



**WORKSHOP & REGULAR MEETING
OF THE TOWN COUNCIL**

Tuesday, June 4, 2024

6:00 PM

Little Elm Town Hall

100 W Eldorado Parkway, Little Elm, TX 75068

1. **Call to Order Council Workshop at 6:00 p.m.**
 - A. Present and Discuss the **Proposed Comprehensive Plan Update, Specifically with regard to Land Use Assumptions.**
2. **Roll Call/Call to Order Regular Town Council Immediately Following Council Workshop.**
 - A. Invocation.
 - B. Pledge to Flags.
 - C. Items to be Withdrawn from Consent Agenda.
 - D. Emergency Items if Posted.
 - E. Request by the Town Council for Items to be Placed on a Future Agenda for Discussion and Recognition of Excused Absences.

F. **Presentation of Monthly Updates.**

Presentation of monthly updates from department heads: concerning law enforcement activities, municipal court, customer service, emergency medical services, fire department response, fire prevention activities, emergency management, ongoing economic development projects, building permits, code enforcement activities, library activities, human resources updates, information technology report, revenue and expenditure report, street construction status, sanitation services, highway construction status, utility operations, parks and recreation activities, as well as facility and fleet updates.

G. Town Council to Highlight Items on the Agenda Needing Further Discussion or Comments Prior to the Regular Session.

3. **Presentations.**

A. Present a **Proclamation Recognizing June 2024 as Pride Month.**

B. Recognize the **Town Secretary's Office for Receiving the Texas Municipal Clerk Association Achievement of Excellence Award.**

4. **Public Comments**

Persons may address the Town Council on any issue for up to three (3) minutes. This is the appropriate time for citizens to address the Council on any concern whether on this agenda or not. In accordance with the State of Texas Open Meeting Act, the council may not comment or deliberate such statements during this period, except as authorized by Section 551.007, Texas Government Code.

5. **Consent Agenda**

All matters listed under the Consent Agenda are considered to be routine by the Town Council and require little or no deliberation. There will not be a separate discussion of these items and the agenda will be enacted by one vote. If the Council expresses a desire to discuss a matter listed, that item will be removed from the consent agenda and considered separately.

A. Consider Action to Approve the **Minutes from the May 21, 2024, Regular Town Council Meeting.**

B. Consider Action to Approve the **Minutes from the May 28, 2024, Pre-Budget Workshop.**

C. Consider Action to Approve a **Professional Services Agreement with Freese and Nichols, Inc. for the Wastewater Treatment Plant Process, Operations Evaluation and System Modernization Project in an Amount not to Exceed \$303,565.**

6. **Regular Items.**

A. Present, Discuss, and Consider Action to Accept **Fiscal Year 2023 Public Improvement District (PID) Audits for the following PIDs in the Town of Little Elm's jurisdiction**

- Hillstone Pointe PID No. 2
- Lakeside Estates PID No. 2
- Valencia PID
- Valencia PID No. 2
- Rudman Tract PID
- Spiritas Ranch PID
- Spiritas East PID

B. Hold a Public Hearing, Present, Discuss, and Consider Action on **Ordinance No. 1761 Regarding a Request to Allow a 1,912-square Foot Commissary Kitchen, Generally Located 2410 E. Eldorado Parkway, Suite 400, on the Northeast Corner of E. Eldorado Parkway and Little Elm Parkway, within Little Elm's Town Limits, in Order to Allow for Preparation and Storage of Food Items That are Delivered to Customers by Mobile Food Vendors Located Away from the Commissary Location.**

- Open Public Hearing:
- Receive Public Comments:
- Close Public Hearing:
- Take Action on Ordinance No. 1761:

C. Present, Discuss, and Consider Action to **Appoint a Lakefront Residential Overlay District Design Review Committee Council Liaison Replacement.**

7. **Convene in Executive Session pursuant to Texas Government Code:**

- Section 551.071 for private consultation with the Town Attorney to discuss the COVID-19 pandemic and municipal authority to respond to the COVID-19 outbreak and to seek legal advice with respect to pending and contemplated litigation and including all matters on this agenda to which the Town Attorney has a duty under the Texas Rules of Discipline and Professional conduct regarding confidential communication with the Town Council.
- Section 551.072 to discuss certain matters regarding real property.
- Section 551.074 of the Texas Government Code to discuss and deliberate personal matters to evaluate performance duties, of a public officer or employee(s).
- Section 551.076 to discuss security matters.
- Section 551.087 to discuss Economic Development.

8. **Reconvene into Open Session**

Discussion and consideration to take any action necessary as the result of the Executive Session:

- COVID-19 Pandemic and the Town's response thereto, including the consideration of an emergency declaration ordinance.
- Section 551.071 for private consultation with the Town Attorney to discuss the COVID-19 pandemic and municipal authority to respond to the COVID-19 outbreak and to seek legal advice with respect to pending and contemplated litigation and including all matters on this agenda to which the Town Attorney has a duty under the Texas Rules of Discipline and Professional conduct regarding confidential communication with the Town Council.
- Section 551.072 to discuss certain matters regarding real property.
- Section 551.074 of the Texas Government Code to discuss and deliberate personal matters to evaluate performance duties, of a public officer or employee(s).
- Section 551.076 to discuss security matters.
- Section 551.087 to discuss Economic Development.

9. **Adjourn.**

Pursuant to the Texas Open Meeting Act, (Chapter 551, Texas Government Code), one or more of the above items will be taken or conducted in open session following the conclusion of the executive closed session.

Persons with disabilities who plan to attend this meeting and who may need auxiliary aide of service such as interpreters for the hearing impaired, reader or large print are requested to contact the secretary at 214-975-0452 two days prior to the meeting so appropriate arrangements can be made.
BRAILLE IS NOT PROVIDED.

Respectfully,

Town Secretary

This is to certify that the above notice was posted on the Town's website this 31st day of May 2024 before 5:00 p.m.



Date: 06/04/2024
Agenda Item #: 1. A.
Department: Development Services
Strategic Goal: Promote and expand Little Elm's identity
Staff Contact: Fred Gibbs, Director of Development Services

AGENDA ITEM:

Present and Discuss the **Proposed Comprehensive Plan Update, Specifically with regard to Land Use Assumptions.**

DESCRIPTION:

Staff will give a presentation on the proposed Comprehensive Plan Update.

BUDGET IMPACT:

There is no budget impact for this item.

RECOMMENDED ACTION:

This item has no action. The Public Hearing and formal adoption will take place at the June 18, 2024 meeting.

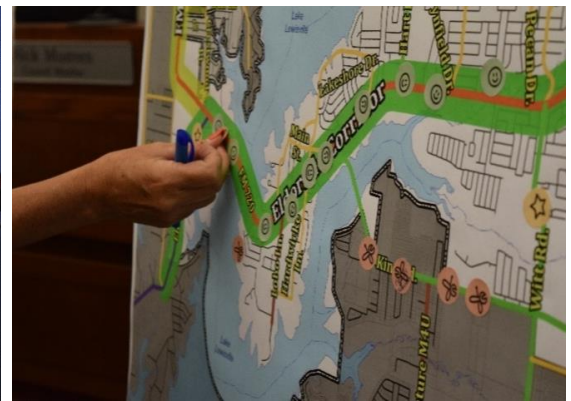
Attachments

Comprehensive Plan Update Draft

Town of Little Elm Comprehensive Plan 2017

Future Land Use and Population Projection Update

May 28, 2024



LITTLE ELM

**DRAFT FOR TOWN REVIEW
NOT INTENDED FOR
PUBLICATION**

Executive Summary

In March 2024, the Town of Little Elm engaged the services of Freese and Nichols, Inc., the firm who helped the Town create the 2017 Comprehensive Plan, to update targeted sections of the 2017 Plan. The sections, presented in more detail below, primarily addressed the Future Land Use map, densities associated with various residential categories, and future population projections.

The purpose of the update was the right-sizing of future growth numbers to inform other Town planning initiatives, the most immediate being a 5-year impact fee update. As the Town anticipates a broader update to its Comprehensive Plan in the near future, this land use update is considered an interim step to provide the Town with the data it needs to further immediate planning initiatives.

Updates to the 2017 Comprehensive Plan are encapsulated within this document and are limited to the following (page references below refer to the 2017 Plan, not this document):

1. **Update the Future Land Use Map Shown on Page 120:** Development data and other inputs were used to create a Future Land Use Map that updates the 2017 map.
2. **Update the Future Land Use categories shown on Pages 119, 121-123:** The future land use categories of the current Comprehensive Plan were updated to reflect recently-approved developments and trends that have developed in the Town since 2017. Additionally, dwelling units per acre (DUA) were added for each future land use category.
3. **Update the Town's Projected Population and Capacity on Pages 175-179, 181-184:** based on data provided by the Town and public sources such as the U.S. Census Bureau and the North Central Texas Council of Governments, updates were made to the Town's projected population and capacity under the current Comprehensive Plan. These were updated to reflect growth and growth rate changes since 2017.

Results show that build-out population of the Town increased from approximately 93,000 population to approximately 107,000. Of the additional residents expected in Town Limits, the land use changes considered in this update contribute approximately 1,700 additional residents. This means that land use changes contribute only 12% of the total increase in build-out population (1,700 out of 14,000 people), with the remaining anticipated increase from 2017 resulting from growth in ETJ population, along with the 4,648 undeveloped lots platted as of the date of this report. With more lots on the ground compared to 2017, the future population of the Town can be predicted with more accuracy compared to projecting vacant areas based on presumed maximum density. The unbuilt lots currently existing equate to 13,981 additional residents (compared to 6,789 residents projected from vacant lots in 2017). This is a difference of 7,192 additional persons compared to 2017.

No other explicit or implicit changes are intended to the 2017 Plan other than those outlined above, nor does this document recommend any specific alternation to the implementation of the 2017 Plan Vision and Goals based on the data presented in this document. The Vision of the 2017 Plan along with its areas of emphasis remain as adopted in 2017:

"The Town of Little Elm is a distinct and desirable lakeside destination for all people to live and play while enjoying a safe, vibrant and welcoming community."

Future Land Use Plan (current page 119)

Land Use Categories	Max. DUA*	Description
Residential		
Estate Residential	1	Single-family homes with lot sizes of one acre or greater
Ranchette Residential	2	Single-family homes with lot sizes of 15,000 sq. ft. to 1 acre
Low Density Residential	5	Single-family homes of varying lot sizes that are smaller than 15,000 sq. ft.
Medium Density Residential	10	Townhomes or Duplexes
High Density Residential	25	Apartments and Condominiums
Mixed Residential	8	Range of single family from large lot to patio homes to townhome transitions to neighborhood commercial
Neighborhood	4	Appropriate transitions to existing neighborhoods with respect to densities, screening and buffering within new neighborhoods
Public Use		
Public/Semi-Public	0	Educational, governmental, or institutional uses such as schools, hospitals, places of worship or community organizations etc.
Parks and Open Space	0	Community parks, recreational facilities, cemeteries, and open space and private recreation
Floodplain/CORP properties	0	Conservation area based on FEMA map and CORP properties
Non-residential		
Retail/Commercial	0	Establishments providing merchandise for retail or commercial sale and professional, corporate, or administrative offices
Special Uses		
Lakefront District	32	A mixture of civic, park, cultural, retail, and residential uses, which is designed to be a focal point of the community
Special Planning Area 1	0	"Hilltown" area with redevelopment potential
Special Planning Area 2	7	"Preston on the Lake" area with redevelopment potential
Special Planning Area 3	7	Lakefront area with mostly residential redevelopment potential
Mixed Use	32	Vertical and horizontal mix of residential, non-residential and public uses
<i>*Dwelling Units Per Acre</i>		



Future Land Use Map (current page 120)

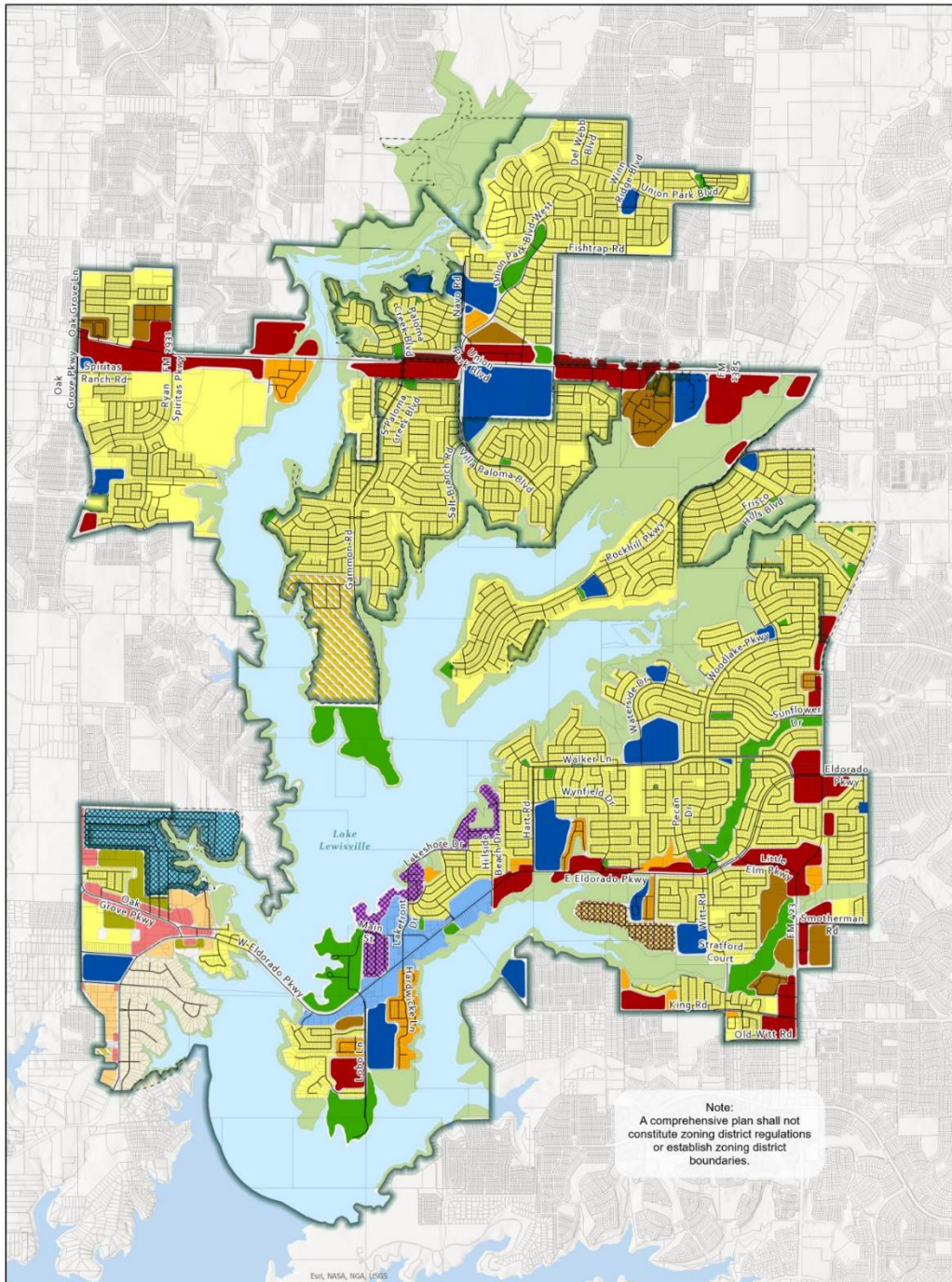


Figure 1: Updated Future Land Use Map

Special Planning Areas (current pages 121 and 122)

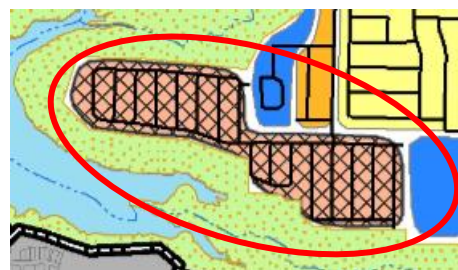
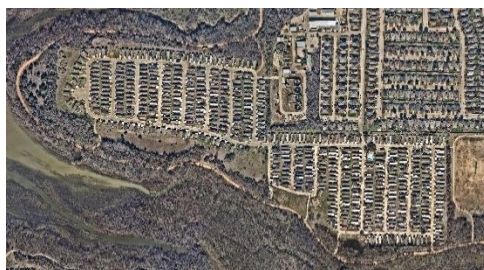
Special Planning Area 1

The area currently has several large vacant tracts, several heavy commercial uses, a small church, and a large mobile home subdivision (with several hundred lots covering approximately 240 acres). With the proximity to the lake and access to Eldorado Parkway and Oak Grove (FM 720), this area will likely see demand to develop the vacant land and possibly redevelop the existing mobile home subdivision. As land values increase and Oak Grove (FM 720) is improved to six lanes, the area may see greater interest from developers wanting to purchase land for either new development or redevelopment for both non-residential and residential purposes. It is desirable to have this area to be coordinated into one unified development when development and redevelopment occur. Finally, it is important to recognize this area's potential to change and how it might be different in 10 to 20 years.



