



**VALENCIA 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**

CUSIP NUMBERS:

Phase #1

537098AS4

Improvement Area #2

537098AY1

Improvement Area #3

537098BN4	537098BQ7
537098BP9	537098BR5

Major Improvement Area

537098BE4
537098BF1
537098BG9

VALENCIA
PUBLIC IMPROVEMENT DISTRICT
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
Valencia Public Improvement District
Little Elm, Texas

Opinion

We have audited the financial statements of the Valencia 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 Valencia 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 PID was created pursuant to the Public Improvement District Act, Texas Local Government Code, Chapter 372, as amended (the "PID Act") and Resolution No. 09171301 which was passed and approved by the Town Council of the Town of Little Elm, Texas (the "Town") on September 17, 2013, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID.
2. The PID has issued four series of bonds (the "PID Bonds") as follows:
 - a. The \$6,929,998.05 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds Series 2018, Phase #1 Project (the "Phase #1 Bonds") were issued on March 15, 2018.
 - b. The \$6,606,993.75 Town of Little Elm, Texas, Special Assessment Revenue Refunding Bonds, Series 2018, Major Improvement Area Project (the "MIA Bonds") were issued on March 15, 2018.
 - c. The \$12,537,928.10 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds, Series 2018, Improvement Area #2 Project (the IA #2 Bond) were issued on March 15, 2018.
 - d. The \$5,405,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2021, Improvement Area #3 Project (the "IA #3 Bonds, and together with the Phase #1 Bonds, the IA #2 Bonds, and MIA Bonds, the "PID Bonds") were issued on December 30, 2021.
3. The PID's debt will be paid through the collection of assessments imposed on the chargeable properties benefiting from the public improvements reduced by tax increment reinvestment zone ("TIRZ") contributions.
4. Net position at September 30, 2023 and 2022 totaled (\$25,322,639) and (\$26,353,987), respectively, due primarily to donations of completed capital assets to the Town in prior years.
5. There were no capital assets as of September 30, 2023, and 2022, due to the prior completion and acceptance of the improvements by the Town. In fiscal year 2022,

capital assets totaling \$4,604,828 were determined to be completed and accepted by the Town.

6. Annual assessments of \$1,930,578 were imposed on the property owners for fiscal year 2022. The annual installments are remitted to the PID monthly as they are received by the Denton County Tax Assessor Collector (the “DCTAC”). All assessments for fiscal year 2022 have been collected and remitted to the PID.
7. Annual assessments of \$1,897,506 were imposed on the property owners for fiscal year 2023. All assessments for fiscal year 2023 have been collected and remitted to the PID.
8. Annual installments of assessments of \$1,664,271 were imposed on the property owners for fiscal year 2024. As of May 10, 2024, delinquencies totaled \$6,589.
9. TIRZ contributions of \$696,345 and \$573,766 were collected for the 2023 and 2022 fiscal years, respectively.

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	\$ 5,809,537	\$ 5,360,267	\$ 4,467,742
Total assets	<u>5,809,537</u>	<u>5,360,267</u>	<u>4,467,742</u>
Liabilities:			
Current liabilities	1,704,281	1,694,671	1,242,203
Long-term debt	<u>29,427,895</u>	<u>30,019,583</u>	<u>25,254,657</u>
Total Liabilities	<u>31,132,176</u>	<u>31,714,254</u>	<u>26,496,860</u>
Net Position:			
Restricted	5,785,093	5,353,939	4,467,708
Unrestricted	<u>(31,107,732)</u>	<u>(31,707,926)</u>	<u>(26,496,825)</u>
Total Net Position	<u>\$ (25,322,639)</u>	<u>\$ (26,353,987)</u>	<u>\$ (22,029,117)</u>

PID Bond proceeds were used to finance the construction of improvements and administrative costs of the PID. Capital assets that were completed and accepted by the Town were reported as “donated capital assets” in fiscal year 2022 and prior fiscal years resulting in the negative net position.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues	\$ 2,608,744	\$ 2,520,528	\$ 2,492,952
Operating Expenses	<u>140,883</u>	<u>132,454</u>	<u>121,269</u>
Operating Income	2,467,861	2,388,074	2,371,683
Non-operating Revenues/(Expenses)	(1,436,513)	(2,108,116)	(1,529,945)
Donated Capital Assets	<u>-</u>	<u>(4,604,828)</u>	<u>(26,972)</u>
Change in Net Position	<u>\$ 1,031,348</u>	<u>\$ (4,324,870)</u>	<u>\$ 814,766</u>

