



LITTLE ELM

**RUDMAN TRACT PUBLIC IMPROVEMENT DISTRICT
TOWN OF LITTLE ELM, TEXAS**

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

RUDMAN TRACT PUBLIC IMPROVEMENT DISTRICT

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

TABLE OF CONTENTS

I.	INDEPENDENT AUDITOR’S REPORT	1
II.	MANAGEMENT’S DISCUSSION AND ANALYSIS	3
III.	FINANCIAL STATEMENTS	
	Statements of Net Position	8
	Statements of Revenues, Expenses, and Changes in Net Position.....	9
	Statements of Cash Flows	10
IV.	NOTES TO THE FINANCIAL STATEMENTS	
	Note 1—Financial Reporting Entity	11
	Note 2—Summary of Significant Accounting Policies	12
	Note 3—Cash and Cash Equivalents	14
	Note 4—Long-Term Obligations	15
	Note 5—Revenues.....	17
	Note 6—Subsequent Events.....	18



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Independent Auditor's Report

The Honorable Mayor and Members of the Town Council
Rudman Tract Public Improvement District
Little Elm, Texas

Opinion

We have audited the financial statements of the Rudman Tract Public Improvement District (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**

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the financial performance of the Rudman Tract Public Improvement District (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 Rudman Tract Public Improvement District was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement District Assessment Act (the "PID Act") and Resolution No. 10181601 passed and approved by the Town Council of the Town of Little Elm, Texas (the "Town Council") on October 18, 2016, to finance certain infrastructure improvement projects for the benefit of the property in the PID.
2. The Public Finance Authority (the "Authority") issued two series of bonds (the "Bonds") to fund the construction of public improvements for the PID and the Prairie Oaks Public Improvement District, which was created by the City of Oak Point, Texas:
 - a. The \$5,725,000, Prairie Oaks Development Major Improvement Projects, Contract Revenue Bonds, Series 2017, (the "MIA Bonds") were issued on May 31, 2017.
 - b. The \$8,800,000, Prairie Oaks Development Phase #1 Projects, Contract Revenue Bonds, Series 2017, (the "Phase #1 Bonds") were issued on May 31, 2017.
3. As described in the Private Placement Memorandums for the MIA Bonds and the Phase #1 Bonds, the Town of Little Elm (the "Town") has agreed to reimburse OPLE Prairie Oaks Development, Inc., (the "Developer") for a portion of the costs of certain infrastructure improvements in the Rudman Tract PID under reimbursement agreements between the Town and the Developer (the "MIA RA" and the "Phase #1 RA"), dated April 4, 2017. In exchange for access to the Bonds proceeds, the Developer sold and assigned its rights to receive payments under the MIA RA and the Phase #1 RA to the Authority pursuant to an assignment agreement dated May 23, 2017. On May 18, 2021, the Phase #2 Direct Improvements Reimbursement Agreement (the "Phase #2 RA") was executed for a portion of the costs of certain infrastructure improvements in Phase #2 of the PID. As of September 30, 2023, no costs have been incurred under this agreement.

The MIA RA, the Phase #1 RA, and the Phase #2 RA, collectively, (the "Reimbursement Agreements") were originally for amounts not to exceed \$2,075,000, \$7,300,000, and \$9,160,000 respectively. The PID is only responsible for the payment of the Reimbursement Agreement notes, not debt service on the Bonds.

4. The information in this report is strictly limited to the PID within the Town and does not include any information related to the part of the development outside the PID and the Town.
5. The PID's debt service on the Reimbursement Agreements will be paid through the collection of annual installments imposed on the assessed properties benefiting from the public improvements.
6. Net position at September 30, 2023 and 2022 totaled (\$6,231,490) and (\$7,309,371), reflecting the significant debt service on the Reimbursement Agreements with no corresponding capital assets.
7. Annual installments of \$122,635, \$543,951, and \$736,908 were imposed on the property owners in the Major Improvement Area (the "MIA"), the Phase #1 area (the "Phase #1"), and the Phase #2 area (the "Phase #2"), respectively 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 reported that as of September 30, 2023, all annual installments had been collected. Annual installments of \$116,900, \$579,145, and \$723,908 were imposed on the property owners in the MIA, Phase #1 and Phase #2 respectively, for collection in fiscal year 2022, which as of September 30, 2023, have all been collected.