Special Planning Area 2

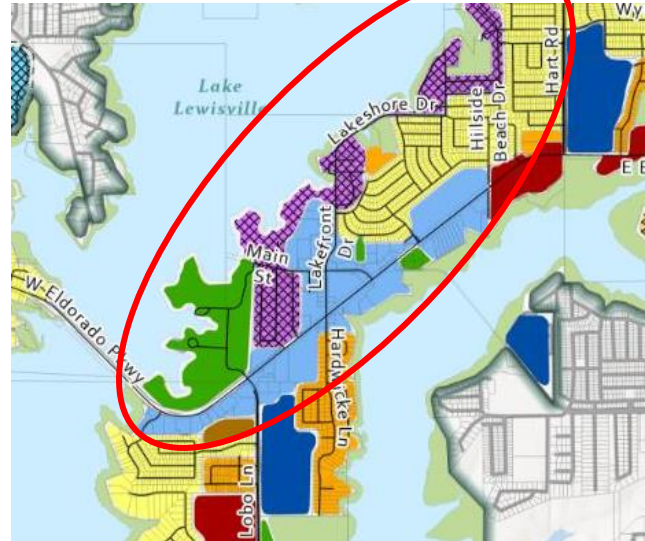
The area designated as Special Planning Area 2 is currently a quality manufactured home park, with concrete street and sidewalks. The 2008 Future Land Use Plan shows this area as manufactured home development. However, during the 2017 Comprehensive Plan public input process, manufactured homes were identified as one of the least desired uses in the Town. By using the Special Planning Area 2 designation, the Plan recognizes that this area can remain a quality manufactured home park, but also recognizes that the park's land owner may wish to redevelop the site in the future. If redevelopment occurs, it is envisioned to be redeveloped with recreational and single-family detached uses.



Special Planning Area 3

A large part of Special Planning Area 3 has lake frontage. The area contains attractive lots facing the lake, suitable for “move-up” homes. Many of the existing homes originally started as lake cabins or lake rentals and are smaller than what the market currently builds or demands. Residential redevelopment is highly likely in the northern part of this Special Planning Area 3.

An activity hub is envisioned in the southern part of the planning area due to the area’s proximity to the school, the park and retail/commercial lots.



Future Land Use Map Calculations (current page 123)

Consisting of the largest amount of land, around 37 percent of the future land uses is Low Density Residential. Lake Lewisville and floodplains constitute a large percentage of land. The next largest land use category is Retail/Commercial comprising of about 5 percent of the total land uses.

Land Use	Acres in Town Limits (TL)	Percentage (TL only)	Acres in ETJ	Total	Percentage (TL + ETJ)
Estate Residential	225	2%	10	235	1%
Ranchette	4	<1%	217	221	1%
Low Density Residential	4,683	32%	1,763	6,446	37%
Medium Density Residential	186	1%	0	186	1%
High Density Residential	243	2%	15	258	1%
Retail/Commercial	864	6%	43	907	5%
Lakefront District	198	1%	0	198	1%
Mixed Residential	69	<1%	0	0	0
Neighborhood	85	<1%			
Special Planning Area 1	73	1%	188	261	2%
Special Planning Area 2	73	<1%	0	73	<1%
Special Planning Area 3	125	1%	0	125	1%
Public/Semi-Public	559	4%	53	612	4%
Parks and Open Space	469	3%	25	494	3%
Floodplain/Corp Properties*	2,363	16%	670	3,033	17%
Lake Lewisville	4,174	29%	14	4,188	24%
Total	14,498	100	2,997	17,495	100

Projected Population & Capacity (current page 175)

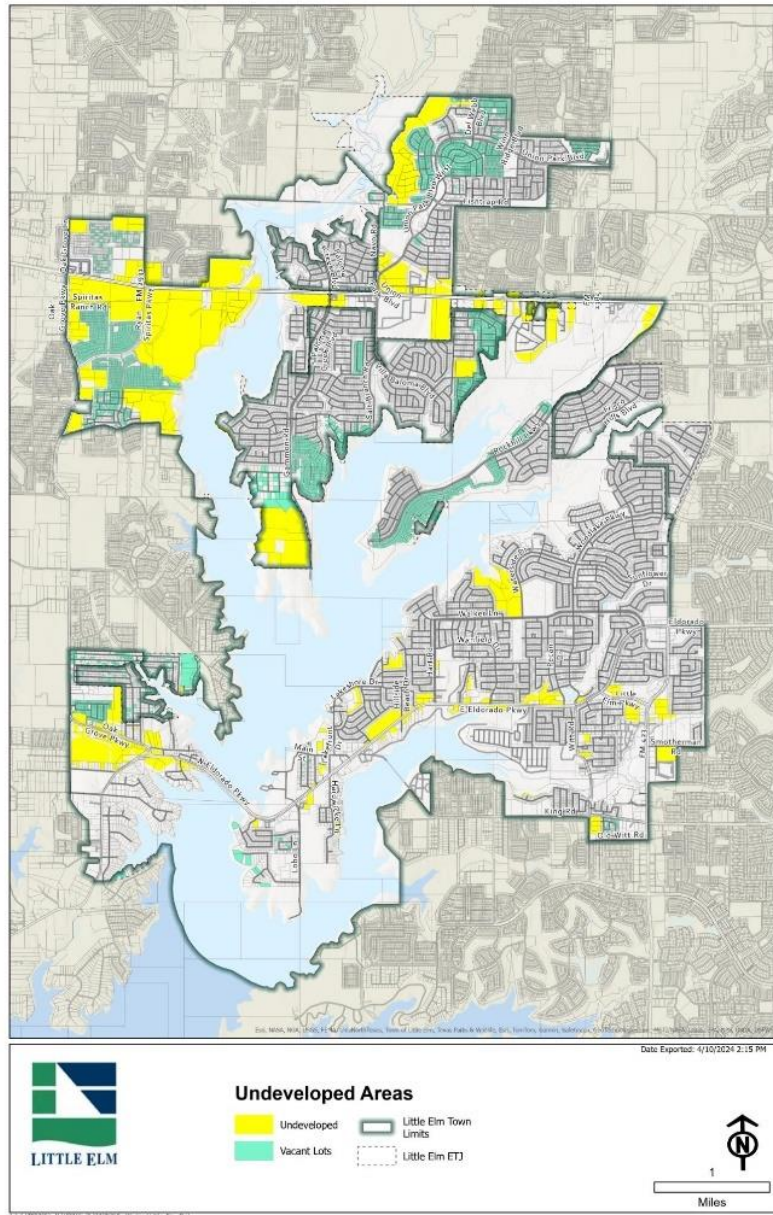


Figure 2 : Current Undeveloped Areas in Town Limits and ETJ

It is important to know how many people will ultimately live in Little Elm. To plan for the community effectively, the Town needs to understand the future demands that citizens will ultimately place on municipal services. For instance, if the Town were planning to expand the public library facility, it would be important to know how many citizens may ultimately use the library. This size of the Town's ultimate population projection could influence the size of the library facility and types of services available.

In addition, it is also important to know how fast the population of Little Elm will grow. Projecting population growth is crucial to determine the need and timing of capital improvements to serve future development.

Municipalities across Texas have adopted growth projections to base when future capital projects and other service needs are required.

For the purposes of this discussion, it is necessary to define the area in which the future population of Little Elm will live. The defined area is the Town limits and extrajurisdictional jurisdiction (ETJ).

Updates to 2017 Map by FLUP Category (new page)

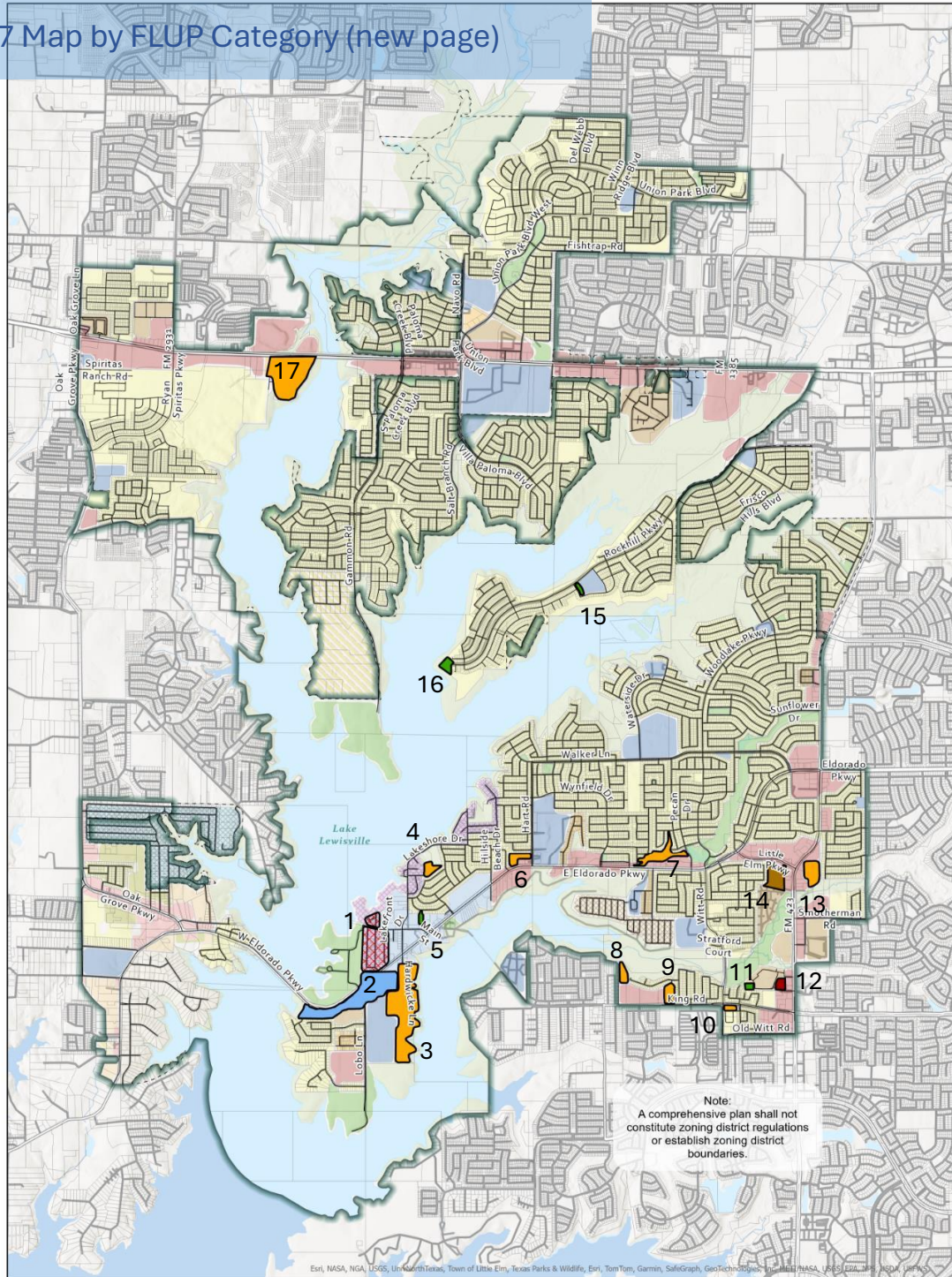


Figure 3: Future Land Use Changes by Area

Summary of Land Use Map Changes (new page)

Table 1: Areas of Change from 2017 FLUM

Change Reference (previous page)	Former LU Category	New LU Category	Area of Change (acre)
1	Redevelopment	Redevelopment	38.0
2	Retail/ Commercial and SPA 3	Lakefront	63.1*
3	Low-Density Res.	Medium-Density Res.	63.0
4	Lakefront	Parks and Open Space	1.7
5	Parks and Open Space	Medium-Density Res.	4.6
6	Retail/ Commercial	Medium-Density Res.	5.4
7	Parks and Open Space	Medium-Density Res.	14.4
8	Retail/ Commercial	Medium-Density Res.	4.2
9	Retail/ Commercial	Medium-Density Res.	6.1
10	Low-Density Res.	Medium-Density Res.	2.0
11	High-Density Res.	Parks and Open Space	1.7
12	High-Density Res.	Retail/ Commercial	3.2
13	Retail/ Commercial	Medium-Density Res.	10.6
14	Retail/ Commercial	High-Density Res.	11.8
15	Low-Density Res.	Parks and Open Space	1.5
16	Low-Density Res.	Parks and Open Space	4.1
17	Retail/ Commercial	Medium-Density Res.	45.2
TOTAL AREA OF CHANGE (ACRE)*			268.6

*includes 12 acres of future redevelopment within Lakefront District

Existing Vacant Area by FLUP Category (Current page 176)

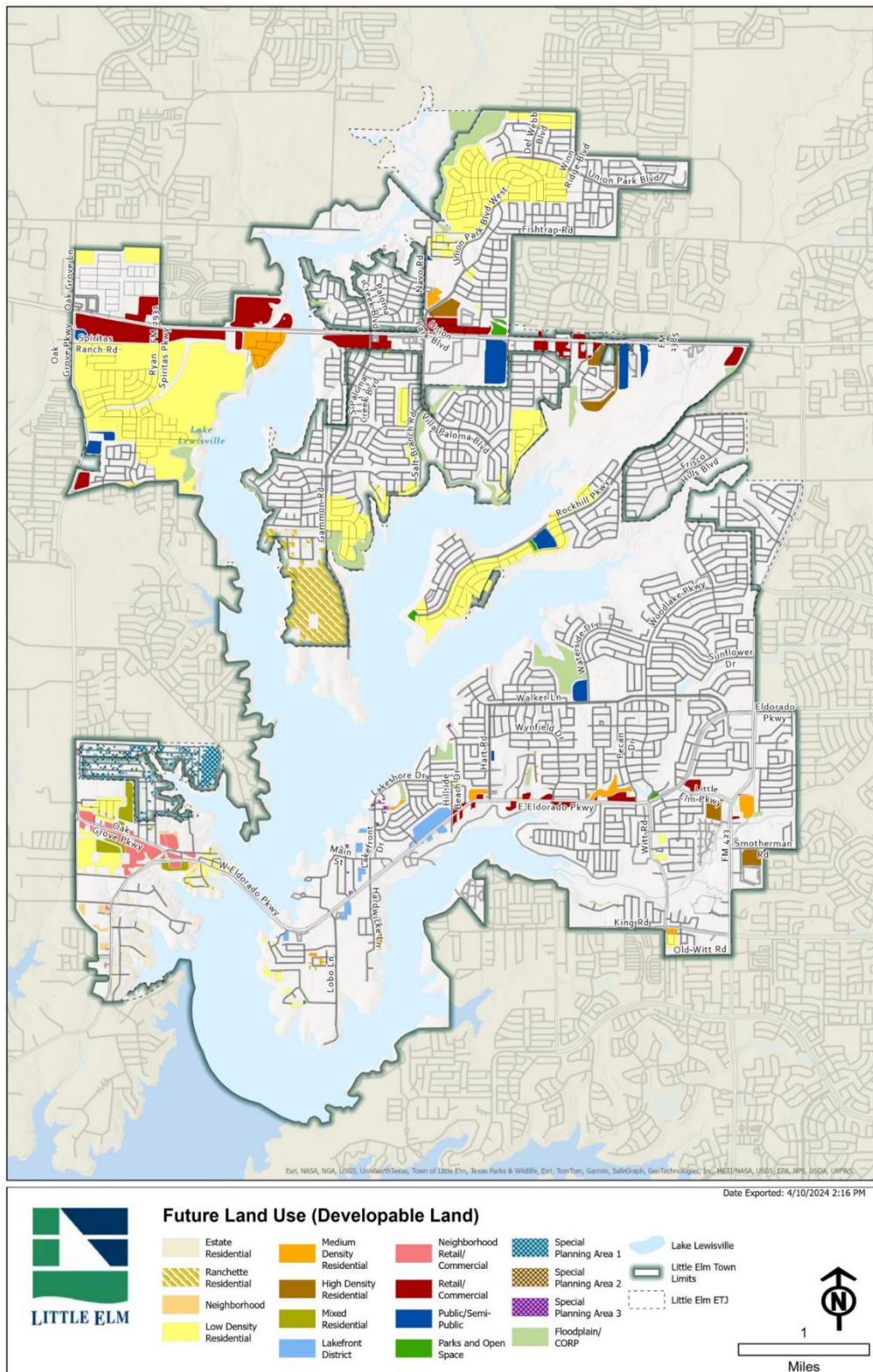


Figure 4: Future Land Use Map (Developable Land/Vacant Lots Only)

Ultimate Capacity (current page 177-178)

The ultimate capacity, or build out, of the Future Land Use Map refers to the number of people that could potentially live within the planning area if the Town were to develop exactly as it is portrayed. The reality is that many changes will likely occur to the Future Land Use Map over time and the planning area encompasses a large amount of vacant land that will take generations to develop. The ultimate capacity, therefore, is primarily used for planning purposes and helps to put some numbers behind the colors in terms of how many people could live within the town. The ultimate planning area is town limits and the ETJ minus the Aubrey agreement area.

The ultimate capacity in **Table 2** is calculated by taking the vacant residential areas and multiplying by the approximated dwelling units per acre, persons per household and occupancy rates to calculate how many new residents the FLUP can accommodate. New residents are added to the existing population to reach the ultimate capacity.