Net Position increased in fiscal year 2023 due in part to increased TIRZ contributions and interest and dividend income on investments. The decrease in net position in fiscal year 2022 resulted primarily from the bond issuance costs for the IA #3 Bonds and the donation of the IA #3 public improvements to the Town.

Capital Assets

There were no capital assets as of September 30, 2023, or 2022 due to the completion and acceptance of the public improvements by the Town in fiscal year 2022 and prior. Public improvements consisted of road, water, sanitary sewer and storm drain improvements benefitting the PID.

Long-Term Debt

The \$6,929,998.05 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds, Series 2018, Phase #1 Project were issued on March 15, 2018, at interest rates from 4.10% to 5.25% with a final maturity of September 1, 2044. The bonds were issued as \$64,998.05 in capital appreciation bonds and \$6,865,000 in current interest bonds.

The \$6,606,993.75 Town of Little Elm, Texas, Special Assessment Revenue Refunding Bonds, Series 2018, Major Improvement Area Project were issued on March 15, 2018, at interest rates from 4.85% to 6.75% with a final maturity of September 1, 2048. The bonds were issued as \$181,993.75 in capital appreciation bonds and \$6,425,000 in current interest bonds.

The \$12,537,928.10 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds, Series 2018, Improvement Area #2 Project were issued on March 15, 2018, at interest rates from 4.60% to 5.75% with a final maturity of September 1, 2048. The bonds were issued as \$72,928.10 in capital appreciation bonds and \$12,465,000 in current interest bonds.

The \$5,405,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds Series 2021, Improvement Area #3 Project were issued on December 30, 2021, at interest rates from 2.375% to 4.0% with a final maturity of 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 trust indentures.

The PID's debt will be paid through the collection of annual installments of assessments imposed on the chargeable properties benefitting from the public improvements reduced by the TIRZ contributions.

The proceeds from the PID Bonds were used to refund prior bonds, to finance construction of certain public infrastructure improvements within the PID, to fund a debt service reserve fund, and to pay costs of issuing the PID Bonds.

Mandatory sinking fund payments began on September 1, 2019, for the Phase #1 current interest bonds and IA #2 current interest bonds from assessment revenues received by the PID after the payment of administrative expenses. Mandatory sinking fund payments began on September 1, 2022, for the IA #3 Bonds. Mandatory sinking fund payments will begin on September 1, 2026, for the MIA current interest bonds. The capital appreciation bonds mature annually beginning on September 1, 2019.

Revenues

Annual installments of assessment 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 were billed to the property owners as follows:

	FY23	FY22
Series 2018 Phase #1	\$ 348,126	\$ 361,851
Series 2018 IA #2	611,543	681,911
Series 2018 MIA	550,418	615,126
Series 2021 IA #3	387,419	271,690
Total	\$ 1,897,506	\$ 1,930,578

There were no delinquencies for fiscal year 2023 or 2022 of the annual installments of assessments. The amount of assessments collected varies from the assessments billed due to prepayments of assessments and timing of collections of delinquent assessments. Prepayments of assessments totaled \$12,022 and \$14,784 for fiscal years 2023 and 2022, respectively, which will be used to redeem bonds in the future.

TIRZ contributions are collected by the DCTAC from each parcel of assessed property that pays Town taxes in a given year. These contributions are used to reduce the annual installment of assessments. TIRZ contributions totaled the following:

	FY23	FY22
Series 2018 Phase #1	\$ 235,920	\$ 221,659
Series 2018 IA #2	389,005	322,624
Series 2018 MIA	71,420	29,7483
Series 2021 IA #3	-	-
Total	\$ 696,345	\$ 573,766

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.

