\$ 789,760
Operating Expenses	<u>68,575</u>	<u>80,543</u>	<u>65,618</u>
Operating Income	814,615	789,040	724,142
Non-operating Revenues/(Expenses)	<u>(555,015)</u>	<u>(607,206)</u>	<u>(620,031)</u>
Change in Net Position	<u>\$ 259,600</u>	<u>\$ 181,834</u>	<u>\$ 104,111</u>

Net position increased in fiscal years 2023 and 2022 due to the annual installments exceeding the expenses of the PID.

### **Capital Assets**

There were no capital assets at September 30, 2023, and 2022, respectively, reflecting the completion and acceptance of all public improvements totaling \$8,440,744. All capital assets donated to the Town in fiscal year 2019 and the Mustang Special Utility District in 2017 were reported as “donated capital assets” in the financial statements. The costs of the donated public improvements totaled the following:

Phase #1	\$	5,503,660
Phase #2-3		2,937,083
Total	\$	<u>8,440,744</u>

### **Long-Term Debt**

The \$6,000,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2017 were issued on November 10, 2017, bearing interest at rates of 5.25% and 6.00% with final maturity on September 1, 2047.

The \$4,688,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2018 were issued on December 5, 2018, bearing interest at rates from 4.750% to 5.875% with final maturity on September 1, 2047.

The PID Bonds represent 100% 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 PID’s debt will be paid through the collection of annual installments of assessments imposed on the chargeable properties benefiting from the public improvements.

The proceeds from the PID Bonds were used to finance construction of certain public infrastructure improvements within the PID, to fund a debt service reserve fund, to pay a portion of the interest on the bonds during and after construction, 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, from annual installments of assessment revenues after the payment of administrative expenses.

### **Revenues**

Annual installments of assessments are to be imposed and collected on all properties within the PID benefiting from the public improvements to pay debt service and operating costs of the PID. The annual installments are remitted to the PID monthly as they are received by the DCTAC. Annual installments of \$860,849 were billed to the property owners for collection in fiscal year

2023. According to the DCTAC, as of September 30, 2023, approximately \$23 of the annual installments were outstanding. Annual installments of \$835,032 were billed to the property owners for collection in fiscal year 2022. The DCTAC reports that as of September 30, 2023, all annual installments for fiscal year 2022 have been collected and remitted to the PID.

### **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 the PID's 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***

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**HILLSTONE POINTE PUBLIC IMPROVEMENT DISTRICT NO. 2**  
**STATEMENTS OF NET POSITION**  
**As of September 30,**

	<u><b>2023</b></u>	<u><b>2022 (Unaudited)</b></u>
Assets		
Current Assets		
Restricted cash and cash equivalents	\$ 1,395,415	\$ 1,249,772
Accrued interest receivable	3,758	1,444
Total Current Assets	<u>1,399,173</u>	<u>1,251,216</u>
Total Assets	<u>1,399,173</u>	<u>1,251,216</u>
Liabilities		
Current Liabilities		
Accounts payable	19,419	15,580
Accrued interest payable	50,317	50,799
Current portion of long-term debt	135,000	115,000
Total Current Liabilities	<u>204,736</u>	<u>181,379</u>
Noncurrent Liabilities		
Long-term debt	10,133,000	10,268,000
Total Noncurrent Liabilities	<u>10,133,000</u>	<u>10,268,000</u>
Total Liabilities	<u>10,337,736</u>	<u>10,449,379</u>
Net Position		
Restricted	1,395,415	1,249,772
Unrestricted	<u>(10,333,978)</u>	<u>(10,447,935)</u>
Net Position	<u>\$ (8,938,563)</u>	<u>\$ (9,198,163)</u>

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

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

	<u><b>2023</b></u>	<u><b>2022 (Unaudited)</b></u>
Operating Revenues		
Annual assessment revenues	\$ 866,210	\$ 838,195
Prepaid assessment revenues	16,980	31,388
Total Operating Revenues	<u>883,190</u>	<u>869,583</u>
Operating Expenses		
Administrative fees	62,575	74,243
Accounting and audit fees	6,000	6,300
Total Operating Expenses	<u>68,575</u>	<u>80,543</u>
Operating Income	<u>814,615</u>	<u>789,040</u>
Non-Operating Revenues/(Expenses)		
Interest and dividend income	51,407	5,739
Penalties and interest income	2,684	2,822
Interest expense	(609,106)	(615,767)
Total Non-Operating Revenues/(Expenses)	<u>(555,015)</u>	<u>(607,206)</u>
Change in Net Position	259,600	181,834
Net Position, Beginning of Year	<u>(9,198,163)</u>	<u>(9,379,997)</u>
Net Position, End of Year	<u><u>\$ (8,938,563)</u></u>	<u><u>\$ (9,198,163)</u></u>