Table 2: Calculating Ultimate Capacity

Vacant	Vacant Area/Lots	ROW Reduction	DUA	Occu-Rate ¹	PPH	Housing Units ²	Total Households ³	Total Population ⁴
Estate	0	0.1	1	0.94	3.2	0	0	0
Ranchette	111.0	0.1	2	0.94	3.2	200	188	601
Low Density Residential	494.0	0.2	5	0.94	3.2	1,976	1,857	5,944
Medium Density Residential ⁵	114.0	0.15	10	0.94	3.2	646	607	2,915
High Density Residential	53.0	0.3	25	0.94	1.7	928	872	1,482
Mixed Residential	31.0	0.15	8	0.94	3.2	211	198	634
Neighborhood	3.0	0.2	4	0.94	3.2	10	9	29
Lakefront ⁶	49.0	0.3	32	0.94	1.7	1,098	1,032	1,754
Special Planning Area 2	0.0	0.3	7	0.94	3.2	0	0	0
Special Planning Area 3	1.0	0.3	7	0.94	3.2	5	5	15
Vacant Area Subtotal						5,072	4,768	13,373
Total Vacant Lots	4,648			0.94	3.2	4,648	4,369	13,981
Added Residents Total								27,355
Current Population in ETJ	8,333 (lots)	0.1	n/a	0.94	3.2	8,333	7,833	25,066
Current Population in Town Limits (January 1, 2023), NCTCOG								54,866
Ultimate Capacity (Current pop in Town Limits + Current pop in ETJ + Vacant area future pop)								107,286

1: Occupancy rate increased from 92% in 2010 to 94% in 2020 – 2: Adjusted Area times DUA – 3: Units times Occupancy Rate
4: Households times Persons Per Household – 5: Includes 38 acres of future redevelopment – 6: Includes 12 acres of future redevelopment

Based on the calculation, Little Elm can expect a population of more than 107,000 when it is completely built-out. The number may change based on upcoming shifts in housing trends or redevelopment. Compared to the 2017 Plan, this represents a build-out increase of approximately 14,000 residents. A significant portion of this increase is explained by an increase in ETJ population. Whereas the 2017 Plan predicted 15,000 new residents in the ETJ, the current population is over 25,000 with an additional 4,100 residents still expected in the future (**Table 6**).

When considering only residents within the Town Limits, the increase from 2017 is mainly due to existing vacant platted lots, which increased from just over 1,000 in 2017 to more than 4,600 in 2024 (each lot is assumed to produce a household with 3.2 persons), and expected increases owing to Future Land Use Map changes and density changes, along with redevelopment of portions of the Lakefront, as described in **Figure 3** and detailed in **Table 2** and **Table 5**.

An important consideration associated with the ultimate capacity is the timeline. It is important to gather an understanding of when the Town will become built-out based on the projected growth rate. It helps the Town to determine an anticipated growth rate and types of development that the Town envisions for the next few decades. **Table 7** takes several Compound Annual Growth Rate (CAGR) figures into account for this purpose.

10-year forecast (current page 179)

Projecting what Little Elm's population will be in the next 10 or 20 years is challenging due to the fact that there are so many variables that may affect the rate of population growth. However, it is important to provide an analysis of what is most likely to occur. The best method to predict the Town's growth is to consider the vacant area within the current Town limits and then add the population from the ETJ. What has been determined to be "most likely" is based on three factors – the population growth of other cities in Little Elm's region, the rate at which the Town has been growing in the past few years and known residential developments that are anticipated to be built in the next ten years within the Town limits.

Past Growth Rate (current page 179)

A Town's past growth rates are often the best indicator of future growth rates. **Table 3** and **Table 4** show Little Elm's population, numerical change, and compound annual growth rate of recent years and by decade.

From 2017 to 2023, Little Elm grew consistently. The Compound Annual Growth Rate (CAGR) was 6.9% 6.2% from 2017 to 2023, down slightly from 6.9% from 2010 to 2017.

Table 3: Population Data in Recent Years

Year	Population	Population Change	Percent Change	CAGR
2017	38,250			6.2%
2018	42,040	3,790	9.9%	
2019	44,530	2,490	5.9%	
2020	46,453	1,923	4.3%	
2021	48,198	1,745	3.8%	
2022	51,635	3,437	7.1%	
2023	54,866	3,231	6.3%	

Source: NCTCOG Population Estimate; US Census Bureau

From 1970 to 2020 Little Elm experienced periods of phenomenal growth. Between the years of 2000 and 2010, Little Elm grew over 500 percent, and again more than doubled its population between 2010 and 2020. The 40-year CAGR was 10.28% (**Table 4**).

Table 4: Population Data by Decade

Year	Population	Population Change	Percent Change	CAGR
1980	926			10.28%
1990	1,255	329	35%	
2000	3,646	2,391	190.5%	
2010	22,200	18,554	508.9%	
2020	46,453	24,253	109.2%	

Source: US Census Bureau

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Growth Rate Scenarios (current page 184)

The NCTCOG population estimate for January 1, 2023 is 54,866.

The 2017 plan used a compound annual growth rate of 5 percent as the “most likely” growth rate Little Elm will experience over the next ten years. 2023 population was predicted in the 2017 Plan at 51,259, which turned out to be very similar to the NCTCOG population estimate of 54,866 on January 1, 2023. **Since growth over the past seven years followed a similar CAGR to the growth predicted (5.29%), a future ten-year rate of 5.0% CAGR remains the most likely scenario.** With this growth rate, Little Elm’s population is projected to be around 90,000 in the next ten years.

Table 7: Growth Rate Scenarios

1.50%		2.5%		5.0%		10.0%	
Year	Population	Year	Population	Year	Population	Year	Population
2023	54,866	2023	54,866	2023	54,866	2023	54,866
2024	55,689	2024	56,238	2024	57,609	2024	60,353
2025	56,524	2025	57,644	2025	60,490	2025	66,388
2026	57,372	2026	59,085	2026	63,514	2026	73,027
2027	58,233	2027	60,562	2027	66,690	2027	80,329
2028	59,106	2028	62,076	2028	70,024	2028	88,362
2029	59,993	2029	63,628	2029	73,526	2029	97,198
2030	60,893	2030	65,218	2030	77,202	2030	Buildout
2031	61,806	2031	66,849	2031	81,062		
2032	62,733	2032	68,520	2032	85,115		
2033	63,674	2033	70,233	2033	89,371		



Date: 06/04/2024
Agenda Item #: 3. A.
Department: Administrative Services
Strategic Goal: Ensure strong relationship within the community and region
Staff Contact: Kate Graham, Assistant to the Town Manager

AGENDA ITEM:

Present a **Proclamation Recognizing June 2024 as Pride Month.**

DESCRIPTION:

Mayor Cornelious will present a proclamation recognizing June 2024 as Pride Month.

BUDGET IMPACT:

There is no budget impact for this item.

RECOMMENDED ACTION:

Information only, no action required.

Attachments

2024 Pride Month Proclamation



Proclamation

WHEREAS, our Nation was founded upon the declaration that all people are created equal; that life, liberty, and the pursuit of happiness are among the inalienable rights of every person, and that every person shall be afforded equal protection under the law; and

WHEREAS, LGBTQ+ Pride celebrations include people who are members of the LGBTQ+ community, as well as supporters; and

WHEREAS, the Stonewall Inn, a New York City establishment that catered to the LGBTQ+ community, was raided on June 28, 1969. The incident sparked public demonstrations that lasted for six days and later served as a catalyst for the LGBTQ+ rights movement in the United States and around the world; and

WHEREAS, Pride celebrations have taken place around the United States every June to commemorate this historical event, to commit to achieving equal justice under the law for the LGBTQ+ community, and to educate others; and

WHEREAS, the Town of Little Elm has a diverse community that includes many residents who are members of the LGBTQ+ community, as well as supporters, and is committed to being inclusive of all residents.

NOW, THEREFORE, we recognize that **Pride Month** occurs in the month of June, and call this observance to the attention of all our residents.

Given under my hand and Seal of the Town of Little Elm, Texas, this 4th day of June, 2024.

Curtis J. Cornelious, Mayor of Little Elm



Date: 06/04/2024
Agenda Item #: 3. B.
Department: Administrative Services
Strategic Goal: Maintain operational integrity and viability
Staff Contact: Caitlan Biggs, Director of Administrative Services/Town Secretary

AGENDA ITEM:

Recognize the **Town Secretary's Office for Receiving the Texas Municipal Clerk Association Achievement of Excellence Award.**

DESCRIPTION:

For the first time, the Town Secretary's Office has received the Achievement of Excellence Award from the Texas Municipal Clerk Association.

This program recognizes statutory requirements and demands for the effective and efficient management of resources for proper governance by the municipal clerk's office. The award recognizes municipal clerk offices throughout the state for compliance with federal, state, and local statutes that govern standards necessary to fulfill the duties and responsibilities of the office. A municipal clerk office must have met nine of 12 standards to be eligible for the Excellence Award. Once received, it covers a period of two years.

The goals of the program are:

- Recognizing Municipal Clerk's Offices that meet certain professional requirements.
- Promotion of the Municipal Clerk's Office within the community.
- Recognizing the Municipal Clerk's Office's engagement with its citizens, elected officials, and staff.
- Recognizing the efficient management of resources by the Municipal Clerk's Office.
- Recognizing demonstrated compliance with local, state, and Federal standards implemented by the Municipal Clerk's Office.

BUDGET IMPACT:

There is no budget impact for this item.

RECOMMENDED ACTION:

Information only, no action required.



Date: 06/04/2024
Agenda Item #: 5. A.
Department: Administrative Services
Strategic Goal: Maintain operational integrity and viability
Staff Contact: Caitlan Biggs, Director of Administrative Services/Town Secretary

AGENDA ITEM:

Consider Action to Approve the **Minutes from the May 21, 2024, Regular Town Council Meeting.**

DESCRIPTION:

The minutes from the May 21, 2024, regular Town Council meeting are attached for approval.

BUDGET IMPACT:

There is no budget impact for this item.

RECOMMENDED ACTION:

Staff recommends approval.

Attachments

Minutes - May 21, 2024

DRAFT

Minutes
Town of Little Elm
100 W Eldorado Parkway
Little Elm, Texas 75068
214-975-0404
<http://www.littleelm.org>

REGULAR TOWN COUNCIL MEETING TUESDAY MAY 21, 2024 - 6:00 p.m.

Present: Mayor Curtis J. Cornelious; Mayor Pro Tem Jamell T. Johnson; Council Member Tony Singh; Council Member Lisa G. Norman; Council Member Andrew Evans; Council Member Michel Hambrick

Absent: Council Member Ken Eaken

Staff Present: Caitlan Biggs, Director of Administrative Services/Town Secretary; Jennette Espinosa, Executive Director; Joe Florentino, Assistant Town Manager; Matt Mueller, Town Manager; Chad Hyde, Director of Community Services; Doug Peach, Deputy Town Manager; Fred Gibbs, Director of Development Services; Jason Shroyer, Director of Public Works; Kelly Wilson, Chief Financial Officer; Paul Rust, Fire Chief; Robert Brown, Town Attorney; Rodney Harrison, Police Chief; Shea Rodgers, Chief Information Officer

1. Roll Call/Call to Order Regular Town Council at 6:00 p.m.

Meeting was called to order at 6:00 p.m.

A. Invocation.

Mayor Pro Tem Jamell T. Johnson gave the invocation.

B. Pledge to Flags.

C. Items to be Withdrawn from Consent Agenda.

None.

D. Emergency Items if Posted.

None.

E. Request by the Town Council for Items to be Placed on a Future Agenda for Discussion and Recognition of Excused Absences.

Excused absence granted for Council Member Ken Eaken.

F. Presentation of Monthly Updates.

Presentation of monthly updates from department heads: concerning law enforcement activities, municipal court, customer service, emergency medical services, fire department response, fire prevention activities, emergency management, ongoing economic development projects, building permits, code enforcement activities, library activities, human resources updates, information technology report, revenue and expenditure report, street construction status, sanitation services, highway construction status, utility operations, parks and recreation activities, as well as facility and fleet updates.

Town Manager Matt Mueller gave an update on Memorial Day Weekend and Brew and Que.

The Mayor presented a proclamation to recognize National Public Works week.

G. Town Council to Highlight Items on the Agenda Needing Further Discussion or Comments Prior to the Regular Session.

None.

2. Public Comments

Persons may address the Town Council on any issue for up to three (3) minutes. This is the appropriate time for citizens to address the Council on any concern whether on this agenda or not. In accordance with the State of Texas Open Meeting Act, the council may not comment or deliberate such statements during this period, except as authorized by Section 551.007, Texas Government Code.

None.

3. Consent Agenda

All matters listed under the Consent Agenda are considered to be routine by the Town Council and require little or no deliberation. There will not be a separate discussion of these items and the agenda will be enacted by one vote. If the Council expresses a desire to discuss a matter listed, that item will be removed from the consent agenda and considered separately.

Motion by Council Member Michel Hambrick, seconded by Mayor Pro Tem Jamell T. Johnson ***to approve the Consent Agenda.***

Vote: 6 - 0 - Unanimously

- A. Consider Action to Approve the **Minutes from the May 14, 2024, Special Town Council Meeting.**
- B. Consider Action to Approve **Resolution No. 0521202401 Approving and Authorizing Publication of Notice of Intention to Issue Combination Tax and Revenue Certificates of Obligation, Series 2024 and authorizing SAMCO Capital Markets, Bond Counsel, and Town Officials to Proceed with the Issuance Process for the Certificates.**

- C. Consider Action to Approve the **Proposals from Datavox, Inc. to Provide Fiber Optic Cabling and Installation of Security Cameras at Cottonwood Park.**
- D. Consider Action to Approve **Ordinance No. 1758 Amending the Code of Ordinances to Update the Town's Updated 5-Year Water Conservation and Water Resource and Emergency Management Plan.**
- E. Consider Action to Approve **Resolution No. 0521202403 Determining the Costs of Certain Authorized Improvements to be Financed within the Future Improvement Area of the Spiritas Ranch Public Improvement District; Will Approve a Preliminary Service Plan and Assessment Plan, Including the Proposed Future Improvement Area Assessment Roll – Future Improvement Area Projects; Directing the Filing of the Proposed Assessment Roll with the Town Secretary; and Providing for Noticing and Calling a Public Hearing on June 18, 2024, to Consider an Ordinance Levying Assessments on Property Located Within the Future improvement Area of the Spiritas Ranch Public Improvement District; Directing the Filing of the Proposed Assessment Roll with the Town Secretary to make available for Public Inspection; Directing Town Staff to publish and Mail Notice, of said Public Hearing; and Resolving Other Matters Incident and Related Thereto.**

4. Regular Items.

- A. Hold a Public Hearing, Present, Discuss, and Consider Action on **Ordinance No. 1757 Regarding a Request to Rezone Approximately 107.767 Acres of Land, Currently Zoned as Planned Development, Based on Community Facility Standards, Through Ordinance No. 1583, Generally Located on the Southeast Corner of The Intersection of U.S. Highway 380 and Navo Road, within Little Elm's Town Limits, in Order to Amend the Site Plan Within the Planned Development District to Allow for a Multi-Use Facility with Modified Standards.**

Open Public Hearing:

Receive Public Comments:

Close Public Hearing:

Take Action on Ordinance No. 1757:

Managing Director of Planning Olga Chernomorets gave an overview of the item in the attached presentation.

Open Public Hearing: 6:13 p.m.

Receive Public Comments: None

Close Public Hearing: 6:14 p.m.

Motion by Council Member Tony Singh, seconded by Council Member Lisa G. Norman *to approve Ordinance No. 1757.*

Vote: 6 - 0 - Unanimously

- B. Present, Discuss, and Consider Action on a **Development Agreement between the Town of Little Elm and Denton ISD.**

Motion by Council Member Michel Hambrick, seconded by Mayor Pro Tem Jamell T. Johnson *to approve the Development Agreement.*

Vote: 6 - 0 - Unanimously

- C. Present, Discuss, and Consider Action on **Resolution No. 0521202402 Repealing Resolution No. 90080602.**

Motion by Mayor Pro Tem Jamell T. Johnson, seconded by Council Member Tony Singh **to approve Resolution No. 0521202402.**

Vote: 6 - 0 - Unanimously

- D. Present, Discuss, and Consider Action on **Updates to the Little Elm Governance Policy.**

Council Member Lisa G. Norman stated that she felt like the language needed to be more clear and straight forward related to funds being prohibited for the use of events/fundraising for political parties.

She suggested the addition of the verbiage of "hosted or sponsored by a political party or subsidiary."

Council discussed the proposed language from Council Member Norman.

Council determined to schedule this item as a future workshop item.

Motion by Council Member Lisa G. Norman, seconded by Mayor Pro Tem Jamell T. Johnson **to table to a future meeting as a workshop item.**

Vote: 6 - 0 - Unanimously

- E. Present, Discuss, and Consider Action on **Annual Council Member Appointments.**

The Mayor gave an overview of the proposal listed in the agenda packet.

Council Member Norman stated that she appreciated the proposal. She would like the council to go position by position. She asked why Mayor Pro Tem Johnson is proposed to be Mayor Pro Tem for a second year.

The Mayor stated that he is doing a great job. He also stated that he asked Mayor Pro Tem Johnson to finish out a few projects where he needed Mayor Pro Tem Johnson to remain in this position for a second year. He stated that he believes everyone received either their first or second choice based on the questionnaire.

Council Member Norman stated that she would like to see Council Member Singh as Mayor Pro Tem instead. Council Member Singh declined to be considered for this position.