III. FINANCIAL STATEMENTS

**VALENCIA 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	\$ 5,785,093	\$ 5,353,939
Accrued interest receivable	24,444	773
Due from trustee	-	5,555
	<hr/>	<hr/>
Total Current Assets	5,809,537	5,360,267
	<hr/>	<hr/>
Total Assets	5,809,537	5,360,267
	<hr/>	<hr/>
Liabilities		
Current Liabilities		
Accounts payable	44,991	44,644
Accrued liabilities	-	26,972
Due to Valencia PID No. 2	6,000	-
Accrued interest payable	134,996	136,710
Unearned revenues	885,520	696,345
Current portion of long-term debt	632,774	790,000
	<hr/>	<hr/>
Total Current Liabilities	1,704,281	1,694,671
	<hr/>	<hr/>
Noncurrent Liabilities		
Long-term debt	29,348,602	29,936,975
Premium on long-term debt, net	79,293	82,608
	<hr/>	<hr/>
Total Noncurrent Liabilities	29,427,895	30,019,583
	<hr/>	<hr/>
Total Liabilities	31,132,176	31,714,254
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	-	-
Restricted	5,785,093	5,353,939
Unrestricted	(31,107,732)	(31,707,926)
	<hr/>	<hr/>
Net Position	\$ (25,322,639)	\$ (26,353,987)
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The accompanying notes to the financial statements are an integral part of this statement.

VALENCIA 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	\$ 1,900,377	\$ 1,931,978
Prepaid assessment revenues	12,022	14,784
TIRZ contributions	696,345	573,766
Total Operating Revenues	<u>2,608,744</u>	<u>2,520,528</u>
Operating Expenses		
Administrative fees	133,360	110,260
Legal fees	1,523	594
Accounting and audit fees	6,000	21,600
Total Operating Expenses	<u>140,883</u>	<u>132,454</u>
Operating Income	<u>2,467,861</u>	<u>2,388,074</u>
Non-Operating Revenues/(Expenses)		
Interest and dividend income	244,903	8,623
Bond issuance costs	-	(458,668)
Interest expense	(1,683,696)	(1,659,932)
Penalties and interest revenues	2,280	1,861
Total Non-Operating Revenues/(Expenses)	<u>(1,436,513)</u>	<u>(2,108,116)</u>
Donated capital assets	<u>-</u>	<u>(4,604,828)</u>
Change in Net Position	1,031,348	(4,324,870)
Net Position, Beginning of Year	<u>(26,353,987)</u>	<u>(22,029,117)</u>
Net Position, End of Year	<u>\$ (25,322,639)</u>	<u>\$ (26,353,987)</u>

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

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

	<u>2023</u>	<u>2022 (Unaudited)</u>
Cash Flows from Operating Activities		
Cash receipts from property owners	\$ 2,796,273	\$ 2,643,108
Cash payments for administrative fees	(125,596)	(89,354)
Cash payments for accounting and audit fees	(6,000)	(21,600)
Cash payments for legal fees	(1,295)	-
Net Cash Provided by Operating Activities	<u>2,663,382</u>	<u>2,532,154</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	<u>221,233</u>	<u>7,885</u>
Net Cash Provided by Investing Activities	<u>221,233</u>	<u>7,885</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from bond issuance	-	5,490,094
Penalties and interest received	2,280	1,861
Acquisition and construction of capital assets	(26,972)	(4,604,828)
Principal paid on bonds	(790,000)	(480,000)
Interest paid on bonds	(1,638,769)	(1,602,267)
Bond issuance costs paid	-	(458,668)
Net Cash Used in Capital and Related Financing Activities	<u>(2,453,461)</u>	<u>(1,653,808)</u>
Change in Cash and Cash Equivalents Balance	431,154	886,231
Cash and Cash Equivalents, Beginning of Year	<u>5,353,939</u>	<u>4,467,708</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,785,093</u></u>	<u><u>\$ 5,353,939</u></u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 2,467,861	\$ 2,388,074
Adjustments		
Increase in accounts payable	347	21,500
Increase due to Valencia PID No. 2	6,000	-
Increase in unearned revenues	189,174	122,580
Net Cash Provided by Operating Activities	<u><u>\$ 2,663,382</u></u>	<u><u>\$ 2,532,154</u></u>
Supplemental Information:		
Donated capital assets	<u>\$ -</u>	<u>\$ (4,604,828)</u>
Construction in progress in accrued liabilities	<u>\$ -</u>	<u>\$ 26,972</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 Valencia Public Improvement District (the “PID”) was created pursuant to Chapter 372, Public Improvement District Assessment Act (the “PID Act”) and Resolution No. 09171301 which was passed and approved by the Town Council of the Town of Little Elm, Texas, on September 17, 2013, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID, all of which is located within the Town.