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	\$ 1,840,342	\$ 896,032	\$ 138,552
Total assets	<u>1,840,342</u>	<u>896,032</u>	<u>138,552</u>
Liabilities			
Current liabilities	393,894	290,173	244,148
Long-term debt	<u>7,839,545</u>	<u>7,999,545</u>	<u>8,134,545</u>
Total liabilities	<u>8,233,439</u>	<u>8,289,718</u>	<u>8,378,693</u>
Net Position	<u>\$ (6,393,097)</u>	<u>\$ (7,393,686)</u>	<u>\$ (8,240,141)</u>

Negative net position is the result of significant long-term debt with no corresponding capital assets.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues	\$ 1,489,824	\$ 1,464,742	\$ 1,120,039
Operating Expenses	<u>54,905</u>	<u>55,576</u>	<u>22,913</u>
Operating Income	1,434,919	1,409,166	1,097,126
Non-operating Revenues/(Expenses)	<u>(434,330)</u>	<u>(562,711)</u>	<u>(874,767)</u>
Change in Net Position	<u>\$ 1,000,589</u>	<u>\$ 846,455</u>	<u>\$ 222,359</u>

Net position increased from fiscal year 2022 to fiscal year 2023 due to increased tax increment reinvestment zone ("TIRZ") contributions and interest income on investments, and decreased debt service costs.

Capital Assets

The PID had no capital assets as of September 30, 2023, or 2022, as no public improvements were recorded on the financial statements of the PID. The completed public improvements are owned by the Town.

Long-Term Debt

On April 4, 2017, the Town and the Developer entered into two reimbursement agreements: the MIA RA, for a maximum amount of \$2,075,000, and the Phase #1 RA, for a maximum of \$7,300,000. The MIA RA and the Phase #1 RA notes bear interest at 9.883% for years 1-5, and 6.883% for years 6-31, with final maturity on September 1, 2047, and were executed to reimburse the Developer for a portion of the costs of certain infrastructure improvements in the Rudman Tract PID. In exchange for access to the proceeds of the Prairie Oaks Development Contract

Revenue Bonds issued by the Authority in May 2017, the Developer sold and assigned its rights to receive payments under the MIA RA and the Phase #1 RA pursuant to an assignment agreement dated May 23, 2017.

On May 18, 2021, the Phase #2 RA was executed for a portion of the costs of certain infrastructure improvements in Phase #2 of the PID. The maximum amount of the Phase #2 RA is \$9,160,000 at an interest rate of 7.63%. As of September 30, 2023, no costs had been incurred under this agreement and development of Phase #2 had been put on hold due to developer difficulty.

The MIA RA and the Phase #1 RA notes represent 100% of the PID's long-term debt balance. No liability exists for the Phase #2 RA until costs for Phase #2 improvements have been incurred.

The original budget line items for the MIA RA included substantial contingency that was subsequently determined as excessive. As a result of this decrease in the authorized improvements, the balance of the MIA RA was reduced by \$710,000 on March 2, 2020.

As the result of prepayment revenues received on Phase #1 parcels, the balance of the Phase #1 RA was decreased by \$29,152 on February 19, 2021.

As of September 30, 2023, construction costs of \$1,328,697 and \$7,300,000 for the MIA and Phase #1, respectively had been spent and the improvements deemed complete. The balances on the MIA RA and Phase #1 RA are \$1,283,697 and \$6,710,848, respectively as of September 30, 2023, which reflect debt service payments, the balance reductions discussed above and a decrease in the MIA RA balance of \$36,303 due to actual construction costs less than originally anticipated in the MIA RA.

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, as well as through a portion of the TIRZ revenues collected by the Town for each parcel of assessed property that pays Town taxes in a given year.

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.

Net annual installments of \$122,635, \$543,951, and \$736,908 were imposed on the property owners in the MIA, Phase #1, and Phase #2 respectively, for collection in fiscal year 2023 which as of September 30, 2023, have all been collected.