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

**HILLSTONE POINTE PUBLIC IMPROVEMENT DISTRICT NO. 2**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ending September 30,**

	<u><b>2023</b></u>	<u><b>2022 (Unaudited)</b></u>
Cash Flows from Operating Activities		
Cash receipts from property owners	\$ 882,574	\$ 868,971
Cash payments for administrative fees	(64,120)	(79,871)
Cash payments for accounting and audit fees	-	(12,300)
Net Cash Provided by Operating Activities	<u>818,454</u>	<u>776,800</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	<u>49,093</u>	<u>4,301</u>
Net Cash Provided by Investing Activities	<u>49,093</u>	<u>4,301</u>
Cash Flows from Capital and Related Financing Activities		
Principal paid on bonds	(115,000)	(135,000)
Interest paid on bonds	(609,589)	(616,355)
Penalties and interest received	<u>2,685</u>	<u>2,821</u>
Net Cash Used in Capital and Related Financing Activities	<u>(721,904)</u>	<u>(748,534)</u>
Net increase in Cash and Cash Equivalents	145,643	32,567
Cash and Cash Equivalents, Beginning of Year	<u>1,249,772</u>	<u>1,217,205</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,395,415</u></u>	<u><u>\$ 1,249,772</u></u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 814,615	\$ 789,040
Adjustments		
Increase (Decrease) in accounts payable	<u>3,839</u>	<u>(12,240)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 818,454</u></u>	<u><u>\$ 776,800</u></u>

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

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## ***IV. NOTES TO THE FINANCIAL STATEMENTS***

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### **NOTE 1—FINANCIAL REPORTING ENTITY**

The Hillstone Pointe Public Improvement District No. 2 Project (the “PID” or “District”) was created pursuant to Texas Local Government Code Chapter 372, Public Improvement District Assessment Act (the “PID Act”) and Resolution No. 04041709, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the “Town Council”) on April 4, 2017, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID.

The \$6,000,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2017 (the “Phase #1 Bonds”) were issued on November 10, 2017 pursuant to the PID Act, an ordinance adopted by the Town Council on October 17, 2017, and an Indenture of Trust (“the Phase #1 Indenture”) dated as of October 1, 2017 by and between the Town of Little Elm (the “Town”) and the Bank of New York Mellon Trust Company, National Association (the “Trustee”). The Phase #1 Bonds were issued to pay a portion of the costs of the phase #1-1A improvements, to pay a portion of the interest on the bonds during and after the period of acquisition and construction of the phase #1 -1A improvements, to fund a reserve fund for payment of principal and interest on the bonds, to pay a portion of the costs incidental to the organization of the District, and to pay costs of issuance of the bonds.

The \$4,688,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2018 (the “Phase #2-3 Bonds” and, together with the Phase #1 Bonds, the “Bonds”) were issued on December 5, 2018 pursuant to the PID Act, an ordinance adopted by the Town Council on November 6, 2018, and an Indenture of Trust (the “Phase #2-3 Indenture” and, together with the Phase #1 Indenture, the “Indentures”) dated as of December 1, 2018 by and between the Town and the Trustee. The Phase #2-3 Bonds were issued to pay a portion of the actual costs of the phase #2-3 improvements, to pay a portion of the interest on the bonds during and after the period of acquisition and construction of the phase #2-3 improvements, to fund a reserve fund for payment of principal and interest on the bonds, to pay a portion of the costs incidental to the organization of the District, and to pay costs of issuance of the bonds.

The District is located in Denton County, Texas. The District consists of approximately 107 acres and is projected to consist of 608 residential lots and the infrastructure necessary to provide roadways, drainage, and utilities to the District. As of September 30, 2023, all 608 residential lots are owned by individual end users.

The Bonds are intended to be paid primarily from assessments imposed and collected in annual installments by the Town against the properties benefiting from the public improvements of the PID. If an assessment is not paid in full, the PID Act authorizes the Town to collect interest and collections costs on the outstanding assessment. The Town 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 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 on 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 position. The Statement 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 capital assets have been previously donated to the Town or another public entity upon.

## **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.

## **J. 2022 Information**

The 2022 information presented within the footnotes and the accompanying financial statements has not been audited.

### 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>
Money market funds	\$ 873,769	\$ 761,392
Cash	<u>521,646</u>	<u>488,380</u>
Total cash and cash equivalents	<u>\$ 1,395,415</u>	<u>\$ 1,249,772</u>

#### 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 directed by the Town.

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

#### 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 Indenture requires the investment of moneys in all funds in accordance with the Investment Act and the Town'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. Money in any Fund established pursuant to the Indenture shall be invested by the Trustee as directed by the Town. Such investments shall be valued each year in terms of current market value as of September 30. For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments, or in a common pool of such investment which shall be kept and held at an official depository bank, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. Investments at September 30, 2023 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, the Investment Act, and the Town's direction.