The \$6,929,998.05 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds, Series 2018 Phase #1 Project (the “Phase #1 Bonds”) were issued on March 15, 2018 pursuant to the PID Act and an ordinance adopted by the Town Council on February 20, 2018 and an Indenture of Trust (the “Phase #1 Indenture”) dated as of March 1, 2018 by and between the Town of Little Elm (the “Town”) and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). The Phase #1 Bonds were issued to finance the refunding of the Series 2014 bonds and to refinance the Town’s reimbursement obligations under the Phase #1 reimbursement Agreement. Phase #1 consists of approximately 62.4 acres out of the approximate 448-acre PID and contains 210 single-family residential units.

The \$6,606,993.75 Town of Little Elm, Texas, Special Assessment Revenue Refunding Bonds, Series 2018 Major Improvement Area Project (the “MIA Bonds”) were issued on March 15, 2018 pursuant to the PID Act and an ordinance adopted by the Town Council on February 20, 2018 and an Indenture of Trust (the “MIA Indenture”) dated as of March 1, 2018 by and between the Town and the Trustee. The MIA Bonds were issued primarily to finance the refunding of the PID’s Series 2014 Phases #2-5 Major Improvement bonds.

The \$12,537,928.10 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds, Series 2018 Improvement Area #2 Project (the “IA #2 Bonds”) were issued on March 15, 2018 pursuant to the PID Act and an ordinance adopted by the Town Council on February 20, 2018 and an Indenture of Trust (the “IA #2 Indenture”) dated as of March 1, 2018, by and between the Town and the Trustee. The IA #2 Bonds were issued primarily to finance the refunding of a prorated portion of the Series 2014 Phases #2-5 Major Improvement bonds and certain infrastructure improvement projects located within improvement area #2 (“IA #2”) of the PID (the “IA #2 Improvements”). IA #2 consists of approximately 104 acres out of the approximate 448-acre PID and is anticipated to include 444 residential units.

The \$5,405,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2021 Improvement Area #3 Project (the “IA #3 Bonds”, and together with the Phase #1 Bonds, the IA #2 Bonds, and MIA Bonds, the “PID Bonds”) were issued on December 30, 2021, pursuant to the PID Act and an ordinance adopted by the Town Council on December 7, 2021, and an Indenture of Trust (the “IA #3 Indenture” and together with the Phase #1 Indenture, the IA #2 Indenture, and the MIA Indenture, the “Indentures”) dated as of December 1, 2021, by and between the Town and the Trustee. The IA #3 Bonds were issued primarily to finance the costs of the Improvement Area #3 improvements, to fund the Reserve Account, to pay the district formation and administration costs, and to pay the costs of issuing the IA #3 Bonds. IA #3 consists of

approximately 57 acres out of the approximate 448-acre PID and is anticipated to include 228 residential units.

The Town is located in Denton County, Texas. The land in the PID is being developed by Valencia on the Lakes, L.P. (the “Developer”). The PID consists of approximately 448 acres and is projected to consist of 1,309 lots and the infrastructure necessary to provide roadways, drainage, and utilities to the PID.

The PID Bonds are intended to be paid primarily from special assessments imposed by the Town and collected by the Denton County Tax Assessor Collector (the “DCTAC”) 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 special 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.

Tax increment reinvestment zone (the “TIRZ”) contributions are collected by the DCTAC from each parcel of assessed property that pays Town taxes each year. A portion of the taxes paid on each individual parcel (TIRZ contribution percentage of 46% of property tax increment collected) shall be used to calculate that parcel’s TIRZ annual credit for the following year. The TIRZ contribution reduces the amount of annual installment of assessments and assists in the repayment of the PID Bonds. 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 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. The PID does not maintain a capitalization threshold as all infrastructure assets are capitalized. The PID does not depreciate capital assets as all assets were donated to the Town upon completion/acquisition.