Net annual installments of \$116,900, \$579,145, and \$723,908 were imposed on the property owners in the MIA, Phase #1, and Phase #2 respectively, for collection in fiscal year 2022. The DCTAC reported that as of September 30, 2023, all installments had been collected.

TIRZ contributions totaled \$4,733 and \$156,874 for MIA and Phase #1 respectively, for fiscal year 2024 assessments, and were received in fiscal year 2023. They are recorded as unearned revenues in the fiscal year 2023 financial statements.

TIRZ contributions totaled \$4,755 and \$79,560 for MIA and Phase #1 respectively, for fiscal year 2023 assessments, and were received in fiscal year 2022. They are recorded as unearned revenues in the fiscal year 2022 financial statements.

TIRZ contributions totaled \$3,177 and \$43,627 for MIA and Phase #1 respectively, for fiscal year 2022 assessments, and were received in fiscal year 2021. They are recorded as unearned revenues in the fiscal year 2021 financial statements.

The TIRZ contributions are a credit against the annual installments required from property owners.

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 PID'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.

III. FINANCIAL STATEMENTS

**RUDMAN TRACT PUBLIC IMPROVEMENT DISTRICT
STATEMENTS OF NET POSITION
As of September 30,**

	<u>2023</u>	<u>2022 (Unaudited)</u>
Assets		
Current Assets		
Restricted cash and cash equivalents	\$ 1,772,549	\$ 847,313
Accrued interest receivable	7,241	1,399
Due from Public Finance Authority	60,552	47,320
Total Current Assets	<u>1,840,342</u>	<u>896,032</u>
Total Assets	<u>1,840,342</u>	<u>896,032</u>
Liabilities		
Current Liabilities		
Accounts payable	31,403	24,200
Accrued interest payable	45,884	46,658
Current portion of long-term debt	155,000	135,000
Unearned revenues	161,607	84,315
Total Current Liabilities	<u>393,894</u>	<u>290,173</u>
Noncurrent Liabilities		
Long-term debt	<u>7,839,545</u>	<u>7,999,545</u>
Total Noncurrent Liabilities	<u>7,839,545</u>	<u>7,999,545</u>
Total Liabilities	<u>8,233,439</u>	<u>8,289,718</u>
Net Position		
Restricted	1,772,549	847,313
Unrestricted	<u>(8,165,646)</u>	<u>(8,240,999)</u>
Net Position	<u>\$ (6,393,097)</u>	<u>\$ (7,393,686)</u>

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

RUDMAN TRACT PUBLIC IMPROVEMENT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ending September 30,

	<u>2023</u>	<u>2022 (Unaudited)</u>
Operating Revenues		
Annual assessment revenues	\$ 1,405,509	\$ 1,417,938
TIRZ contributions	84,315	46,804
Total Operating Revenues	<u>1,489,824</u>	<u>1,464,742</u>
Operating Expenses		
Administrative fees	48,905	48,076
Accounting and audit fees	6,000	7,500
Total Operating Expenses	<u>54,905</u>	<u>55,576</u>
Operating Income	<u>1,434,919</u>	<u>1,409,166</u>
Non-Operating Revenues/(Expenses)		
Interest expense	(559,127)	(568,103)
Interest and dividend income	63,657	4,458
Penalties and interest revenues	61,140	934
Total Non-Operating Revenues/(Expenses)	<u>(434,330)</u>	<u>(562,711)</u>
Change in Net Position	1,000,589	846,455
Net Position, Beginning of Year	<u>(7,393,686)</u>	<u>(8,240,141)</u>
Net Position, End of Year	<u><u>\$ (6,393,097)</u></u>	<u><u>\$ (7,393,686)</u></u>

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

RUDMAN TRACT PUBLIC IMPROVEMENT DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ending September 30,