## 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 PID had no capital assets as of September 30, 2023, and 2022, respectively. The public improvements consisted of storm drainage, wastewater construction and installation, waterlines and mains, and road improvements that benefit the PID. Improvements totaling \$8,440,744 have been completed and were dedicated and accepted by the Town on August 12, 2019, and the Mustang Special Utility District on November 6, 2017.

## NOTE 5—LONG-TERM OBLIGATIONS

The PID's long-term obligations activity for the years ending September 30, 2023, and 2022, were as follows:

	Balance October 1, 2022	Increase	Decrease	Balance September 30, 2023	Due in one year
Phase #1 Bonds	\$ 5,830,000	\$ -	\$ (65,000)	\$ 5,765,000	\$ 75,000
Phase #2-3 Bonds	4,553,000	-	(50,000)	4,503,000	60,000
<b>Total Bonds Payable</b>	<b>\$ 10,383,000</b>	<b>\$ -</b>	<b>\$ (115,000)</b>	<b>\$ 10,268,000</b>	<b>\$ 135,000</b>

	Balance October 1, 2021	Increase	Decrease	Balance September 30, 2022	Due in one year
Phase #1 Bonds	\$ 5,905,000	\$ -	\$ (75,000)	\$ 5,830,000	\$ 65,000
Phase #2-3 Bonds	4,613,000	-	(60,000)	4,553,000	50,000
<b>Total Bonds Payable</b>	<b>\$ 10,518,000</b>	<b>\$ -</b>	<b>\$ (135,000)</b>	<b>\$ 10,383,000</b>	<b>\$ 115,000</b>



## **A. Special Assessment Revenue Bonds, Series 2017**

On November 10, 2017, the PID issued \$6,000,000 in Special Assessment Revenue Bonds, Series 2017 to pay a portion of the costs of the Phase #1-1A improvements, to pay a portion of the interest on the bonds during and after the period of acquisition and construction of the Phase #1-1A improvements, to fund a reserve fund for payment of principal and interest on the bonds, to pay a portion of the costs incidental to the organization of the District, and to pay costs of issuance on the bonds.

The Phase #1 Bonds are intended to be paid primarily from annual installments of assessments imposed by the Town and collected by the DCTAC against the properties benefiting from the public improvements. If an assessment is not paid in full, the PID Act authorizes the Town to collect interest and collections costs on the outstanding assessment. The Town covenanted in the Phase #1 Indenture that it will take and pursue all actions permissible under applicable laws to cause the annual installments to be collected and any resulting liens enforced.

The Phase #1 Bonds are special obligations of the Town payable solely from and secured by a pledge of assessments. They are not payable from funds raised or to be raised from taxation.

The Phase #1 Bonds were issued in two terms as follows:

	<u>Par Value</u>	<u>Rate</u>	<u>Final Maturity</u>
Term 2027	\$ 565,000	5.250%	September 1, 2027
Term 2047	\$ 5,435,000	6.000%	September 1, 2047

The Phase #1 Bonds described above represent 56% 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 Phase #1 Indenture. Principal payments on the Phase #1 Bonds are due each September 1 and began on September 1, 2020, according to the mandatory sinking fund redemption schedule.

Interest on the Phase #1 Bonds is payable according to the terms specified by the Phase #1 Indenture semiannually on March 1 and September 1 of each year commencing on March 1, 2018. Interest on the Phase #1 Bonds is calculated based on a 360-day year comprised of twelve 30-day months. The Phase #1 Bonds' interest payments totaled \$346,725 and \$350,625 for the years ending September 30, 2023, and 2022, respectively.

### **1. Optional Redemption**

The Town reserves the right and option to redeem the Phase #1 Bonds before their scheduled maturity dates, in whole or in part, on any interest payment date on or after September 1, 2027, at a price of par plus accrued interest to the date of the redemption.

### **2. Extraordinary Optional Redemption**

The Phase #1 Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on the first day of any month after the required notice of redemption, at a redemption price equal to 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 or from other available funds as specified in the Phase #1 Indenture. No extraordinary optional redemptions were made in fiscal year 2023. Extraordinary optional redemptions of \$15,000 were made during fiscal year 2022.

## **B. Special Assessment Revenue Bonds, Series 2018**

On December 5, 2018, the PID issued \$4,688,000 in Special Assessment Revenue Bonds, Series 2018 to pay a portion of the actual costs of the Phase #2-3 improvements, to pay a portion of the interest on the bonds during and after the period of acquisition and construction of the Phase #2-3 improvements, to fund a reserve fund for payment of principal and interest on the bonds, to pay a portion of the costs incidental to the organization of the District, and to pay costs of issuance of the bonds.