E. 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.

F. 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.

G. 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 TIRZ contributions. 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.

H. 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.

I. Income Taxes

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

J. 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.

K. 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	\$ 5,785,093	\$ 406,364
Cash	<u>-</u>	<u>4,947,575</u>
Total cash and cash equivalents	<u>\$ 5,785,093</u>	<u>\$ 5,353,939</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 the Town's official investment policy.

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.

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 Indentures require 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. The Indenture specifies 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, 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

Public improvements consisted of roadway, water, sewer, and storm drainage improvements benefitting the PID. There were no capital assets as of September 30, 2023, and 2022 due to the completion and acceptance of the improvements by the Town. Capital assets totaling \$22,117,186 were accepted by the Town in fiscal year 2022 (totaling \$4,604,828) and prior fiscal years.

NOTE 5—LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following at September 30, 2023, and 2022:

	Balance			Balance	Due in
2023	October 1, 2022	Increase	Decrease	September 30, 2023	one year
Current Interest Bonds					
Series 2018 Phase #1	\$ 6,595,000	\$ -	\$ (165,000)	\$ 6,430,000	\$ 175,000
Series 2018 Phase #2	12,095,000	-	(280,000)	11,815,000	225,000
Series 2018 MIA	6,425,000	-	-	6,425,000	-
Series 2021 IA #3	5,285,000	-	(150,000)	5,135,000	153,000
Premium on Series 2021 IA #3	82,608	-	(3,315)	79,293	-
Total Current Interest Bonds	<u>30,482,608</u>	<u>-</u>	<u>(598,315)</u>	<u>29,884,293</u>	<u>553,000</u>
Capital Appreciation Bonds					
Series 2018 Phase #2	46,086	23,914	(70,000)	-	-
Series 2018 MIA	204,250	65,555	(125,000)	144,805	79,774
Premium on Series 2018 CAB	76,639	-	(45,068)	31,571	-
Total Capital Appreciation Bonds	<u>326,975</u>	<u>89,469</u>	<u>(240,068)</u>	<u>176,376</u>	<u>79,774</u>
Total Long-term Debt	<u>\$ 30,809,583</u>	<u>\$ 89,469</u>	<u>\$ (838,383)</u>	<u>\$ 30,060,669</u>	<u>\$ 632,774</u>
	Balance			Balance	Due in
2022	October 1, 2021	Increase	Decrease	September 30, 2022	one year
Current Interest Bonds					
Series 2018 Phase #1	\$ 6,665,000	\$ -	\$ (70,000)	\$ 6,595,000	\$ 165,000
Series 2018 Phase #2	12,095,000	-	-	12,095,000	280,000
Series 2018 MIA	6,425,000	-	-	6,425,000	-
Series 2021 IA #3	-	5,405,000	(120,000)	5,285,000	150,000
Premium on Series 2021 IA #3		85,094	(2,486)	82,608	-
Total Current Interest Bonds	<u>25,185,000</u>	<u>5,490,094</u>	<u>(192,486)</u>	<u>30,482,608</u>	<u>595,000</u>
Capital Appreciation Bonds					
Series 2018 Phase #1	63,761	31,239	(95,000)	-	-
Series 2018 Phase #2	84,143	31,943	(70,000)	46,086	70,000
Series 2018 MIA	250,987	78,263	(125,000)	204,250	125,000
Premium on Series 2018 CAB	165,766		(89,127)	76,639	-
Total Capital Appreciation Bonds	<u>564,657</u>	<u>141,445</u>	<u>(379,127)</u>	<u>326,975</u>	<u>195,000</u>
Total Long-term Debt	<u>\$ 25,749,657</u>	<u>\$ 5,631,539</u>	<u>\$ (571,613)</u>	<u>\$ 30,809,583</u>	<u>\$ 790,000</u>

A. Special Assessment Revenue Refunding and Improvement Bonds, Series 2018

On March 15, 2018, the PID issued the following bonds:

- a. The \$6,929,998.05 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds, Series 2018, Phase #1 Project (the “Phase #1 Bonds”).
- b. The \$6,606,993.75 Town of Little Elm, Texas, Special Assessment Revenue Refunding Bonds, Series 2018, Major Improvement Area Project (the “MIA Bonds”).
- c. The \$12,537,928.10 Town of Little Elm, Texas, Special Assessment Revenue Refunding and Improvement Bonds, Series 2018, Improvement Area #2 Project (the “IA #2 Bonds” and together with the Phase #1 Bonds and MIA Bonds, the “Series 2018 Bonds”).