Council Member Evans stated that he is supportive of Mayor Pro Tem Johnson staying in this position but that his understanding is that the liaison assignments rotated. He stated that he hoped all members are able to try different roles, but all members are doing a great job.

Motion by Council Member Michel Hambrick, seconded by Council Member Tony Singh **to approve the Mayor's Proposal.**

Vote: 5 - 1

5. Convene in Executive Session pursuant to Texas Government Code:

- Section 551.071 for private consultation with the Town Attorney to discuss the COVID-19 pandemic and municipal authority to respond to the COVID-19 outbreak and to seek legal advice with respect to pending and contemplated litigation and including all matters on this agenda to which the Town Attorney has a duty under the Texas Rules of Discipline and Professional conduct regarding confidential communication with the Town Council.
- Section 551.072 to discuss certain matters regarding real property.
- Section 551.074 of the Texas Government Code to discuss and deliberate personal matters to evaluate performance duties, of a public officer or employee(s).
- Section 551.076 to discuss security matters.
- Section 551.087 to discuss Economic Development.

Council convened into Executive Session at 6:50 p.m.

6. Reconvene into Open Session

Discussion and consideration to take any action necessary as the result of the Executive Session:

- COVID-19 Pandemic and the Town's response thereto, including the consideration of an emergency declaration ordinance.
- Section 551.071 for private consultation with the Town Attorney to discuss the COVID-19 pandemic and municipal authority to respond to the COVID-19 outbreak and to seek legal advice with respect to pending and contemplated litigation and including all matters on this agenda to which the Town Attorney has a duty under the Texas Rules of Discipline and Professional conduct regarding confidential communication with the Town Council.
- Section 551.072 to discuss certain matters regarding real property.
- Section 551.074 of the Texas Government Code to discuss and deliberate personal matters to evaluate performance duties, of a public officer or employee(s).
- Section 551.076 to discuss security matters.
- Section 551.087 to discuss Economic Development.

Council reconvened into Open Session at 7:19 p.m. No action was taken.

7. Adjourn.

Meeting was adjourned at 7:20 p.m.

Respectfully,

Caitlan Biggs
Town Secretary

Passed and Approved this 4th day of June 2024.



Date: 06/04/2024
Agenda Item #: 5. B.
Department: Administrative Services
Strategic Goal: Maintain operational integrity and viability
Staff Contact: Caitlan Biggs, Director of Administrative Services/Town Secretary

AGENDA ITEM:

Consider Action to Approve the **Minutes from the May 28, 2024, Pre-Budget Workshop.**

DESCRIPTION:

The minutes from the May 28, 2024, Pre-Budget Workshop are attached for approval.

BUDGET IMPACT:

There is no budget impact for this item.

RECOMMENDED ACTION:

Staff recommends approval.

Attachments

Minutes - May 28, 2024

DRAFT

Minutes
Town of Little Elm
100 W Eldorado Parkway
Little Elm, Texas 75068
214-975-0404
<http://www.littleelm.org>

PRE-BUDGET WORKSHOP TUESDAY MAY 28, 2024 - 6:00 p.m.

Present: Mayor Curtis J. Cornelious; Mayor Pro Tem Jamell T. Johnson; Council Member Tony Singh; Council Member Lisa G. Norman; Council Member Andrew Evans; Council Member Michel Hambrick; Council Member Ken Eaken

Staff Present: Caitlan Biggs, Director of Administrative Services/Town Secretary; Matt Mueller, Town Manager; Kelly Wilson, Chief Financial Officer

Attendees: Shane Urrutia, Budget Performance Specialist

1. **Roll Call/Call to Order Council Pre-Budget Workshop at 6:00 p.m.**

Meeting was called to order at 6:00 p.m.

2. **Public Comments**

Persons may address the Town Council on any issue for up to three (3) minutes. This is the appropriate time for citizens to address the Council on any concern whether on this agenda or not. In accordance with the State of Texas Open Meeting Act, the council may not comment or deliberate such statements during this period, except as authorized by Section 551.007, Texas Government Code.

Stephen Cottingham, UNT MPA student, introduced himself to the Council.

3. **Present and Discuss the Town of Little Elm Budget and Financial Policies.**

Staff gave an overview of the Town's Budget and Financial policies in the attached presentation. No action was taken.

4. **Present and Discuss Potential Items for the Fiscal Year 2024-2025 Budget.**

Staff gave an overview of potential items. No action was taken.

5. Convene in Executive Session pursuant to Texas Government Code:

- Section 551.071 for private consultation with the Town Attorney to discuss the COVID-19 pandemic and municipal authority to respond to the COVID-19 outbreak and to seek legal advice with respect to pending and contemplated litigation and including all matters on this agenda to which the Town Attorney has a duty under the Texas Rules of Discipline and Professional conduct regarding confidential communication with the Town Council.
- Section 551.072 to discuss certain matters regarding real property.
- Section 551.074 of the Texas Government Code to discuss and deliberate personal matters to evaluate performance duties, of a public officer or employee(s).
- Section 551.076 to discuss security matters.
- Section 551.087 to discuss Economic Development.

No Executive Session.

6. Reconvene into Open Session

Discussion and consideration to take any action necessary as the result of the Executive Session:

- COVID-19 Pandemic and the Town's response thereto, including the consideration of an emergency declaration ordinance.
- Section 551.071 for private consultation with the Town Attorney to discuss the COVID-19 pandemic and municipal authority to respond to the COVID-19 outbreak and to seek legal advice with respect to pending and contemplated litigation and including all matters on this agenda to which the Town Attorney has a duty under the Texas Rules of Discipline and Professional conduct regarding confidential communication with the Town Council.
- Section 551.072 to discuss certain matters regarding real property.
- Section 551.074 of the Texas Government Code to discuss and deliberate personal matters to evaluate performance duties, of a public officer or employee(s).
- Section 551.076 to discuss security matters.
- Section 551.087 to discuss Economic Development.

7. Adjourn.

Meeting was adjourned at 8:15 p.m.

Respectfully,

Caitlan Biggs

Town Secretary

Passed and Approved this 4th day of June 2024.



Date: 06/04/2024
Agenda Item #: 5. C.
Department: Public Works
Strategic Goal: Ensure excellence in public services while keeping up with the growth in the community
Staff Contact: Jason Shroyer, Director of Public Works

AGENDA ITEM:

Consider Action to Approve a **Professional Services Agreement with Freese and Nichols, Inc. for the Wastewater Treatment Plant Process, Operations Evaluation and System Modernization Project in an Amount not to Exceed \$303,565.**

DESCRIPTION:

The Town of Little Elm owns and operates a 4.0 million gallon per day (MGD) activated sludge wastewater treatment plant. This crucial facility utilizes a complex process involving aeration, clarification, filtering, and disinfection to treat raw wastewater and ensure the release of clean, treated water back into the environment.

Recently, the Town of Little Elm Wastewater Treatment Plant (WWTP) has encountered intermittent challenges in meeting the requirements outlined in the Texas Pollutant Discharge Elimination System (TPDES) permit. These challenges stem from significant equipment failures occurring at various stages of the treatment process. In response to these issues, Town staff has diligently documented any discharge permit violations and has been actively engaging with the Texas Commission on Environmental Quality (TCEQ) to address these concerns.

To address the root causes of these challenges and ensure ongoing compliance with permit regulations, the Town is undertaking a comprehensive process and operations evaluation across all WWTP unit processes. This study aims to provide recommendations for enhancing process management, treatment efficiency, and associated improvements to ensure continued permit compliance.

Upon completion of this evaluation, the Town will receive a comprehensive operations manual along with a Capital Improvements Program (CIP) aimed at updating and modernizing the equipment at the plant. The projects identified in the CIP will be included in future budget discussions. To facilitate this evaluation, the Town has engaged Freese and Nichols Inc. to provide consultant services. The evaluation is anticipated to take approximately eight months to complete.

This initiative underscores the Town's commitment to environmental stewardship and regulatory

compliance. We remain dedicated to resolving these challenges and enhancing the efficiency and effectiveness of our wastewater treatment processes.

BUDGET IMPACT:

To perform the study and begin the future CIP work, \$1M was budgeted into the Wastewater Projects CIP Plan. Freese and Nichols Inc. has submitted the proposal of services to complete the task for \$303,565. Funding has been identified from the future issuance of the 2024 CO bonds and a reimbursement resolution was approved by Council February 2024 to allow the Town to move forward with projects funded from such future bonds.

RECOMMENDED ACTION:

Staff recommends approval.

Attachments

WWTP Process and Operations Evaluation

EXHIBIT B - WORK ORDER

MAPS # 2023-0606

MAPS DATE: _____

Pursuant to and subject to the referenced Master Agreement for Professional Services (MAPS), between the Town of Little Elm, Texas ("Owner"), and **Freese and Nichols, Inc.** ("Consultant"), Owner hereby requests that Consultant perform, and Consultant agrees to perform, the work described below upon the terms set forth in said MAPS and in this Work Order:

Work Order # _____ Project Name: WWTP Process and Operations Evaluation

OWNER PROVIDED INFORMATION:

Work Site:	
Work to be Performed:	
Drawings/Plans are/are not attached:	
Specifications are/are not attached:	
Date and Time to Commence:	
Date and Time to Complete:	
Equipment, vehicles, tools, materials, supplies to be furnished or obtained through third parties by Owner:	
Billing Period:	Monthly-Through the end of each month, billed by the 10th of the following month.
Invoice Mailing Instructions:	Mail to: Town of Little Elm Accounts Payable 100 W. Eldorado Pkwy. Little Elm, TX 75068 Email to: accounts.payable@littleelm.org Include work order number, PO number, billing period, and project name,
Other Requirements or Variance from MSA (if any):	

CONSULTANT PROVIDED INFORMATION:

Compensation: Consultant will provide Professional Services as outlined in the scope of work on a lump sum basis with an estimate to complete the work as follows:

Total Basic Services: \$277,471
Total Special Services: \$26,095
Total Project: \$303,565

Scope of Work:

PROJECT UNDERSTANDING AND ASSUMPTIONS:

The Town of Little Elm (Town) Wastewater Treatment Plant (WWTP) has an annual average daily flow (AADF) of 4.0 million gallons per day (MGD) and a two-hour peak flow of 16.0 MGD based on Texas Pollutant Discharge Elimination System (TPDES) permit issued for the WWTP. The plant has been experiencing issues meeting the TPDES permit requirements on an intermittent basis since significant equipment failures occurred following Winter Storm Uri in February 2021. The Town has been documenting any discharge permit violations and their efforts to resolve the underlying causes of these violations with the Texas Commission on Environmental Quality (TCEQ).

The Town is committed to performing a process and operations evaluation across all of the WWTP's unit processes. The goal of this study is to provide recommendations for more efficient process management, treatment, and associated improvements for continued permit compliance. Freese and Nichols, Inc. (FNI) will evaluate improvement alternatives to accommodate the Town's goal. The initial phase of the project will include the following scope elements:

- Analyze the last 5 years of plant influent and effluent data and flows and develop flow and load projections for major permit parameters including influent flow rate and loadings for Biochemical Oxygen Demand (BOD₅), Total Suspended Solids (TSS), ammonia/ammonium (NH₃/NH₄) and total phosphorus (P). The intent of these projections is to develop an updated design basis for any existing facility improvements that will be needed.
- Conduct a **Risk Based Condition Assessment (RBA) and Criticality Assessment** of the major liquids and solids treatment processes in the plant and develop a matrix of priority improvement needs from the RBA.
- Develop a desktop **Hydraulic Evaluation** of the main liquids and solids treatment process flows to validate the plant hydraulics, identify hydraulic bottlenecks, and propose improvements.
- Prepare a desktop **Capacity Assessment** of the plant using the most current TCEQ Chapter 217 regulations for wastewater treatment plant design.
- Evaluate potential changes in permit flow and discharge limits.
- Evaluate alternatives for resiliency improvements associated with the RBA.
- Evaluate process and instrumentation improvements to provide more efficient plant process management and early problem identification.
- Evaluate phasing and scheduling of process and operations improvements and identify requirements for maintenance of plant operations during these various phases of improvements.
- Prepare an update to the Owner's WWTP **Plant Operations and Maintenance (O&M) Manual** to reflect the current operations of the plant.
- Develop a proposed **Capital Improvements Program** and OPCC's associated with the **recommended plant improvements** based on the identified RBA priorities.

ARTICLE I - BASIC SERVICES: Freese and Nichols, Inc. (FNI) shall render the following professional services for the development of the Project:

A. Project Management:

1. Perform general administrative duties associated with the Project, including progress monitoring and monthly progress reporting, scheduling, general correspondence, documentation, office administration, project team management, and implementation of a Quality Assurance (QA) and Quality Control (QC) program for the Project, and invoicing for the scope items identified below. Documentation shall be in accordance with Owner requirements for the Project. These duties include maintaining regular communication with the Owner to help meet the needs of the Owner in a timely manner and executing work per the work plan, budget, and schedule.
2. Conduct a kickoff meeting to review scope, schedule, and budget; to determine any special conditions that may affect the Project; to discuss administrative requirements of Owner; and to review Project criteria and the Owner's goals and expectations for the Project.
3. Manage efforts of internal design team on the Project and perform Quality Control reviews of all deliverables. Quality Control reviews will include use of FNI's Disciplinary QC checklists, provision of QC Plan Documentation and provision of comment/response forms for documenting and responding to Owner comments on all submittals.
4. Prepare monthly project reporting including status report, recent activities, upcoming activities, action items log, decisions made log, budget updates, schedule updates, and scope changes. Prepare and submit monthly invoices.
5. Include the following deliverables:
 - a. Agendas and minutes for all meetings
 - b. Monthly project reporting
 - c. Monthly invoices
6. Opinions of probable construction cost (OPCC) will be developed as part of this Project, as described in the tasks below.
 - a. FNI has adopted the Association for the Advancement of Cost Engineers (AACE, now AACE International) definitions for opinions of probable construction cost for treatment plant projects. AACE International defines five classes of cost estimates for a project in their Recommended Practice No. 18R 97. The classifications are widely accepted guidelines within the engineering/architecture community for defining levels of project maturity and the expected range of accuracy for associated project cost opinions. The classifications range from Class 5 to Class 1 for the lowest to the highest levels of the project definition. The purpose of these classifications is to improve communication among the project stakeholders involved with preparing, evaluating, and using cost opinions. FNI design services typically fall within Class 5 to Class 3 estimates. Classes 2 and 1 are reserved for bid phase and construction phase pricing coordination by a Contractor. The classification definitions are summarized in the table below.

Estimate Class	Level of Project Definition	End-Use	Expected Accuracy Range
Class 5	0% to 2%	Screening or feasibility	Low: -20% to -50% High: +30% to +100%
Class 4	1% to 15%	Concept Study or Feasibility	Low: -15% to -30% High: +20% to +50%
Class 3	10% to 40%	Budget Authorization or Control	Low: -10% to -20% High: +10% to +30%
Class 2	30% to 75%	Control or Bid/Tender	Low: -5% to -15% High: +5% to +20%
Class 1	65% to 100%	Check Estimate or Bid/Tender	Low: -3% to -10% High: +3% to +15%

- b. In providing opinions of costs, financial analysis, economic feasibility projections, and schedules for the Project, the Owner recognizes that FNI has no control over any of the following: the cost or price of labor and materials from Contractors and suppliers; unknown conditions of existing equipment or structures that may affect operations and maintenance costs; competitive bidding procedures and market conditions; time or quality of performance by third parties; quality, type, management, or direction of operation personnel; and other market, economic and operational factors that may materially affect the ultimate project cost or schedule. Therefore, the Owner recognizes that FNI makes no warranty or guarantee that the actual project cost, financial aspects, economic feasibility, or schedules will not vary from FNI's opinions, analyses, projections, or estimates.