	<u>2023</u>	<u>2022</u> <u>(Unaudited)</u>
Cash Flows from Operating Activities		
Cash received from property owners	\$ 1,567,116	\$ 1,504,743
Net cash payments to Public Finance Authority	(13,232)	(54,286)
Cash payments for administrative fees	(47,701)	(44,063)
Net Cash Provided by Operating Activities	<u>1,506,183</u>	<u>1,406,394</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	<u>57,814</u>	<u>3,062</u>
Net Cash Provided by Investing Activities	<u>57,814</u>	<u>3,062</u>
Cash Flows from Capital and Related Financing Activities		
Penalties and interest received	61,140	1,490
Interest paid on notes	(559,901)	(568,849)
Principal paid on notes	(140,000)	(130,000)
Net Cash Used in Capital and Related Financing Activities	<u>(638,761)</u>	<u>(697,359)</u>
Net Change in Cash and Cash Equivalents	925,236	712,097
Cash and Cash Equivalents, Beginning of Year	<u>847,313</u>	<u>135,216</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,772,549</u></u>	<u><u>\$ 847,313</u></u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 1,434,919	\$ 1,409,166
Adjustments		
Increase in accounts payable	7,204	11,225
Increase in due from/to Public Finance Authority	(13,232)	(54,286)
Decrease in due from primary government	-	2,778
Increase in unearned revenues	<u>77,292</u>	<u>37,511</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,506,183</u></u>	<u><u>\$ 1,406,394</u></u>

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 Rudman Tract Public Improvement District (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. 10181601, which was passed and approved by the Town Council of the Town of Little Elm, Texas, (the “Town Council”) on October 18, 2016, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID.

The Public Finance Authority (the “Authority”) issued two sets of bonds (“the Bonds”) to finance the costs of public improvements for the Prairie Oaks Public Improvement District and the PID. The \$5,725,000, Prairie Oaks Development Major Improvement Projects, Contract Revenue Bonds, Series 2017, (the “MIA Bonds”) and the \$8,800,000, Prairie Oaks Development Phase #1 Projects, Contract Revenue Bonds, Series 2017, (the “Phase #1 Bonds”) were issued on May 31, 2017. Trust Agreements (the “Indentures”) were entered into between the Authority and Wilmington Trust, National Association, (the “Trustee”) on May 15, 2017.

The proceeds from the Bonds are being used to finance construction of certain public infrastructure improvements pursuant to the reimbursement agreements discussed below, to fund a debt service reserve fund, to pay a portion of the interest on the Bonds during and after construction, and to pay costs of issuing the Bonds.

As described in the Private Placement Memorandums for the MIA Bonds and the Phase #1 Bonds, the Town of Little Elm (the “Town”) has agreed to reimburse OPLE Prairie Oaks Development, Inc., (the “Developer”) for a portion of the costs of certain infrastructure improvements in the PID under reimbursement agreements between the Town and the Developer (the “MIA RA” and the “Phase #1 RA”), dated April 4, 2017. In exchange for access to the Bonds proceeds, the Developer sold and assigned its rights to receive payments under the MIA RA and the Phase #1 RA to the Authority pursuant to an assignment agreement dated May 23, 2017. On May 18, 2021, the Phase #2 Direct Improvements Reimbursement Agreement (the “Phase #2 RA”) was executed for a portion of the costs of certain infrastructure improvements in Phase #2 of the PID. The PID is responsible solely for payments of the MIA RA, the Phase #1 RA, and the Phase #2 RA, collectively, (the “Reimbursement Agreements”). The MIA RA, the Phase #1 RA, and the Phase #2 RA were originally issued for amounts not to exceed \$2,075,000, \$7,300,000, and \$9,160,000, respectively.

The Rudman Tract Development (the “Development”) is an approximately 248-acre master planned project combining the approximately 145-acre PID located within the municipal limits of the Town, and the approximately 103-acre Prairie Oaks Public Improvement District located within the City of Oak Point, (the “City”). The City and the Town are located in the north-central region of the Dallas-Fort Worth-Arlington, Texas Metropolitan Statistical Area. The Major Improvement Area (the “MIA”) of the Development, which includes Phase #2, is anticipated to contain approximately 496 single-family homes, of which approximately 205 units are anticipated to be built in the PID located within the Town. Phase #1 of the Development is anticipated to

contain approximately 339 single family homes, of which approximately 275 units are anticipated to be built in the PID located within the Town.

The information in this report is strictly limited to the PID within the Town and does not include any information related to the part of the Development outside the PID and the Town.

The Reimbursement Agreement notes 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 Reimbursement Agreements that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced. 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 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.