The Series 2018 Bonds were issued to refund the previously-issued Series 2014 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 a debt service reserve fund, 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 intended to be paid primarily from 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 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 2018 Bonds are special obligations of the Town payable solely from and secured by a pledge of special assessments. They are not payable from funds raised or to be raised from taxation.

The Phase #1 Bonds were issued as Capital Appreciation Bonds (“CABs”) and Current Interest Bonds (“CIBs”) as follows:

	<u>Original</u> <u>Par Value</u>	<u>Maturity Value</u>	<u>Rate</u>	<u>Final Maturity</u>
Serial CAB Term 2019	\$ 34,612	\$ 95,000	4.100%	September 1, 2019
Serial CAB Term 2020	\$ 17,342	\$ 95,000	4.200%	September 1, 2020
Serial CAB Term 2021	\$ 8,690	\$ 95,000	4.300%	September 1, 2021
Serial CAB Term 2022	\$ 4,354	\$ 95,000	4.400%	September 1, 2022
Term 2044 Current Interest	\$ 6,865,000	\$ 6,865,000	5.250%	September 1, 2044

The IA #2 Bonds were issued as CABs and CIBs as follows:

	<u>Original</u> <u>Par Value</u>	<u>Maturity Value</u>	<u>Rate</u>	<u>Final Maturity</u>
Serial CAB Term 2019	\$ 32,277	\$ 70,000	4.600%	September 1, 2019
Serial CAB Term 2020	\$ 19,002	\$ 70,000	4.700%	September 1, 2020
Serial CAB Term 2021	\$ 11,187	\$ 70,000	4.800%	September 1, 2021
Serial CAB Term 2022	\$ 6,586	\$ 70,000	4.900%	September 1, 2022
Serial CAB Term 2023	\$ 3,877	\$ 70,000	5.000%	September 1, 2023
Term 2048 Current Interest	\$ 12,465,000	\$ 12,465,000	5.750%	September 1, 2048

The Major Improvement Area Bonds were issued as CABs and CIBs as follows:

	<u>Original</u> <u>Par Value</u>	<u>Maturity Value</u>	<u>Rate</u>	<u>Final Maturity</u>
Serial CAB Term 2019	\$ 66,795	\$ 125,000	4.850%	September 1, 2019
Serial CAB Term 2020	\$ 43,498	\$ 125,000	5.000%	September 1, 2020
Serial CAB Term 2021	\$ 28,326	\$ 125,000	5.100%	September 1, 2021
Serial CAB Term 2022	\$ 18,446	\$ 125,000	5.200%	September 1, 2022
Serial CAB Term 2023	\$ 12,013	\$ 125,000	5.300%	September 1, 2023
Serial CAB Term 2024	\$ 7,823	\$ 125,000	5.400%	September 1, 2024
Serial CAB Term 2025	\$ 5,094	\$ 125,000	5.500%	September 1, 2025
Term 2048 Current Interest	\$ 6,425,000	\$ 6,425,000	6.750%	September 1, 2048

The Series 2018 Bonds are subject to mandatory sinking fund, and extraordinary optional redemption requirements as specified in the Indentures. The CIBs are also subject to optional redemption requirements as specified in the Indentures. Principal payments on the Series 2018 Bonds are due each September 1, commencing on September 1, 2019, according to the mandatory sinking fund redemption schedules.