The Phase #2-3 Bonds are intended to be paid primarily from annual installments of assessments imposed and collected by the DCTAC against the properties benefiting from the public improvements. If an assessment is not paid in full, the PID Act authorizes the Town to collect interest and collections costs on the outstanding assessment. The Town covenanted in the Phase #2-3 Indenture 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 Phase #2-3 Bonds are special obligations of the Town payable solely from and secured by a pledge of assessments. They are not payable from funds raised or to be raised from taxation.

The Phase #2-3 Bonds were issued in four terms as follows:

	<u>Par Value</u>	<u>Rate</u>	<u>Final Maturity</u>
Term 2023	\$ 170,000	4.750%	September 1, 2023
Term 2028	\$ 360,000	5.250%	September 1, 2028
Term 2038	\$ 1,455,000	5.750%	September 1, 2038
Term 2047	\$ 2,703,000	5.875%	September 1, 2047

The Phase #2-3 Bonds described above represent 44% 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 Phase #2-3 Indenture. Principal payments on the Phase #2-3 Bonds are due each September 1 and began on September 1, 2020, according to the mandatory sinking fund redemption schedule.

Interest on the Phase #2-3 Bonds is payable according to the terms specified by the Phase #2-3 Indenture semiannually on March 1 and September 1 of each year commencing on March 1, 2019. Interest on the Phase #2-3 Bonds is calculated based on a 360-day year comprised of twelve 30-day months. The Phase #2-3 Bonds' interest payments totaled \$262,864 and \$265,730 for the years ending September 30, 2023, and 2022, respectively.

## 1. Optional Redemption

The Town reserves the right and option to redeem the Phase #2-3 Bonds before their scheduled maturity dates, in whole or in part, on any interest payment date on or after September 1, 2028, at a price of par plus accrued interest to the date of the redemption.

## 2. Extraordinary Optional Redemption

The Phase #2-3 Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on the first day of any month after the required notice of redemption, at a redemption price equal to 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 or from other available funds as specified in the Phase #2-3 Indenture. No extraordinary optional redemptions were made in fiscal year 2023. Extraordinary optional redemptions of \$15,000 were made during fiscal year 2022.

## C. Mandatory Sinking Fund Redemption

The PID Bonds are required to be redeemed prior to maturity in part at a price of 100% of the principal amount thereof plus accrued interest to the redemption date, on each September 1, as follows:

For the period ending September 30:	Phase #1 Bonds		Phase #2-3 Bonds	
	Principal	Interest	Principal	Interest
2024	75,000	343,313	60,000	260,489
2025	80,000	339,375	65,000	257,339
2026	90,000	335,175	70,000	253,926
2027	100,000	330,450	80,000	250,251
2028	110,000	325,200	85,000	246,051
2029-2033	745,000	1,511,100	575,000	1,147,569
2034-2038	1,120,000	1,245,600	875,000	949,481
2039-2043	1,640,000	851,400	1,285,000	650,950
2044-2047	1,805,000	280,200	1,408,000	213,968
<b>Total</b>	<b>\$ 5,765,000</b>	<b>\$ 5,561,813</b>	<b>\$ 4,503,000</b>	<b>\$ 4,230,024</b>

For the period ending September 30:	Total Bonds	
	Principal	Interest
2024	135,000	603,802
2025	145,000	596,714
2026	160,000	589,101
2027	180,000	580,701
2028	195,000	571,251
2029-2033	1,320,000	2,658,669
2034-2038	1,995,000	2,195,081
2039-2043	2,925,000	1,502,350
2044-2047	3,213,000	494,168
<b>Total</b>	<b>\$ 10,268,000</b>	<b>\$ 9,791,837</b>

## NOTE 6—REVENUES

Annual installments of the 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 installments are remitted to the PID as they are received by the DCTAC. The amount assessed, 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. In addition, the annual payment includes a 0.20% additional collections rate for the prepayment reserve and a 0.30% additional collections rate for the delinquency reserve as described in the Indentures. Annual installments of assessments are payable to the DCTAC no later than February 1 of each year. Annual installments to be collected were \$860,849 for fiscal year 2023, and \$835,032 for fiscal year 2022, of which \$23 for fiscal year 2023, was outstanding as of September 30, 2023.

## 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 restriction were identified in the fiscal years ending September 30, 2023, and 2022.

## NOTE 8—SUBSEQUENT EVENTS

As of October 24, 2023, all fiscal year 2023 collections have been received by the PID.

The annual installments of assessments to be collected for fiscal year 2024 are \$859,524. Per the Billing and Collection report, annual installments of approximately \$2,655 are outstanding as of May 9, 2024.