B. WWTP Process and Operations Evaluation:

1. Meet with Owner to review the scope of services, verify Owner's requirements for the Project, and review and update available data during the aforementioned kickoff meeting.
2. Meetings and Site Visits
 - a. Conduct progress meetings, up to a maximum of 6 virtual meetings.
 - b. Conduct up to 5 site visits by the engineering team to the WWTP, for field evaluation, risk-based condition assessments, and coordination of needs for completion of the Project.
 - c. Conduct workshops and meetings with the Owner:
 - i. Conduct 1 workshop to review results of data analysis, flow projections and load projections for the treatment plant. During the same workshop, develop the risk-based condition assessment criteria for the treatment plant.
 - ii. Conduct 1 workshop(s) with the Owner to review the results of the risk-based condition assessment and recommendations for improvements/equipment replacement.
 - iii. Conduct 1 workshop with the Owner to review the results of the Hydraulic Evaluation and FNI's recommendations for improvements. During the same workshop, review the results of the Regulatory Compliance and Process Capacity Evaluation and FNI's findings.
 - iv. Conduct 1 Alternatives Evaluation workshop, presenting results of facility assessment and alternatives evaluation and a recommended final alternatives with costs for the Town's capital improvements program.
3. Advise Owner as to the necessity of Owner's providing or obtaining data or services from others and assist Owner regarding any such services.
4. Data Collection and Review: Owner shall provide available plant operations data, flow data, and population and growth projections, and other data listed below.
 - a. The historical data listed below is requested for the previous five years:

- i. Influent Water Quality
 - ii. Effluent Water Quality:
 - iii. Influent Flow Measurements:
 - iv. Effluent Flow Measurements:
 - b. The following information is requested to develop a comprehensive understanding of the system:
 - i. List of Significant Industrial Users (SIUs).
 - ii. Copies of Monthly Operating Reports (MORs) containing daily operational information for the designated period.
 - iii. Previous regulatory inspection reports of the treatment plant for the designated period.
 - iv. Growth and Wastewater Flow Projections: Owner shall provide growth and flow projections for FNI's use based on their most recent Water and Wastewater Impact Fee update. Growth and resultant flow and load projections developed by FNI shall be limited to a 20-year projection using per-capita flows and reasonable assumptions for growth and loading trends based on statistical analysis of the available data.
 - v. Copies of record drawings, plant O&M manual, equipment shop drawings and O&M manuals, maintenance records, scheduled maintenance and frequency of maintenance plans.
 - c. Analyze historical influent data to develop influent basis of design concentrations and load peaking factors.
 - d. Provide a summary and recommendation for the Town to accommodate or transfer future flows to another publicly owned treatment work (POTW) based on the flow and load projections being developed by FNI on an ongoing project with the Owner.
 - e. Analyze historical effluent data and previous regulatory inspection reports to document compliance with NPDES discharge limitations.
 - f. Analyze historical operational data to document normal operational strategies and identify potential areas for process improvements.
 - g. Review existing WWTP sampling procedures and shadow plant staff operators to identify potential areas of improvement. Shadowing plant operator's sampling will occur during a previously defined site visit.
 - h. Conduct 1 workshop with the Owner to present the results of the data analysis, flow and load projections, and potential areas of process and sampling improvements. The criteria for the risk-based condition and criticality assessment will be performed in this workshop as described in the tasks below.
5. Existing Plant Risk-Based Condition and Criticality Assessment
- a. Perform a limited risk-based condition assessment of the plant to identify reliable unit processes and equipment that may be maintained in good operating condition versus unit processes and equipment that will require immediate or near-term rehabilitation or replacement.
 - b. Condition Scoring Criteria:
 - i. The condition assessment will be limited to the liquids and residuals (liquid and solid) treatment process equipment and units that treat the main liquid and residuals process flows.
 - ii. This evaluation will include a general condition assessment of the mechanical, structural, electrical, and instrumentation aspects of the main process equipment, pumps and blowers, valves 6 inches and greater associated with process control, gates 1 foot and larger associated with main plant processes, and electrical gear that supports that equipment. This assessment will not include peripheral items such as building heating, ventilation, and air conditioning (HVAC and unit heaters), roofing, building space utilization, sump pumps, SCADA connectivity, or other such items. This assessment does not include evaluations of plant primary power or power distribution to the unit process equipment. A detailed structural assessment beyond visual inspection of structures is not included in this assessment.
 - c. Criticality Scoring Criteria:
 - i. In coordination with the Owner, develop criticality scoring criteria to assign for each process area and major treatment equipment based on parameters such as plant capacity affected; process impacted due to outage; outage duration; system redundancy, and health, safety, and environmental impact due to loss of service.

- d. Conduct Risk-Based Condition/Criticality Assessment
 - i. Jointly with the Owner's Operations and Maintenance Staff, conduct 1 single-day site visit(s) to the plant to perform the limited condition assessment.
 - ii. Utilize the previously established condition and criticality assessment scoring criteria to develop risk ratings and to prioritize improvement projects.
 - iii. Data collection for the condition and criticality assessments will include any information provided by the Owner and through visual observations without entering any permitted spaces or similar inaccessible spaces. No materials testing or physical testing of any structure, piping, valves, or equipment is included.
 - iv. For each asset of concern, include (where appropriate) date of installation, type of equipment, manufacturer, rated capacity, diameter, actuator type, motor size, materials of construction, intended service, appropriate photos and information on maintenance histories and failures (if known).
 - v. The joint Owner/FNI team will assign condition and critical scores for each process based on observations during the visit.
 - e. Identify and inventory specific equipment or processes that may be suitable for salvage or repurposing for future use.
 - f. Review recommended spare parts from the provided O&M manuals to the plant's existing inventory. Provide a recommendation of spare parts to have onsite.
 - g. Review maintenance records, scheduled maintenance and frequency of maintenance plans. Provide a recommendation for equipment service contracts to support the Town's maintenance capabilities and time restrictions.
 - h. Based on the final risk-based scoring assessment, identify priority rehabilitation needs required for immediate replacement or for near-term compliance. Develop proposed phasing of rehabilitation improvements, outline of potential schedules for rehabilitation projects, and Opinions of Probable Construction Costs (Class 4) for replacement of aging or damaged facilities.
 - i. Conduct 1 workshop(s) with the Owner to review the results of the risk-based condition assessment and recommendations for improvements/equipment replacement.
6. Plant Hydraulic Evaluation:
- a. Evaluate identified hydraulic bottlenecks. The evaluation will utilize FNI's standard Excel-based model and/or *Visual Hydraulics*TM modeling software by Innovative Hydraulics.
 - b. Owner shall provide available flow metering, water surface elevations and detailed record drawings of existing facilities for purposes of hydraulic evaluation.
 - c. Conduct Computational Fluid Dynamic (CFD) modeling of selected bottleneck areas. CFD modeling shall be performed using Flow 3D software. CFD modeling shall be limited to the following hydraulic process locations: Headworks to Aeration Basin Flow Split
 - i. Simulations to be performed at the average and peak flow rates of the plant.
 - ii. Results of the baseline simulation will be utilized to provide modeling to evaluate **3** modifications alternatives to achieve a more equal flow split to each aeration basin
 - d. Conduct desktop pump station capacity assessment and evaluate consideration for variable frequency drives (VFDs) for the following pump stations: (Influent Lift Station). Owner will provide pump curves for installed pumps.
 - e. Evaluate and develop recommended hydraulic improvements to resolve selected hydraulic bottlenecks and provide additional capacity as identified.
 - f. Conduct 1 workshop(s) with the Owner to review the results of the Hydraulic Evaluation and FNI's recommendations for improvements.
7. Regulatory Compliance and Process Capacity Evaluation:
- a. Perform a desktop capacity assessment of major treatment processes for compliance with Texas Commission on Environmental Quality (TCEQ) Chapter 217 – Design Criteria for Domestic Wastewater Systems. The following processes will be included in the assessment:
 - i. Liquids: Influent Lift Station, Aeration Basins, Final Clarifiers, and Filters.

- ii. Residuals: RAS/WAS Transfer Pumps, Gravity Sludge Thickener, and Aerobic Digesters.
 - b. Develop a whole-plant process model of the existing treatment plant under varying flow and load conditions for use in alternative evaluation, design optimization, process performance analysis, and design criteria development.
 - i. Provide for seasonal-based calibration of the process model based on available data.
 - ii. Provide required sampling plans to Owner for any additional data needed for the seasonal calibration of the process model. Owner shall provide for appropriate sample collection and laboratory fees for development of additional sampling campaigns needed for process model calibration. Additional sampling and laboratory fees are not included in this proposal
 - c. Define and establish the estimated “Functional Capacity” of the existing plant based on current and projected loading conditions and explain differences between permitted capacity, if any. Clarify with Owner the differences between the “Permitted Capacity” of the facility and the “Functional Capacity” of the facility based on evaluation results.
 - d. Identify any potential variances needed from the design or quality criteria and coordinate with Owner for pursuing variance approvals from TCEQ.
 - e. The Owner has previously identified the existing backup diesel generator cannot power all equipment at certain plant loadings. FNI will review the equipment desired by the Owner to be powered by the backup diesel generator and provide a revised generator size.
 - f. Conduct 1 workshop(s) with the Owner to review the results of the Regulatory Compliance and Process Capacity Evaluation and FNI’s findings. This workshop shall be done in conjunction with the Plant Hydraulic Evaluation review.
8. Plant Operation and Maintenance Manual Update:
- a. Develop an update to the Owner’s existing WWTP plant operations and maintenance manual to reflect the current operations and equipment of the plant. It is anticipated that the O&M manual will need to be updated for the improvements implemented with the last expansion. The O&M manual shall be consistent with current TCEQ regulatory requirements.
 - b. Process existing hard-copy manual into an editable electronic file for reproduction.
 - c. Conduct 1 site visit to document unit operations and electrical equipment.
 - d. Conduct 3 meetings (virtual) to discuss the City’s current operating strategy for each equipment currently in service.
 - e. Provide 1 electronic copy in PDF format for Owner review. Incorporate Owner comments and provide 1 electronic copy of the updated Plant O&M Manual.
9. Alternatives Evaluation Final Report:
- a. Conduct an analysis of existing hydraulic and process capacities against the flow and load projections to identify the timing and relative capacity deficit for each unit process.
 - b. Evaluate results of the **Data Collection and Review Evaluation, Risk-Based Condition and Criticality Assessment, Plant Hydraulic Evaluation, and Regulatory Compliance and Process Evaluation** above and develop alternative solutions for plant improvements and/or expansions required to meet Project goals.
 - c. Identify and recommend process alternatives and alternative treatment equipment needed to meet Project goals.
 - d. Develop initial Maintenance of Plant Operations plan for recommended improvements and expansion alternatives.
 - e. Develop Opinions of Probable Construction Costs (Class 4) for identified alternatives.
 - f. Conduct 1 Alternatives Evaluation Workshop(s) with Owner, presenting results of the alternative evaluation and agreeing on a Recommended Final Preliminary Design Alternative and final process equipment selections.
 - g. Deliverables:
 - i. **Final Report** documenting the calculations, evaluations, and alternative analysis. The report will clearly identify the selected process and operations improvements and recommendations. This will include a summary of the Data Collection and Review Evaluation, Risk-Based Condition and

Criticality Assessment, Plant Hydraulic Evaluation, and Regulatory Compliance and Process Evaluation. Provide 1 electronic copy in PDF format for Owner review. Incorporate Owner comments and provide 1 electronic copy of the Final Report.

ARTICLE II - SPECIAL SERVICES: FNI shall render the following Special Services for the development of the Project:

- A. Treatment Sampling Analysis:
 - 1. Treatment Process Laboratory Special Services:
 - a. Chemical phosphorus (P) removal jar tests. FNI will conduct bench-scale jar testing of chemical phosphorus removal with aluminum sulfate (alum), polyaluminum chloride, aluminum chlorohydrate, sodium aluminate at different dosing regimens.
- B. CFD Modeling for Aeration Basins
 - 1. CFD Modeling Special Services
 - a. Conduct CFD modeling of selected bottleneck areas. CFD modeling shall be performed using Flow 3-D. CFD modeling shall be limited to the following hydraulic process locations: Aeration Basins to Final Clarifiers.
 - b. Simulations to be performed at the average and peak flow rates of the plant.
 - c. A baseline simulation will be conducted initially to understand the existing issues with the current geometry. Results of the baseline simulations will be utilized to evaluate 3 flow mixing baffle geometries to improve flow mixing inside the existing aeration basins.

ARTICLE III - ADDITIONAL SERVICES: Additional Services to be performed by FNI, if authorized by Owner, which are not included in the above-described Basic or Special Services, are described as follows:

- A. Field layouts or the furnishing of construction line and grade surveys.
- B. GIS mapping services or assistance with these services.
- C. Making property, boundary and right-of-way surveys, preparation of easement and deed descriptions, including title search and examination of deed records.
- D. Providing services to investigate existing conditions or facilities, or to make measured drawings thereof, or to verify the accuracy of drawings or other information furnished by Owner.
- E. Providing renderings, models, and mock-ups requested by the Owner.
- F. Revising drawings, specifications, or other documents when such revisions are 1) not consistent with approvals or instructions previously given by Owner or 2) due to other causes not solely within the control of FNI.
- G. Providing consultation concerning the replacement of any work damaged by fire or other cause during the construction and providing services as may be required regarding the replacement of such work.
- H. Investigations involving consideration of operation, maintenance and overhead expenses, and the preparation of rate schedules, earnings and expense statements, feasibility studies, appraisals, evaluations, assessment schedules, and material audits or inventories required for certification of force account construction performed by Owner.
- I. Preparing applications and supporting documents for government grants, loans, or planning advances and providing data for detailed applications.
- J. Providing shop, mill, field or laboratory inspection of materials and equipment.
- K. Observing factory tests of equipment at any site remote to the Project or observing tests required as a result of equipment failing the initial test.
- L. Conducting pilot plant studies or tests.
- M. Preparing data and reports for assistance to Owner in preparation for hearings before regulatory agencies, courts, arbitration panels or any mediator, giving testimony, personally or by deposition, and preparations therefore before any regulatory agency, court, arbitration panel or mediator.
- N. Furnishing Special Inspections required under the International Building Code. These Special Inspections are often continuous, requiring an inspector dedicated to inspection of the individual work item, and they

are in addition to General Representation and Resident Representation services noted elsewhere in the contract.

- O. Assisting Owner in preparing for, or appearing at litigation, mediation, arbitration, dispute review boards, or other legal and/or administrative proceedings in the defense or prosecution of claims disputes with Contractor(s).
- P. Performing investigations, studies and analyses of substitutions of equipment and/or materials or deviations from the drawings and specifications.
- Q. Assisting Owner in the defense or prosecution of litigation in connection with or in addition to those services contemplated by this Agreement. Such services, if any, shall be furnished by FNI on a fee basis negotiated by the respective parties outside of and in addition to this Agreement.
- R. Providing environmental support services including the design and implementation of ecological baseline studies, environmental monitoring, impact assessment and analyses, permitting assistance, and other assistance required to address environmental issues.
- S. Performing investigations, studies, and analyses of work proposed by construction Contractors to correct defective work.
- T. Design, contract modifications, studies or analyses required to comply with local, State, Federal or other regulatory agencies that become effective after the date of this Agreement.
- U. Services required to resolve bid protests or to rebid the Projects for any reason.
- V. Visits to the site more than the number of trips included in Basic Services for periodic site visits, coordination meetings, or contract completion activities.
- W. Any services required because of default of the Contractor(s) or the failure, for any reason, of the Contractor(s) to complete the work within the contract time.
- X. Providing services after the completion of the construction phase not specifically listed in Basic Services.
- Y. Providing Basic or Additional Services on an accelerated time schedule. The scope of this service includes cost for overtime wages of employees and consultants, inefficiencies in work sequence and plotting or reproduction costs directly attributable to an accelerated time schedule directed by the Owner.
- Z. Providing services made necessary because of unforeseen, concealed, or differing site conditions or due to the presence of hazardous substances in any form.
- AA. Providing services to review or evaluate construction Contractor's claim(s), provided said claims are supported by causes not within the control of FNI.
- BB. Providing value engineering studies or reviews of cost savings proposed by Construction Contractors after bids have been submitted.
- CC. Preparing statements for invoicing or other documentation for billing other than for the standard invoice for services attached to this Professional Services Agreement.
- DD. Provide follow-up professional services during Contractor's warranty period.
- EE. Providing data, reports or briefings to City Councils or governing boards on the status of the Project.
- FF. Designing additional facilities beyond those identified in Basic Services.
- GG. The scope of services for this Project assumes that the NPDES applications will be processed as uncontested, routine NPDES permit applications that would not require additional effort beyond that defined in Basic Services. Effort associated with any contested NPDES permits is an Additional Service.
- HH. Preparation of a Stormwater Pollution Prevention Plan (SWPPP) for the Project.
- II. Providing services for pre-qualification of prospective bidders and issuing a list of eligible bidders prior to bid opening.

ARTICLE IV - TIME OF COMPLETION: FNI is authorized to commence work on the Project upon execution of this Agreement and agrees to complete the services in accordance with the following schedule:

<u>Phase 1 – WWTP Process and Operations Evaluation</u>	<u>8 months from NTP</u>
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If FNI's services are delayed through no fault of FNI, FNI shall be entitled to adjust contract schedule consistent with the number of days of delay. These delays may include, but are not limited to, delays in Owner or regulatory

reviews, delays in the flow of information to be provided to FNI, governmental approvals, etc. These delays may result in an adjustment to compensation as outlined on the face of this Agreement and in Attachment CO.

ARTICLE V - RESPONSIBILITIES OF OWNER: OWNER shall perform the following in a timely manner so as not to delay the services of FNI:

- A. Owner recognizes and expects that certain Change Orders may be required. FNI recommends that the Owner budget a minimum of 5% of the estimated project cost for construction change orders.

Further, Owner recognizes and expects that certain Change Orders may be required to be issued as the result in whole or part of imprecision, incompleteness, errors, omission, ambiguities, or inconsistencies in the Drawings, Specifications, and other design documentation furnished by FNI or in the other professional services performed or furnished by FNI under this Agreement ("Covered Change Orders"). Accordingly, Owner agrees to pay for Change Orders and otherwise to make no claim directly or indirectly against FNI on the basis of professional negligence, breach of contract, or otherwise with respect to the costs of approved Covered Change Orders unless the aggregate costs of all such approved Covered Change Orders exceed 2% for new construction and 4% for reconstruction. Any responsibility of FNI for the costs of Covered Change Orders in excess of such percentage will be determined on the basis of applicable contractual obligations and professional liability standards. For purposes of this paragraph, the cost of Covered Change Orders will not include:

- Any costs that Owner would have incurred if the Covered Change Order work had been included originally in the Contract Documents and without any other error or omission of FNI related thereto,
- Any costs that are due to unforeseen site conditions, or
- Any costs that are due to changes made by the Owner.
- Any costs that are due to the Contractor

Nothing in this provision creates a presumption that, or changes the professional liability standard for determining if, FNI is liable for the cost of Covered Change Orders in excess of the percent of Construction Cost stated above or for any other Change Order. Wherever used in this document, the term FNI includes FNI's officers, directors, partners, employees, agents, and FNI's Consultants.