Interest on the Series 2018 Bonds is payable according to the terms specified by the Indenture semiannually on March 1 and September 1 of each year commencing on September 1, 2018. Interest on the Series 2018 Bonds is calculated based on a 360-day year comprised of twelve 30-day months. Interest payments for the Series 2018 CIBs for fiscal years 2023 and 2022 totaled the following:

	<u>2023</u>	<u>2022</u>
Series 2018 Phase #1	\$ 346,238	\$ 349,913
Series 2018 IA #2	687,700	695,462
Series 2018 MIA	433,688	433,687
Total	<u>\$ 1,467,626</u>	<u>\$ 1,479,062</u>

1. Optional Redemption

The Town reserves the right and option to redeem the Series 2018 CIBs 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. The CABs are not eligible for optional redemption.

2. Extraordinary Optional Redemption

The Series 2018 CIBs are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on any date at a redemption price equal to 100% of the principal amount of the bonds plus accrued interest to the redemption date from amounts available for such purposes according to the Indentures. There were no extraordinary optional redemptions made in fiscal years 2023 or 2022.

The Series 2018 CABs are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on any date at a redemption price equal to the accreted value of the bonds as stated in the Indentures from amounts available for such purposes according to the Indentures. No extraordinary optional redemptions of the Series 2018 CABs have been made.

B. Special Assessment Revenue Bonds, Series 2021

On December 30, 2021, the PID issued the \$5,405,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2021, Improvement Area #3 Project (the “2021 Bonds”) to finance certain public infrastructure improvements in connection with the Improvement Area #3 public improvements, to fund a debt service reserve fund, to pay the district formation and administration costs, and to pay the costs of issuing the IA #3 Bonds. The Series 2021 Bonds were issued as follows:

	<u>Maturity</u>				
	<u>Value</u>	<u>Rate</u>	<u>Final Maturity</u>	<u>Premium</u>	
Term 2026	\$ 740,000	2.375%	September 1, 2026	\$ -	
Term 2031	\$ 862,000	2.875%	September 1, 2031	\$ -	
Term 2041	\$ 2,141,000	3.125%	September 1, 2041	\$ -	
Term 2047	\$ 1,662,000	4.000%	September 1, 2047	\$ 85,094	

The Series 2021 Bonds are intended to be paid primarily from 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 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 2021 Bonds are special obligations of the Town payable solely from and secured by a pledge of special assessments. They are not payable from funds raised or to be raised from taxation.

The Term 2047 Series 2021 Bonds were issued at a premium of \$85,094 which is being amortized on a straight-line method over the life of the Term 2047 Series 2021 Bonds. Amortization of the premium totaled \$3,315 and \$2,486 for fiscal years 2023 and 2022, respectively.

Interest on the Series 2021 Bonds is payable according to the terms specified by the Indenture semiannually on March 1 and September 1 of each year commencing on September 1, 2022. Interest on the Series 2021 Bonds is calculated based on a 360-day year comprised of twelve 30-day months. Interest payments for the Series 2021 Bonds for fiscal years 2023 and 2022 totaled \$172,894 and \$117,651, respectively.

C. Mandatory Sinking Fund Redemption, Current Interest Bonds

The Series 2018 CIBs and Series 2021 Bonds are required to be redeemed each September 1 in the years and in the amounts set forth below as adjusted for the prepayment redemption on April 1, 2021:

For the period ending September 30:	Phase #1 Bonds		IA #2 Bonds	
	Principal	Interest	Principal	Interest
2024	\$ 175,000	\$ 337,575	\$ 225,000	\$ 679,363
2025	185,000	328,388	235,000	666,425
2026	195,000	318,675	250,000	652,913
2027	205,000	308,438	265,000	638,538
2028	215,000	297,675	280,000	623,300
2029-2033	1,265,000	1,306,201	1,655,000	2,856,602
2034-2038	1,620,000	938,963	2,190,000	2,322,427
2039-2043	2,100,000	465,414	2,890,000	1,616,901
2044-2048	470,000	24,675	3,825,000	684,827
Total	\$ 6,430,000	\$ 4,326,004	\$ 11,815,000	\$ 10,741,296