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. Public Finance Authority Receivable

Prior to 2021, all revenues and expenses of the PID were received or paid by the Authority and the PID had no cash accounts held with a trustee. In 2021, administrative expense and depository accounts were set-up for the PID to pay its expenses and accept its revenues. The balance in the public finance authority receivable account represents the excess revenues to which the PID is entitled over and above its expenses.

E. Capital Assets

The PID has no capital assets, as no public improvements were recorded on the financial statements of the PID. The completed public improvements are owned by the Town.

F. Unearned Revenues

The PID reports a liability, unearned revenues, in connection with TIRZ contributions that have been received, but are not legally available to be used until the next fiscal year.

G. 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.

H. 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 and tax increment reinvestment zone (“TIRZ”) revenues. 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.

I. 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.

J. Income Taxes

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

K. 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.

L. 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	<u>\$ 1,772,549</u>	<u>\$ 847,313</u>
Total	<u><u>\$ 1,772,549</u></u>	<u><u>\$ 847,313</u></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 Town'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 investment of moneys in all funds is required to be invested 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. As all funds are currently invested in money market funds, there is no probable credit risk.

All funds, which are on deposit with any bank, will be continuously secured in the manner required by the Investment Act and the Town's official investment policy.

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—LONG-TERM OBLIGATIONS

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

	Balance			Balance	
	October 1, 2022	Increase	Decrease	September 30, 2023	Due in one year
RA Note Major Improvement	\$ 1,298,697	\$ -	\$ (15,000)	\$ 1,283,697	\$ 20,000
RA Note Phase #1	6,835,848	-	(125,000)	6,710,848	135,000
Total Long-Term Debt	\$ 8,134,545	\$ -	\$ (140,000)	\$ 7,994,545	\$ 155,000

	Balance			Balance	
	October 1, 2021	Increase	Decrease	September 30, 2022	Due in one year
RA Note Major Improvement	\$ 1,308,697	\$ -	\$ (10,000)	\$ 1,298,697	\$ 15,000
RA Note Phase #1	6,955,848	-	(120,000)	6,835,848	125,000
Total Long-Term Debt	\$ 8,264,545	\$ -	\$ (130,000)	\$ 8,134,545	\$ 140,000

On April 4, 2017, the Town and the Developer entered into two reimbursement agreements: the MIA RA, for a maximum amount of \$2,075,000, and the Phase #1 RA, for a maximum of \$7,300,000. The MIA RA and the Phase #1 RA notes bear interest at 9.883% for years 1-5, and 6.883% for years 6-31, with final maturity on September 1, 2047, and were executed to reimburse

the Developer for a portion of the costs of certain infrastructure improvements in the Rudman Tract PID. In exchange for access to the proceeds of the Prairie Oaks Development Contract Revenue Bonds issued by the Authority in May 2017, the Developer sold and assigned its rights to receive payments under the MIA RA and the Phase #1 RA to the Authority pursuant to an assignment agreement dated May 23, 2017.

On May 18, 2021, the Phase #2 RA was executed for a portion of the costs of certain infrastructure improvements in Phase #2 of the PID. The maximum amount of the Phase #2 RA was \$9,160,000 at an interest rate of 7.63%. As of September 30, 2023, no costs had been incurred under this agreement and Phase #2 had been put on hold due to developer difficulty. Therefore, the MIA RA and the Phase #1 RA represent 100% of the PID's long-term debt balance. No liability exists for the Phase #2 RA until costs for Phase #2 improvements have been incurred.

Principal payments on the notes are due each September 1 and began on September 1, 2019, for the MIA RA and the Phase #1 RA, and will begin for the Phase #2 RA, when a liability exists, according to the debt service schedules. In fiscal year 2020, the contingency line item in the budget for the MIA RA was determined as excessive. As a result, the balance of the MIA RA was reduced by \$710,000 on March 2, 2020. In fiscal year 2021, the balance of the MIA RA was reduced by \$36,303 to reflect the actual costs incurred for the improvements. In addition to the scheduled principal payment for fiscal year 2021, the Phase #1 RA was decreased by \$29,152 on February 19, 2021, as the result of prepayment revenues received on Phase #1 parcels.