- B. Owner will designate in writing a person to act as Owner's representative with respect to the services to be rendered under this Agreement. Such person shall have contract authority to transmit instructions, receive information, interpret, and define Owner's policies and decisions with respect to FNI's services for the Project.
- C. Owner will provide all criteria and full information as to Owner's requirements for the Project, including design objectives and constraints, space, capacity and performance requirements, flexibility and expandability, and any budgetary limitations; and furnish copies of all design and construction standards which Owner will require to be included in the drawings and specifications.
- D. Owner will assist FNI by placing at FNI's disposal all available information pertinent to the Project including previous reports and any other data relative to design or construction of the Project.
- E. Owner will arrange for access to and make all provisions for FNI to enter upon public and private property as required for FNI to perform services under this Agreement.
- F. Owner will examine all studies, reports, sketches, drawings, specifications, proposals, and other documents presented by FNI, obtain advice of an attorney, insurance counselor and other consultants as Owner deems appropriate for such examination and render in writing decisions pertaining thereto within a reasonable time so as not to delay the services of FNI.

- G. Owner will submit such documents, plans and specifications to appropriate regulating agencies and request the required approvals as expeditiously as is reasonable.
- H. Owner will provide such accounting and independent cost estimating services as may be required for the Project, such legal services as Owner may require, such auditing services as Owner may require to ascertain how or for what purpose any Contractor has used the moneys paid under the construction contract, and such inspection services as Owner may require to ascertain that Contractor(s) are complying with any law, rule, regulation, ordinance, code or order applicable to their furnishing and performing the work.
- I. Owner will give prompt written notice to FNI whenever Owner observes or otherwise becomes aware of any development that affects the scope or timing of FNI's services, or any defect or nonconformance of the work of any Contractor.
- J. Owner will assist FNI by placing at FNI's disposal all available information including previous reports and any other data relative to the Project.
- K. Owner shall provide the NPDES application fee and submit the final application, copies, and the fee to regulatory agencies. Owner shall also provide for advertisement and notification of permit application, if required by the regulatory agencies.
- L. Owner shall bear all costs incident to compliance with the requirements of this Article V.

ARTICLE VI - DESIGNATED REPRESENTATIVES: FNI and OWNER designate the following representatives:

Owner's Designated Representative –

Jason Shroyer
1600 Mark Tree Lane
Little Elm, Texas 75068
972-377-5556
jshroyer@littleelm.org

Owner's Accounting Representative –

Town of Little Elm
Accounts Payable
100 W. Eldorado Pkwy
Little Elm, TX 75068
accounts.payable@littleelm.org

FNI's Designated Representative –

Erin Flanagan
12770 Merit Dr
Suite 900
Dallas, Texas 75251
214-217-2261
ecf@freese.com

FNI's Accounting Representative –

Lisa Broussard
12770 Merit Dr
Suite 900
Dallas, Texas 75251
972-331-6021
lisa.broussard@freese.com

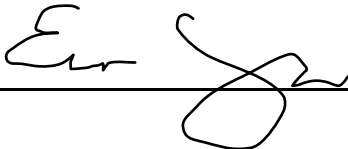
ACCEPTANCE:

This Work Order is accepted on the terms set forth herein and in the MAPS referenced above, as indicated by the signatures below.

TOWN OF LITTLE ELM

FREESE AND NICHOLS, INC.

Matthew Mueller, Town Manager



Erin Flanagan, Principal/Vice President
Printed Name & Title

Date

05/02/2024

Date



Date: 06/04/2024
Agenda Item #: 6. A.
Department: Finance
Strategic Goal: Maintain operational integrity and viability
Staff Contact: Kelly Wilson, Chief Financial Officer

AGENDA ITEM:

Present, Discuss, and Consider Action to Accept **Fiscal Year 2023 Public Improvement District (PID) Audits for the following PIDs in the Town of Little Elm's jurisdiction**

- Hillstone Pointe PID No. 2
- Lakeside Estates PID No. 2
- Valencia PID
- Valencia PID No. 2
- Rudman Tract PID
- Spiritas Ranch PID
- Spiritas East PID

DESCRIPTION:

Public Improvement District (PID) falls under Texas Local Government Code, Chapter 372, the PID Act. The creation of a PID allows the governing body to undertake an improvement project that benefits a definable part of the municipality's jurisdiction. Such improvements are outlined as public infrastructure that supports the area of the district. Owners within the area are assessed a PID assessment to pay for such improvements provided.

This is the first year the Town has had an outside independent auditing firm review the financial reports in order to provide transparency and ensure the Town and PID administrator are complying with the indenture, service assessment plan, and accounting for all transactions accordingly. FORVIS, LLP, which is the Town's auditing firm, has audited the financial statements for all seven PIDs for the year ended September 30, 2023. In their opinion, the accompanying financial statements for each PID are presented fairly in all material respects and in accordance with the accounting principles generally accepted.

These individual audited financial reports will be distributed to the Council, management, the bondholders of the various PID bonds, and the property owners of the various PIDs accordingly.

BUDGET IMPACT:

There is no budget impact for this item. The fees associated with audit services is being directly billed to the various PIDs.

RECOMMENDED ACTION:

Staff recommends acceptance.

Attachments

Hillstone Pointe PID FY2023 Audit Report

Lakeside PID No 2 FY2023 Audit Report

Valencia PID FY2023 Audit Report

Valencia PID No. 2 FY2023 Audit Report

Rudman Tract PID FY2023 Audit Report

Spiritas Ranch PID FY2023 Audit Report

Spiritas East PID FY2023 Audit Report



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

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

CUSIP NUMBERS:

Phase #1

537098AJ4
537098AK1

Phase #2-3

537098BH7
537098BJ3
537098BK0
537098BL8

HILLSTONE POINTE PUBLIC IMPROVEMENT DISTRICT NO. 2

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

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forvis.com

Independent Auditor's Report

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

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the PID and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the PID's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PID's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the PID's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Matter

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

FORVIS, LLP

**Dallas, Texas
May 30, 2024**

II. MANAGEMENT’S DISCUSSION AND ANALYSIS

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

Financial Highlights

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

Overview of the Financial Statements

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

Comparative Financial Statements

Summary Statement of Net Position:

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

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

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

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

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

Capital Assets

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

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

Long-Term Debt

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

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

The PID Bonds represent 100% of the PID’s long-term debt balance, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Indentures of Trust.

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

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

Mandatory sinking fund payments began on September 1, 2020, from annual installments of assessment revenues after the payment of administrative expenses.

Revenues

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

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

Economic Factors and Future Outlook

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

Contacting Authority's Financial Management

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

III. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

IV. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—FINANCIAL REPORTING ENTITY

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

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

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

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

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

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Cash and Cash Equivalents

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

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their acquisition value on the date that they will be donated. All capital assets have been previously donated to the Town or another public entity upon.

E. Net Position

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

F. Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Income Taxes

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

I. Future Accounting Standards

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

J. 2022 Information

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

NOTE 3—CASH AND CASH EQUIVALENTS

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

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 873,769	\$ 761,392
Cash	<u>521,646</u>	<u>488,380</u>
Total cash and cash equivalents	<u>\$ 1,395,415</u>	<u>\$ 1,249,772</u>

A. Custodial Credit Risk

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

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

B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. As a means of limiting exposure to fair value losses arising from rising interest rates, the Indenture requires the investment of moneys in all funds in accordance with the Investment Act and the Town's official investment policy.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. Money in any Fund established pursuant to the Indenture shall be invested by the Trustee as directed by the Town. Such investments shall be valued each year in terms of current market value as of September 30. For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments, or in a common pool of such investment which shall be kept and held at an official depository bank, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. Investments at September 30, 2023 were in compliance with the Indentures.

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

D. Concentration of Credit Risk

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

E. Recurring Measurements

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

NOTE 4—CAPITAL ASSETS

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

NOTE 5—LONG-TERM OBLIGATIONS

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

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

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

A. Special Assessment Revenue Bonds, Series 2017

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

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

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

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

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

The Phase #1 Bonds described above represent 56% of the PID's long-term debt balance, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Phase #1 Indenture. Principal payments on the Phase #1 Bonds are due each September 1 and began on September 1, 2020, according to the mandatory sinking fund redemption schedule.

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

1. Optional Redemption

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

2. Extraordinary Optional Redemption

The Phase #1 Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on the first day of any month after the required notice of redemption, at a redemption price equal to 100% of the principal amount of the bonds, or portions thereof, to be redeemed, plus accrued interest to the redemption date from amounts on deposit in the redemption fund as a result of assessment prepayments or from other available funds as specified in the Phase #1 Indenture. No extraordinary optional redemptions were made in fiscal year 2023. Extraordinary optional redemptions of \$15,000 were made during fiscal year 2022.

B. Special Assessment Revenue Bonds, Series 2018

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

The Phase #2-3 Bonds are intended to be paid primarily from annual installments of assessments imposed and collected by the DCTAC against the properties benefiting from the public improvements. If an assessment is not paid in full, the PID Act authorizes the Town to collect interest and collections costs on the outstanding assessment. The Town covenanted in the Phase #2-3 Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

The Phase #2-3 Bonds are special obligations of the Town payable solely from and secured by a pledge of assessments. They are not payable from funds raised or to be raised from taxation.

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

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

The Phase #2-3 Bonds described above represent 44% of the PID's long-term debt balance, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Phase #2-3 Indenture. Principal payments on the Phase #2-3 Bonds are due each September 1 and began on September 1, 2020, according to the mandatory sinking fund redemption schedule.

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

1. Optional Redemption

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

2. Extraordinary Optional Redemption

The Phase #2-3 Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on the first day of any month after the required notice of redemption, at a redemption price equal to 100% of the principal amount of the bonds, or portions thereof, to be redeemed, plus accrued interest to the redemption date from amounts on deposit in the redemption fund as a result of assessment prepayments or from other available funds as specified in the Phase #2-3 Indenture. No extraordinary optional redemptions were made in fiscal year 2023. Extraordinary optional redemptions of \$15,000 were made during fiscal year 2022.

C. Mandatory Sinking Fund Redemption

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

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

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

NOTE 6—REVENUES

Annual installments of the assessments are to be imposed and collected on all properties within the PID benefiting from the public improvements (excepting those for which the assessment lien has been prepaid) to pay debt service and operating costs of the PID. The annual installments are remitted to the PID as they are received by the DCTAC. The amount assessed, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. In addition, the annual payment includes a 0.20% additional collections rate for the prepayment reserve and a 0.30% additional collections rate for the delinquency reserve as described in the Indentures. Annual installments of assessments are payable to the DCTAC no later than February 1 of each year. Annual installments to be collected were \$860,849 for fiscal year 2023, and \$835,032 for fiscal year 2022, of which \$23 for fiscal year 2023, was outstanding as of September 30, 2023.

NOTE 7—ARBITRAGE

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

NOTE 8—SUBSEQUENT EVENTS

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

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



**LAKESIDE ESTATES PUBLIC IMPROVEMENT DISTRICT
NO. 2 PROJECT
TOWN OF LITTLE ELM, TEXAS**

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

CUSIP NUMBERS:

537098AL9

537098AM7

**LAKESIDE ESTATES
PUBLIC IMPROVEMENT DISTRICT
NO. 2 PROJECT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023, AND 2022**

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Independent Auditor's Report

The Honorable Mayor and Members of the Town Council
Lakeside Estates Public Improvement District No. 2 Project
Little Elm, Texas

Opinion

We have audited the financial statements of the Lakeside Estates Public Improvement District No. 2 Project (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 Lakeside Estates Public Improvement District No. 2 Project (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 Lakeside Estates Public Improvement District No. 2 Project (the "District") was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement District Assessment Act (the "PID Act") and Resolution No. 08151703, which was passed and approved by the Town Council of the Town of Little Elm (the "Town Council") on August 15, 2017, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID.
2. On December 28, 2017, the PID issued the \$4,700,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds Series 2017, (the "Bonds") to fund a portion of the costs of construction of improvements to the benefit of the District, to pay a portion of the interest on the Bonds during construction, to fund a reserve fund, to pay costs incidental to the organization of the District, and to pay the costs of issuing the Bonds.
3. The PID's debt will be paid through the collection of assessments imposed on the chargeable properties benefiting from the public improvements.
4. Net position at September 30, 2023 and 2022 totaled (\$3,817,905) and (\$3,964,867), respectively.
5. The improvements constructed in the PID consisted of roadway, water distribution, sanitary sewer collection, and storm drainage collection system improvements and were donated and accepted by the Town of Little Elm on May 1, 2018. The authorized improvements totaled \$3,778,569 and were recorded as donated assets as of September 30, 2020.
6. Annual installments of \$382,500 and \$371,239 were imposed on the property owners in 2022-2023 and 2021-2022, respectively. The annual installments are remitted to the PID monthly as they are received by the Denton County Tax Assessor Collector (the "Tax Collector"). As of September 30, 2023, all of the 2022-2023 annual installments, and all of the 2021-2022 annual installments had been collected and remitted to the PID.
7. Annual installments of \$371,368 were imposed on the property owners in 2023-2024. As of December 31, 2023, \$293,568 in assessments due have been remitted to the PID.

Overview of the Financial Statements

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

Comparative Financial Statements

Summary Statement of Net Position:

	<u>2023</u>	<u>2022</u>
Assets:		
Current and other assets	\$ 510,144	\$ 441,523
Total assets	<u>510,144</u>	<u>441,523</u>
Liabilities:		
Current liabilities	146,561	124,423
Long-term debt	<u>4,181,488</u>	<u>4,281,967</u>
Total Liabilities	<u>4,328,049</u>	<u>4,406,390</u>
Net Position		
Restricted	508,144	440,727
Unrestricted	<u>(4,326,049)</u>	<u>(4,405,594)</u>
Total Net Position	<u>\$ (3,817,905)</u>	<u>\$ (3,964,867)</u>

Bond proceeds were used to finance the construction of improvements and administrative costs of the PID. The negative net position is due primarily to the donation of assets to the Town.

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

	<u>2023</u>	<u>2022</u>
Operating Revenues	\$ 400,103	\$ 371,435
Operating Expenses	<u>59,558</u>	<u>39,832</u>
Operating Income	340,545	331,603
Non-operating Revenues/(Expenses)	<u>(193,583)</u>	<u>(214,528)</u>
Change in Net Position	<u>\$ 146,962</u>	<u>\$ 117,075</u>

The change in net position increased due primarily to the increase in annual installments and lower bond interest expenses.

Capital Assets

Capital assets totaling \$3,778,569 were completed and accepted by the Town of Little Elm on May 1, 2018. The donation of assets was recorded as of September 30, 2020.

Long-Term Debt

The \$4,700,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2017 were issued on December 28, 2017, bearing term interest rates of 4.5% and 5.0% with final maturity on September 1, 2047.

The PID Bonds represent 100% of the PID's long-term debt balance, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Trust Indenture.

The PID's debt will be paid through the collection of annual installments of assessments imposed on the chargeable properties benefiting from the public improvements.

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

Mandatory sinking fund payments began on September 1, 2019, from annual installments of assessment revenues after the payment of administrative expenses.

Revenues

Annual installments of assessments are to be imposed and collected on all properties within the PID benefiting from the public improvements to pay debt service and operating costs of the PID. The annual installments are remitted to the PID monthly as they are received by the Tax Collector. Annual installments of \$382,500 and \$371,239 were billed to the property owners for 2022-2023

and 2021-2022, respectively. As of September 30, 2023, all annual installments had been collected and remitted to the PID in full.