For the period ending September 30:	MIA Bonds		IA #3 Bonds	
	Principal	Interest	Principal	Interest
2024	\$ -	\$ 433,688	\$ 153,000	\$ 169,331
2025	-	433,688	157,000	165,698
2026	125,000	433,688	160,000	161,969
2027	135,000	425,250	163,000	158,169
2028	140,000	416,138	168,000	153,483
2029-2033	860,000	1,925,102	910,000	691,909
2034-2038	1,200,000	1,591,314	1,051,000	543,964
2039-2043	1,660,000	1,128,602	1,223,000	367,235
2044-2048	2,305,000	487,690	1,150,000	117,200
Total	\$ 6,425,000	\$ 7,275,160	\$ 5,135,000	\$ 2,528,958

For the period ending September 30:	Total Current Interest Bonds		
	Principal	Interest	Total
2024	\$ 553,000	\$ 1,619,957	\$ 2,172,957
2025	577,000	1,594,199	2,171,199
2026	730,000	1,567,245	2,297,245
2027	768,000	1,530,395	2,298,395
2028	803,000	1,490,596	2,293,596
2029-2033	4,690,000	6,779,814	11,469,814
2034-2038	6,061,000	5,396,668	11,457,668
2039-2043	7,873,000	3,578,152	11,451,152
2044-2048	7,750,000	1,314,392	9,064,392
Total	\$ 29,805,000	\$ 24,871,418	\$ 54,676,418

D. Capital Appreciation Bonds

The Series 2018 CABs will mature on the dates and in the maturities as stated in the Indentures beginning on September 1, 2019. The maturity amount of the CABs will be payable only at maturity, and the accreted value will be payable on a date of extraordinary optional redemption as stated in the Indentures. The CABs are not subject to optional redemption.

NOTE 6—REVENUES

A. Annual Assessments

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 monthly as they are received by the DCTAC. The annual installment, 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 interest rate for the prepayment reserve and a 0.30% additional interest rate for the delinquency reserve as described in the Indentures. Annual installments of the assessments are payable to the Town on October 1 each year and become delinquent on February 1 of the following year. Annual assessments for fiscal years 2023 and 2022 were billed as follows:

	2023	2022
Series 2018 Phase #1	\$ 348,126	\$ 361,851
Series 2018 IA #2	611,543	681,911
Series 2018 MIA	550,418	615,126
Series 2021 IA #3	387,419	271,690
Total	\$ 1,897,506	\$ 1,930,578

As of September 30, 2023, \$1,566 in fiscal year 2023 annual assessments for IA #2 are delinquent. All annual assessments for fiscal year 2023 were collected for Phase #1, MIA, and IA #3. All annual assessments for fiscal year 2022 have been collected. The amount of assessments collected annually varies from the assessments billed due to prepayments of assessments and timing of collections of delinquent assessments.

B. TIRZ Contributions

TIRZ contributions are collected by the DCTAC from each parcel of assessed property that paid Town taxes in a given year. A portion of the taxes paid on each individual parcel (TIRZ contribution percentage of 46% of property tax increment collected) shall be used to calculate that parcel's TIRZ annual credit for the following year. The TIRZ contributions reduce the annual installment of assessments and assist in the repayment of the Bonds. The TIRZ contributions for fiscal years 2023 and 2022 were as follows:

	2023	2022
Series 2018 Phase #1	\$ 235,920	\$ 221,659
Series 2018 IA #2	389,005	322,624
Series 2018 MIA	71,420	29,483
Series 2021 IA #3	-	-
Total	\$ 696,345	\$ 573,766

TIRZ contributions for fiscal year 2022 totaling \$573,766 were deposited with the PID on September 14, 2021. TIRZ contributions for fiscal year 2023 totaling \$696,345 were deposited with the PID on September 22, 2022. TIRZ contributions for fiscal year 2024 totaling \$885,520 were deposited with the PID on September 1, 2023. These are reported in the financial statements as "unearned revenues" in the fiscal year in which they were received.

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

As of May 10, 2024, all assessments billed to the property owners for collection in fiscal year 2023 have been collected.

The 2024 annual installments of assessments billed to the property owners in the PID are as follows:

Series 2018 Phase #1	\$ 310,381
Series 2018 IA #2	527,739
Series 2018 MIA	454,245
Series 2021 IA #3	<u>371,906</u>
Total	<u><u>\$ 1,664,271</u></u>

As of May 10, 2024, \$6,589 is delinquent. No assessments for prior years are delinquent as of May 10, 2024.