Interest on the Reimbursement Agreements notes is payable semiannually on March 1 and September 1 of each year and began on March 1, 2018, for the MIA RA and the Phase #1 RA. Interest is calculated based on a 360-day year comprised of twelve 30-day months. Interest payments for the year ended September 30, 2023, for the MIA RA and the Phase #1 RA totaled \$89,389 and \$470,512, respectively. Interest payments for the year ended September 30, 2022, for the MIA RA and the Phase #1 RA totaled \$90,078 and \$478,771, respectively. No interest was due for the Phase #2 RA as no liability had been incurred as of September 30, 2023.

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, as well as through a portion of the TIRZ revenues totaling 30% of property tax increment collected by the Town for each parcel of assessed property that pays Town taxes in a given year. Initially, the Denton County Tax Assessor Collector (the "DCTAC") sent assessments received to the Town who periodically forwarded them to the Authority. However, in February 2021, a depository trust account was established for the PID, which now accepts the assessments received monthly by the DCTAC.

The Phase #1 RA and MIA RA are scheduled to be paid on each September 1, as follows:

For year ending September 30:	RA Note Phase #1		RA Note Maj. Improve	
	Principal	Interest	Principal	Interest
2024	\$ 135,000	\$ 461,908	\$ 20,000	\$ 88,357
2025	145,000	452,616	16,000	86,980
2026	155,000	442,635	16,000	85,879
2027	165,000	431,967	19,000	84,778
2028	175,000	420,610	22,000	83,470
2029-2033	1,050,000	1,907,227	179,000	388,028
2034-2038	1,435,000	1,495,968	277,000	312,935
2039-2043	1,965,000	934,315	408,000	201,017
2044-2046	1,485,848	206,940	326,697	46,191
Total	<u>\$ 6,710,848</u>	<u>\$ 6,754,186</u>	<u>\$ 1,283,697</u>	<u>\$ 1,377,635</u>

For year ending September 30:	Total	
	Principal	Interest
2024	\$ 155,000	\$ 550,265
2025	161,000	539,596
2026	171,000	528,514
2027	184,000	516,745
2028	197,000	504,080
2029-2033	1,229,000	2,295,255
2034-2038	1,712,000	1,808,903
2039-2043	2,373,000	1,135,332
2044-2046	1,812,545	253,131
Total	<u>\$ 7,994,545</u>	<u>\$ 8,131,821</u>

The debt service schedule for the Phase #2 RA is not included because as of September 30, 2023, no liability has been incurred.

NOTE 5—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 expenses. The other amounts available include TIRZ contributions of 30% of the property tax increment collected from property owners and paid by

the Town to reduce the annual installment, the amount of which is calculated each year based on the Service and Assessment Plan (the “SAP”).

Annual installments of assessments are payable to the DCTAC no later than February 1 of each year.

Annual installments of the assessments were \$122,635, \$543,951, and \$736,908 for MIA, Phase #1, and Phase #2, respectively, for the 2023 tax year. As of September 30, 2023, all annual installments had been collected.

Annual installments of the assessments were \$116,900, \$579,145, and \$723,908 for MIA, Phase #1, and Phase #2, respectively, for the 2022 tax year and have all been collected.

TIRZ contributions totaled \$4,733 and \$156,874 for MIA and Phase #1 respectively, for fiscal year 2024 assessments, and were received in fiscal year 2023. They are recorded as unearned revenues in the fiscal year 2023 financial statements.

TIRZ contributions totaled \$4,755 and \$79,560 for MIA and Phase #1 respectively, for fiscal year 2023 assessments. They are recorded as unearned revenues in the fiscal year 2022 financial statements.

TIRZ contributions totaled \$3,177 and \$43,627 for MIA and Phase #1 respectively, for fiscal year 2022 assessments, and were received in fiscal year 2021. They are recorded as unearned revenues in the fiscal year 2021 financial statements.

NOTE 6—SUBSEQUENT EVENTS

The annual installments of assessments to be collected for the 2024 tax year are \$134,422, \$468,334, and \$736,827 for MIA, Phase #1, and Phase #2, respectively. As of the May 9, 2024, Billing & Collection Report, \$1,002 is outstanding.