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

STATEMENTS OF NET POSITION

As of September 30,

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Restricted cash and cash equivalents	\$ 508,144	\$ 440,727
Accrued interest receivable	2,000	796
Total Current Assets	<u>510,144</u>	<u>441,523</u>
Total Assets	<u>510,144</u>	<u>441,523</u>
Liabilities		
Current Liabilities		
Accounts payable	28,944	11,450
Accrued interest payable	17,617	17,973
Current portion of long-term debt	<u>100,000</u>	<u>95,000</u>
Total Current Liabilities	<u>146,561</u>	<u>124,423</u>
Noncurrent Liabilities		
Long-term debt	4,170,000	4,270,000
Premium/(discount) on long-term debt, net	<u>11,488</u>	<u>11,967</u>
Total Noncurrent Liabilities	<u>4,181,488</u>	<u>4,281,967</u>
Total Liabilities	<u>4,328,049</u>	<u>4,406,390</u>
Net Position		
Restricted	508,144	440,727
Unrestricted	<u>(4,326,049)</u>	<u>(4,405,594)</u>
Net Position	<u>\$ (3,817,905)</u>	<u>\$ (3,964,867)</u>

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ending September 30,

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Annual assessment revenues	\$ 382,499	\$ 371,435
Prepayment revenues	17,604	-
Total Operating Revenues	<u>400,103</u>	<u>371,435</u>
Operating Expenses		
Administrative fees	46,058	33,832
Accounting and audit fees	13,500	6,000
Total Operating Expenses	<u>59,558</u>	<u>39,832</u>
Operating Income	<u>340,545</u>	<u>331,603</u>
Non-Operating Revenues/(Expenses)		
Interest and dividend income	20,471	3,266
Penalties and interest income	786	1,115
Interest expense	(214,840)	(218,909)
Total Non-Operating Revenues/(Expenses)	<u>(193,583)</u>	<u>(214,528)</u>
Change in Net Position	146,962	117,075
Net Position, Beginning of Year	<u>(3,964,867)</u>	<u>(4,081,942)</u>
Net Position, End of Year	<u><u>\$ (3,817,905)</u></u>	<u><u>\$ (3,964,867)</u></u>

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

STATEMENTS OF CASH FLOWS
For the Years Ending September 30,

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Cash receipts from property owners	\$ 400,102	\$ 371,434
Cash payments for administrative fees	(42,064)	(26,270)
Cash payments for accounting and audit fees	-	(6,000)
Net Cash Provided by Operating Activities	<u>358,038</u>	<u>339,164</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	<u>19,268</u>	<u>2,474</u>
Net Cash Provided by Investing Activities	<u>19,268</u>	<u>2,474</u>
Cash Flows from Capital and Related Financing Activities		
Penalties and interest on delinquent assessments	786	1,115
Principal paid on bonds	(95,000)	(90,000)
Interest paid on bonds	<u>(215,675)</u>	<u>(219,725)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(309,889)</u>	<u>(308,610)</u>
Change in Cash Balance	67,417	33,028
Cash, Beginning of Year	<u>440,727</u>	<u>407,699</u>
Cash, End of Year	<u><u>\$ 508,144</u></u>	<u><u>\$ 440,727</u></u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 340,545	\$ 331,603
Adjustments		
Increase in accounts payable	<u>17,493</u>	<u>7,561</u>
Net Cash Provided by Operating Activities	<u><u>\$ 358,038</u></u>	<u><u>\$ 339,164</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 Lakeside Estates Public Improvement District No. 2 Project (the “PID”) was created pursuant to Texas Local Government Code Chapter 372, Public Improvement District (the “PID Act”) and Resolution No. 08151703, which was passed and approved by the Town Council of the Town of Little Elm (the “Town Council”) on August 15, 2017, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID.

The \$4,700,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2017 (the “Bonds”) were issued on December 28, 2017 pursuant to the PID Act and an ordinance adopted by the Town Council on December 5, 2017 and an Indenture of Trust (“the Indenture”) dated as of December 1, 2017 by and between the Town of Little Elm (the “Town”) and the Bank of New York Mellon Trust Company, National Association (the “Trustee”). The Bonds were issued to fund a portion of the costs of construction of improvements to benefit the PID, to pay a portion of the interest on the Bonds during construction, to fund a reserve fund, to pay costs incidental to the organization of the PID, and to pay the costs of issuing the Bonds.

The Town is located in Denton County. The land in the PID is being developed by Little Elm Lakeside Development L.P. (the “Developer”). The PID consists of approximately seventy acres and is projected to consist of 214 residential lots and the infrastructure necessary to provide roadways, drainage, and utilities to the PID.

The Bonds are intended to be paid primarily from assessments imposed and collected 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 Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Cash and Cash Equivalents

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

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their fair market value on the date that they will be donated. The PID does not maintain a capitalization threshold or depreciate capital assets as all assets will be donated to the Town upon completion/acquisition.

E. Net Position

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

F. Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Income Taxes

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

I. Future Accounting Standards

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

NOTE 3—CASH AND CASH EQUIVALENTS

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

	<u>2023</u>	<u>2022</u>
Cash	\$ 44,623	\$ 20,390
Money market funds	<u>463,521</u>	<u>420,337</u>
Total cash and cash equivalents	<u>\$ 508,144</u>	<u>\$ 440,727</u>

A. Custodial Credit Risk

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

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. Investments at September 30, 2023 and 2022 were in compliance with the Indenture.

All funds held in the accounts created by the Indenture which are on deposit with any bank will be continuously secured in the manner required by the Indenture 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—RECEIVABLES

Receivables at September 30, 2023 and 2022 consist of interest and dividends on investments, which are considered collectible in full within one year.

NOTE 5—CAPITAL ASSETS

The PID had no capital assets as of September 30, 2023 and 2022.

Public improvements funded by the Bonds included storm drainage, wastewater construction and installation, waterlines and mains, and road improvements that benefit the PID. Improvements totaling \$3,778,569 were dedicated and accepted by the Town on May 1, 2018, and recorded as "donated capital assets".

NOTE 6—LONG-TERM OBLIGATIONS

Long term debt consisted of the following at September 30:

	Balance			Balance	
<u>2023</u>	October 1, 2022	Increase	Decrease	September 30, 2023	Due in one year
Series 2017 Bonds, Term 2027	\$ 515,000	\$ -	\$(95,000)	\$ 420,000	\$ 100,000
Series 2017 Bonds, Term 2047	3,850,000	-	-	3,850,000	-
Bond Premium	11,967	-	(479)	11,488	-
Total Bonds Payable	\$ 4,376,967	\$ -	\$(95,479)	\$ 4,281,488	\$ 100,000

	Balance			Balance	
<u>2022</u>	October 1, 2021	Increase	Decrease	September 30, 2022	Due in one year
Series 2017 Bonds, Term 2027	\$ 605,000	\$ -	\$(90,000)	\$ 515,000	\$ 95,000
Series 2017 Bonds, Term 2047	3,850,000	-	-	3,850,000	-
Bond Premium	12,446	-	(479)	11,967	-
Total Bonds Payable	\$ 4,467,446	\$ -	\$(90,479)	\$ 4,376,967	\$ 95,000

A. Special Assessment Revenue Bonds, Series 2017

On December 28, 2017, the PID issued \$4,700,000 in Special Assessment Revenue Bonds, Series 2017 to finance construction of certain public infrastructure improvements within the respective areas, to pay a portion of the costs of the authorized improvements, to pay interest on the Bonds during and after the period of acquisition and construction of the authorized improvements, to fund a reserve fund for payment of principal and interest on the Bonds, to pay a portion of the costs incidental to the organization of the PID, and to pay costs of issuance.

The Bonds are intended to be paid primarily from assessments imposed and collected by the Town 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 Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

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

The Bonds were issued in two terms as follows:

	<u>Par Value</u>	<u>Rate</u>	<u>Final Maturity</u>	<u>Premium</u>
Term 2027	\$ 850,000	4.500%	September 1, 2027	\$ 4,786.80
Term 2047	\$ 3,850,000	5.000%	September 1, 2047	\$ 9,573.70

The premium on the Bonds, as listed above, are being amortized over the life of each term of Bonds on a straight-line method.

The Bonds described above 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 Indenture. Principal payments on the Bonds are due each September 1 and began on September 1, 2019, according to the mandatory sinking fund redemption schedule.

Interest on the Bonds is payable according to the terms specified by the Indenture semiannually on March 1 and September 1 of each year commencing on March 1, 2018. Interest on the Bonds is calculated based on a 360-day year comprised of twelve 30-day months. The Bonds' interest payments totaled \$215,675 and \$219,725 for the years ended September 30, 2023, and 2022.

1. Optional Redemption

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

2. Extraordinary Optional Redemption

The Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on the first day of any month after the required notice of redemption, at a redemption price equal to 100% of the principal amount of the bonds, or portions thereof, to be redeemed, plus accrued interest to the redemption date from amounts on deposit in the redemption fund as a result of assessment prepayments, unexpended proceeds transferred from the project fund to the redemption fund, foreclosure proceeds, and transfers to the redemption fund from the delinquency reserve account and the prepayment reserve account. No extraordinary optional redemptions were made in the fiscal years ending September 30, 2023, or 2022.

B. Mandatory Sinking Fund Redemption

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

For the period ending September 30:	Series 2017 Bonds Term 2027		Series 2017 Bonds Term 2047	
	Principal	Interest	Principal	Interest
2024	\$ 100,000	\$ 18,900	\$ -	\$ 192,500
2025	105,000	14,400	-	192,500
2026	105,000	9,675	-	192,500
2027	110,000	4,950	-	192,500
2028	-	-	115,000	192,500
2029-2033	-	-	680,000	868,750
2034-2038	-	-	860,000	682,000
2039-2043	-	-	1,100,000	443,750
2044-2047	-	-	1,095,000	140,250
Total	\$ 420,000	\$ 47,925	\$ 3,850,000	\$ 3,097,250

For the period ending September 30:	Series 2017 Bonds Total	
	Principal	Interest
2024	\$ 100,000	\$ 211,400
2025	105,000	206,900
2026	105,000	202,175
2027	110,000	197,450
2028	115,000	192,500
2029-2033	680,000	868,750
2034-2038	860,000	682,000
2039-2043	1,100,000	443,750
2044-2047	1,095,000	140,250
Total	\$ 4,270,000	\$ 3,145,175

NOTE 7—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 Town. The amount assessed, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. In addition, the annual payment includes a 0.20% additional collections rate for the prepayment reserve and a 0.30% additional collections rate for the delinquency reserve as described in the Indenture. Annual installments of assessments are payable to the Town no later than February 1 of each year. Annual installments to be collected were \$382,500 and \$371,239 for the 2023 and 2022 tax years, respectively. All of the 2023 and 2022 annual installments had been collected and remitted to the PID as of September 30, 2023.

Prepaid assessments collected in fiscal year 2023 totaled \$17,604 which will be used to redeem Bonds in the future.

NOTE 8—ARBITRAGE

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

NOTE 9—SUBSEQUENT EVENTS

Annual assessments imposed on the PID for the 2023 tax year for collection in fiscal year 2024 were \$371,638. As of December 31, 2023, \$293,568 in assessments due have been remitted to the PID.



**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 benefiting 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)
	<hr/>	<hr/>

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	30,482,608	-	(598,315)	29,884,293	553,000
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	326,975	89,469	(240,068)	176,376	79,774
Total Long-term Debt	\$ 30,809,583	\$ 89,469	\$ (838,383)	\$ 30,060,669	\$ 632,774
	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	25,185,000	5,490,094	(192,486)	30,482,608	595,000
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	564,657	141,445	(379,127)	326,975	195,000
Total Long-term Debt	\$ 25,749,657	\$ 5,631,539	\$ (571,613)	\$ 30,809,583	\$ 790,000

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.



**VALENCIA PUBLIC IMPROVEMENT DISTRICT
NO. 2 PROJECT
TOWN OF LITTLE ELM, TEXAS**

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

CUSIP NUMBERS:

537098BW4

537098BX2

537098BY0

**VALENCIA
PUBLIC IMPROVEMENT DISTRICT
NO. 2 PROJECT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of the Valencia Public Improvement District No. 2 Project (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.

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 No. 2 Project (the “PID”) provides an overall review of the PID’s financial activities for the year ended September 30, 2023. 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 Valencia Public Improvement District No. 2 Project (the “District”) was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement District Assessment Act (the “PID Act”) and Resolution No. 0816202201, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the “Town Council”) on August 16, 2022, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID.
2. On November 22, 2022, the PID issued the \$16,288,000 Town of Little Elm (the “Town”), Texas, Special Assessment Revenue Bonds Series 2022, (the “Bonds”) to pay a portion of the actual costs of the authorized improvements, to pay a portion of the interest on the Bonds during and after the period of acquisition and construction of the authorized improvements, to fund a reserve fund for payment of principal and interest on the Bonds, to pay a portion of the costs incidental to the administration of the District, and to pay the costs of issuing the Bonds.
3. The PID’s debt will be paid through the collection of annual assessments imposed on the assessed properties benefiting from the public improvements.
4. Net position at September 30, 2023 totaled (\$2,069,916).
5. The improvements being constructed in the PID consist of roadway, water distribution, sanitary sewer collection, and storm drainage collection system improvements.
6. There were no annual installments imposed on the property owners in 2022-2023.

Overview of the Financial Statements

This annual report consists of two parts – (i) Management’s Discussion and Analysis and (ii) the basic financial statements consisting of a *Statement of Net Position*, *Statement of Revenues, Expenses, and Changes in Net Position*, *Statement of Cash Flows*, and related footnotes. The Statement of Net Position represents the financial position of the PID and provides information about the activities of the PID, including all short-term and long-term financial resources and obligations. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g.,

revenues) and decreases (e.g., expenses) in net total financial position. The Statement of Cash Flows reflects how the PID finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Summary Statement of Net Position:

	<u>2023</u>
Assets:	
Current assets	\$ 1,848,558
Capital assets	<u>12,545,055</u>
Total assets	<u>14,393,613</u>
Liabilities:	
Current liabilities	375,529
Long-term debt	<u>16,088,000</u>
Total Liabilities	<u>16,463,529</u>
Net Position	
Net investment in capital assets	(1,956,174)
Unrestricted	<u>(113,742)</u>
Total Net Position	<u><u>\$ (2,069,916)</u></u>

Bond proceeds were used to finance the construction of improvements and administrative costs of the PID. The negative net position is due primarily to the issuance of the bonds.

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

	<u>2023</u>
Operating Revenues	\$ -
Operating Expenses	<u>56,191</u>
Operating Loss	(56,191)
Non-operating Revenues/(Expenses)	<u>(2,013,725)</u>
Change in Net Position	<u><u>\$ (2,069,916)</u></u>

The negative net position is due primarily to the issuance of the bonds and bond interest expense.

Capital Assets

The PID's capital assets consisted of construction in progress of road improvements, water and sewer improvements, and storm drainage improvements totaling \$12,545,055 to be owned by the

Town upon completion. As of October 31, 2023, the Town has accepted the public improvements of public water, sanitary sewer, storm drainage and street improvements.

Long-Term Debt

The \$16,288,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2022 were issued on November 22, 2022, bearing term interest rates of 6% to 6.875% with final maturity on September 1, 2052.

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 Indenture.

The PID's debt will be paid through the collection of annual installments of assessments imposed on the chargeable properties benefiting from the public improvements.

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

Mandatory sinking fund payments begin on September 1, 2024, from annual installments of assessment revenues after the payment of administrative expenses.

Revenues

Annual installments of assessments are to be imposed and collected on all properties within the PID benefiting from the public improvements to pay debt service and operating costs of the PID. The annual installments are remitted to the PID monthly as they are received by the Tax Collector.

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

VALENCIA PUBLIC IMPROVEMENT DISTRICT NO. 2 PROJECT STATEMENT OF NET POSITION

As of September 30,

	<u>2023</u>
Assets	
Current Assets	
Restricted cash and cash equivalents	\$ 1,834,551
Accrued interest receivable	8,007
Due from Valencia PID No. 1	<u>6,000</u>
Total Current Assets	<u>1,848,558</u>
Noncurrent Assets	
Capital assets	<u>12,545,055</u>
Total Noncurrent Assets	<u>12,545,055</u>
Total Assets	<u>14,393,613</u>
Liabilities	
Current Liabilities	
Accounts payable	35,960
Accrued liabilities	47,780
Accrued interest payable	91,789
Current portion of long-term debt	<u>200,000</u>
Total Current Liabilities	<u>375,529</u>
Noncurrent Liabilities	
Long-term debt	<u>16,088,000</u>
Total Noncurrent Liabilities	<u>16,088,000</u>
Total Liabilities	<u>16,463,529</u>
Net Position	
Net investment in capital assets	(1,956,174)
Unrestricted	<u>(113,742)</u>
Net Position	<u>\$ (2,069,916)</u>

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

VALENCIA PUBLIC IMPROVEMENT DISTRICT NO. 2 PROJECT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ending September 30,

	<u>2023</u>
Operating Revenues	
Annual assessment revenues	\$ -
Total Operating Revenues	<u>-</u>
Operating Expenses	
Administrative fees	50,191
Accounting and audit fees	<u>6,000</u>
Total Operating Expenses	<u>56,191</u>
Operating Loss	<u>(56,191)</u>
Non-Operating Revenues/(Expenses)	
Interest and dividend income	159,589
Bond issuance costs	(1,227,883)
Interest expense	<u>(945,431)</u>
Total Non-Operating Revenues/(Expenses)	<u>(2,013,725)</u>
Change in Net Position	(2,069,916)
Net Position, Beginning of Year	<u>-</u>
Net Position, End of Year	<u><u>\$ (2,069,916)</u></u>

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

VALENCIA PUBLIC IMPROVEMENT DISTRICT NO. 2 PROJECT
STATEMENT OF CASH FLOWS
For the Year Ending September 30,

	<u>2023</u>
Cash Flows from Operating Activities	
Cash payments for administrative fees	\$ (26,231)
Net Cash Used in Operating Activities	<u>(26,231)</u>
Cash Flows from Investing Activities	
Interest and dividends received on investments	<u>151,582</u>
Net Cash Provided by Investing Activities	<u>151,582</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from bond issuance	16,288,000
Acquisition and construction of capital assets	(12,497,275)
Interest paid on bonds	(853,641)
Bond issuance costs paid	<u>(1,227,883)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,709,201</u>
Net change in cash and cash equivalents	1,834,551
Cash and cash equivalents, Beginning of Year	<u>-</u>
Cash and cash equivalents, End of Year	<u><u>\$ 1,834,551</u></u>
Adjustments to Reconcile Operating Loss to Net Cash	
Used in Operating Activities:	
Operating loss	\$ (56,191)
Adjustments	
Increase in due from Valencia PID No. 1	(6,000)
Increase in accounts payable	<u>35,960</u>
Net Cash Used in Operating Activities	<u><u>\$ (26,231)</u></u>
Supplemental Information	
Construction in progress in accrued liabilities	<u><u>\$ 47,780</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 Valencia Public Improvement District No. 2 Project (the “PID”) was created pursuant to Texas Local Government Code Chapter 372, Public Improvement District (the “PID Act”) and Resolution No. 0816202201, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the “Town Council”) on August 16, 2022, to finance certain infrastructure improvement projects provided for the benefit of the property in the PID.

The \$16,288,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2022 (the “Bonds”) were issued on November 22, 2022 pursuant to the PID Act and an ordinance adopted by the Town Council on November 1, 2022 and an Indenture of Trust (“the Indenture”) dated as of November 1, 2022 by and between the Town of Little Elm (the “Town”) and Wilmington Trust, National Association (the “Trustee”). The Bonds were issued to pay a portion of the actual costs of the authorized improvements, to pay a portion of the interest on the Bonds during and after the period of acquisition and construction of the authorized improvements, to fund a reserve fund for payment of principal and interest on the Bonds, to pay a portion of the costs incidental to the administration of the District, and to pay the costs of issuing the Bonds.

The Town is located in Denton County. The land in the PID is being developed by Valencia on the Lake 2B2 and 4, LLC, (the “Developer”). The PID consists of approximately 189 acres and is projected to consist of 535 residential lots and the infrastructure necessary to provide roadways, drainage, and utilities to the PID.

The Bonds are intended to be paid primarily from assessments imposed and collected by the Tax Collector 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 Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

The 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 or depreciate capital assets as all assets will be donated to the Town upon completion.

E. Net Position

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

F. Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Income Taxes

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

I. Future Accounting Standards

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

NOTE 3—CASH AND CASH EQUIVALENTS

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

	<u>2023</u>
Money market funds	\$ 1,834,551
Total cash and cash equivalents	<u>\$ 1,834,551</u>

A. Custodial Credit Risk

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

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indentures specify that investment 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 Indenture, which are on deposit with any bank, will be continuously secured in the manner required by the Indenture, the Investment Act, and the Town's direction.

D. Concentration of Credit Risk

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

E. Recurring Measurements

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

NOTE 4—CAPITAL ASSETS

The PID's capital asset activity for the year ending September 30, 2023, was as follows:

	Balance			Balance
2023	October 1, 2022	Additions	Reductions	September 30, 2023
Construction in progress	\$ -	\$ 12,545,055	\$ -	\$ 12,545,055
Total Capital Assets	\$ -	\$ -	\$ -	\$ 12,545,055

Construction in progress consists of the public improvements which include storm drainage, wastewater construction and installation, waterlines and mains, and road improvements that benefit the PID.

NOTE 5—LONG-TERM OBLIGATIONS

Long term debt consisted of the following at September 30:

<u>2023</u>	Balance October 1, 2022	Increase	Decrease	Balance September 30, 2023	Due in one year
Series 2022 Bonds	\$ -	\$ 16,288,000		\$ 16,288,000	\$ 200,000
Total Long-term debt	\$ -	\$ 16,288,000	\$ -	\$ 16,288,000	\$ 200,000

A. Special Assessment Revenue Bonds, Series 2022

On November 22, 2022, the PID issued \$16,288,000 in Special Assessment Revenue Bonds, Series 2022 to pay a portion of the actual costs of the authorized improvements, to pay a portion of the interest on the Bonds during and after the period of acquisition and construction of the authorized improvements, to fund a reserve fund for payment of principal and interest on the Bonds, to pay a portion of the costs incidental to the administration of the District, and to pay the costs of issuing the Bonds.

The Bonds are intended to be paid primarily from annual assessments imposed and collected by the Tax Collector 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 Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

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

The Bonds were issued in three terms as follows:

	<u>Par Value</u>	<u>Rate</u>	<u>Final Maturity</u>
Term 2027	\$ 874,000	6.000%	September 1, 2027
Term 2032	\$ 1,424,000	6.125%	September 1, 2032
Term 2052	\$ 13,990,000	6.875%	September 1, 2052

The Bonds described above 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 Indenture. Principal payments on the Bonds are due each September 1 and will begin on September 1, 2024, according to the mandatory sinking fund redemption schedule.

Interest on the Bonds is payable according to the terms specified by the Indenture semiannually on March 1 and September 1 of each year commencing on March 1, 2023. Interest on the Bonds is calculated based on a 360-day year comprised of twelve 30-day months. The Bonds' interest payments totaled \$853,641 for the year ended September 30, 2023.

1. Optional Redemption

The Town reserves the right and option to redeem Bonds maturing on September 1, 2052, before their respective scheduled maturity date, in whole or in part, on any date on or after September 1, 2032, at the redemption price.

2. Extraordinary Optional Redemption

The Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity on a date specified by the Town at a redemption price equal to 100% of the principal amount of the bonds, or portions thereof, to be redeemed, plus accrued interest to the redemption date from amounts on deposit in the redemption fund as a result of assessment prepayments, unexpended proceeds transferred from the project fund to the redemption fund, or any other transfers to the redemption fund pursuant to the terms of the Indenture. No extraordinary optional redemptions were made in the fiscal year ending September 30, 2023.

3. Mandatory Sinking Fund Redemption

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

For the period ending September 30:	Series 2022 Bonds	
	Principal	Interest
2024	\$ 200,000	\$ 1,101,473
2025	212,000	1,089,473
2026	224,000	1,076,753
2027	238,000	1,063,313
2028	252,000	1,049,033
2029-2033	1,511,000	4,993,915
2034-2038	2,085,000	4,425,094
2039-2043	2,931,000	3,600,300
2044-2048	4,131,000	2,439,388
2049-2052	4,504,000	800,938
Total	\$ 16,288,000	\$ 21,639,680

NOTE 6—REVENUES

Annual installments of the assessments are to be imposed and collected on all properties within the PID benefiting from the public improvements (excepting those for which the assessment lien has been prepaid) to pay debt service and operating costs of the PID beginning in fiscal year 2024. The annual installments are remitted to the PID as they are received by the Tax Collector. The amount assessed, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. In addition, the annual payment includes a 0.20% additional collections rate for the prepayment reserve and a 0.30% additional collections rate for the delinquency reserve as described in the Indenture. Annual installments of assessments are payable to the Town no later than February 1 of each year.

NOTE 7—ARBITRAGE

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

NOTE 8—SUBSEQUENT EVENTS

A. 2024 Annual Installments

For fiscal year 2024, there were \$1,434,112 in annual installments of assessments billed to property owners. As of April 30, 2024, all installments of assessments have been collected by the tax collector.

B. Capital Assets

As of October 31, 2023, the Town has accepted the public improvements of public water, sanitary sewer, storm drainage and street improvements.



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)

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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>\$ 1,772,549</u>	<u>\$ 847,313</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.



LITTLE ELM

**SPIRITAS RANCH 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 NUMBER:

537098BM6

SPIRITAS RANCH 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
Spiritas Ranch Public Improvement District
Little Elm, Texas

Opinion

We have audited the financial statements of the Spiritas Ranch 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 Spiritas Ranch Public Improvement District (the "PID") provides an overall review of the PID's financial activities for the fiscal years ended September 30, 2023, and 2022. The intent of this discussion and analysis is to look at the PID's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the PID's financial performance.

Financial Highlights

1. The PID was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement Assessment Act (the "PID Act") and Resolution No. 0202202101, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the "Town Council") on February 2, 2021, to finance the costs of certain public improvements for the benefit of property in the PID.
2. On May 28, 2021, the PID issued the \$43,200,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2021, Spiritas Ranch Public Improvement District Improvement Area #1 Projects and Major Improvement Area Projects (the "Bonds") to fund a portion of the costs of improvements projects for the benefit of the PID, to pay a portion of the interest on the Bonds during construction, to fund a reserve fund, to pay costs incidental to the organization of the PID, and to pay the costs of issuing the Bonds
3. The PID's Bonds will be paid solely through the collection of assessments imposed on the assessed properties benefiting from the public improvements.
4. Net position at September 30, 2023 and September 30, 2022 totaled (\$16,216,928) and (\$3,937,013), respectively.
5. Capital assets, representing Improvement Area #1 and Major Improvement Area, totaled \$16,369,077 and \$18,979,160 at September 30, 2023 and September 30, 2022, respectively. Public improvements valued at \$12,547,896 for the Phase #1 Bonds were accepted by the Town of Little Elm (the "Town") and Mustang Special Utility District (the "MSUD") in fiscal year 2023. As of September 30, 2023, Phase 1G and Phase 1M, of the Phase #1 Bonds were awaiting acceptance by the Town and MSUD.
6. Annual installments of \$1,935,050 were imposed on the property owners for collection in fiscal year 2023. As of September 30, 2023, all the 2022-2023 annual installments had been collected and remitted to the PID. There were no annual installments imposed on the property owners for fiscal year 2022. Debt service on the Bonds for fiscal years 2020-2022 was funded from the Capitalized Interest account, and administrative expenses for fiscal years 2020-2022 were funded by Bonds proceeds deposited at closing into the Administrative Expense account.

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 and other assets	\$ 10,239,648	\$ 26,386,377	\$ 40,574,995
Capital assets	16,369,077	18,979,160	1,621,114
Total assets	26,608,725	45,365,537	42,196,109
Liabilities:			
Current liabilities	960,653	6,752,550	746,724
Long-term debt	41,865,000	42,550,000	43,200,000
Total Liabilities	42,825,653	49,302,550	43,946,724
Net Position			
Net investment in capital assets	(16,251,892)	(3,775,635)	(1,006,558)
Restricted	221,621	-	-
Unrestricted	(186,657)	(161,378)	(744,057)
Total Net Position	\$ (16,216,928)	\$ (3,937,013)	\$ (1,750,615)

PID Bond proceeds were used to finance the construction of improvements and administrative costs of the PID. The increase in the negative net position in 2023 was the result of the donation of Phase #1 capital assets to the Town and MSUD.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues	\$ 1,935,036	\$ -	\$ -
Operating Expenses	(73,367)	(50,717)	(11,512)
Operating Income (Loss)	1,861,669	(50,717)	(11,512)
Non-operating Revenues/(Expenses)	(1,593,688)	(2,135,681)	(1,739,103)
Donated capital assets	(12,547,896)	-	-
Change in Net Position	\$ (12,279,915)	\$ (2,186,398)	\$ (1,750,615)

As noted above, the large increase in the negative net position in 2023 was the result of the donation of Phase #1 capital assets to the Town and MSUD.

Capital Assets

Capital assets, representing Improvement Area #1 and Major Improvement Area, totaled \$16,369,077 and \$18,979,160 at September 30, 2023, and 2022, respectively. The Town and MSUD accepted public improvements worth \$12,547,896 for the Phase #1 Bonds in fiscal year 2023. As of September 30, 2023, Phase 1G and Phase 1M of the Phase #1 Bonds were still pending acceptance by the Town and MSUD. The public improvements consist of roadway, water distribution, sanitary sewer and storm drainage improvements that will benefit the PID.

Long-Term Debt

The \$43,200,000, Series 2021 Special Assessment Revenue Bonds Area #1 Projects and Major Improvement Area Projects were issued on May 28, 2021, bearing interest at 5.375% with a final maturity of September 1, 2051.

The 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 Indenture of Trust (the "Indenture"), entered into between the Town of Little Elm (the "Town") and Wilmington Trust, National Association (the "Trustee") on May 1, 2021.

The PID's debt will be paid through the collection of assessments imposed on the assessed properties benefiting from the public improvements.

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

Mandatory sinking fund payments began on September 1, 2023, from bond proceeds and special assessment revenues received by the PID after the payment of administrative expenses.

Pledged Revenues

Pledged Revenues consist of assessments paid by the benefitted property owners. Annual installments of assessments are imposed and collected to pay debt service and operating costs of the PID.

Annual installments of \$1,935,050 were billed to the property owners for 2022-2023. As of September 30, 2023, all annual installments had been collected and remitted to the PID. There were no annual assessments imposed on the property owners for the 2021-2022 assessment year to be collected in fiscal year 2022. Obligations for 2021-2022 were funded from the Capitalized Interest account and other sources.

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

SPIRITAS RANCH 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	\$ 10,196,306	\$ 26,336,392
Accrued interest receivable	43,342	49,985
Total Current Assets	<u>10,239,648</u>	<u>26,386,377</u>
Noncurrent Assets		
Capital assets	<u>16,369,077</u>	<u>18,979,160</u>
Total Noncurrent Assets	<u>16,369,077</u>	<u>18,979,160</u>
Total Assets	<u>26,608,725</u>	<u>45,365,537</u>
Liabilities		
Current Liabilities		
Accounts payable	39,410	17,863
Accrued liabilities	45,654	5,891,187
Accrued interest payable	190,589	193,500
Current portion of long-term debt	685,000	650,000
Total Current Liabilities	<u>960,653</u>	<u>6,752,550</u>
Noncurrent Liabilities		
Long-term debt	<u>41,865,000</u>	<u>42,550,000</u>
Total Noncurrent Liabilities	<u>41,865,000</u>	<u>42,550,000</u>
Total Liabilities	<u>42,825,653</u>	<u>49,302,550</u>
Net Position		
Net investment in capital assets	(16,251,892)	(3,775,635)
Restricted	221,621	-
Unrestricted	<u>(186,657)</u>	<u>(161,378)</u>
Net Position	<u>\$ (16,216,928)</u>	<u>\$ (3,937,013)</u>

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

SPIRITAS RANCH 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	\$ 1,935,036	\$ -
Total Operating Revenues	<u>1,935,036</u>	<u>-</u>
Operating Expenses		
Administrative fees	67,367	46,717
Accounting and audit fees	6,000	4,000
Total Operating Expenses	<u>73,367</u>	<u>50,717</u>
Operating Income (Loss)	<u>1,861,669</u>	<u>(50,717)</u>
Non-Operating Revenues/(Expenses)		
Interest and dividend income	725,401	186,319
Interest expense	<u>(2,319,089)</u>	<u>(2,322,000)</u>
Total Non-Operating Revenues/(Expenses)	<u>(1,593,688)</u>	<u>(2,135,681)</u>
Donated capital assets	<u>(12,547,896)</u>	<u>-</u>
Change in Net Position	(12,279,915)	(2,186,398)
Net Position, Beginning of Year	<u>(3,937,013)</u>	<u>(1,750,615)</u>
Net Position, End of Year	<u><u>\$ (16,216,928)</u></u>	<u><u>\$ (3,937,013)</u></u>

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

SPIRITAS RANCH 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	\$ 1,935,036	\$ -
Cash payments for administrative fees	(51,820)	(36,672)
Net Cash Provided By (Used in) Operating Activities	<u>1,883,216</u>	<u>(36,672)</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	732,044	136,668
Net Cash Provided by Investing Activities	<u>732,044</u>	<u>136,668</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(15,783,346)	(12,013,932)
Principal paid on bonds	(650,000)	-
Interest paid on bonds	(2,322,000)	(2,322,000)
Net Cash Used in Capital and Related Financing Activities	<u>(18,755,346)</u>	<u>(14,335,932)</u>
Net decrease in Cash and Cash Equivalents	(16,140,086)	(14,235,936)
Cash and Cash Equivalents, Beginning of Year	<u>26,336,392</u>	<u>40,572,328</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 10,196,306</u></u>	<u><u>\$ 26,336,392</u></u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Used in Operating Activities:		
Operating Income (Loss)	\$ 1,861,669	\$ (50,717)
Adjustments		
Increase in accounts payable	21,547	11,712
Decrease in prepaid expenses	-	2,333
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 1,883,216</u></u>	<u><u>\$ (36,672)</u></u>
Supplemental Information		
Donated Capital Assets	\$ 12,547,896	\$ -
Construction in progress in accrued liabilities	<u>\$ 45,654</u>	<u>\$ 5,891,187</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 Spiritas Ranch Public Improvement District (the “PID”) was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement Assessment Act (the “PID Act”) and Resolution No.0202202101, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the “Town Council”) on February 2, 2021.

The \$43,200,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2021, Spiritas Ranch Public Improvement District Improvement Area #1 Projects and Major Improvement Area Projects (the “Bonds”) were issued on May 28, 2021 pursuant to the PID Act, and an ordinance adopted by the Town Council on May 11, 2021 and an Indenture of Trust, (the “Indenture”) dated as of May 1, 2021, by and between the Town of Little Elm (the “Town”) and Wilmington Trust, National Association (the “Trustee”). The Bonds were issued to finance certain infrastructure improvement projects provided for the benefit of the PID. The property in the PID is proposed to be developed in multiple phases.

The PID is presently located partially within the Town and partially within the extraterritorial jurisdiction of the Town and contains approximately 545 acres of land. At completion, the PID is expected to consist of approximately 2,156 single family residential units, landscaping, and infrastructure necessary to provide roadways, drainage and utilities to the PID. The land in the PID is being developed by MM Little Elm 548, LLC, a Texas limited liability company (the “Developer”).

The Bonds are intended to be paid primarily from special assessments imposed and collected by the DCTAC from the properties benefiting from the public improvements of the PID.

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. All infrastructure assets are capitalized. The PID does not depreciate capital assets as all assets will be donated to the Town or Mustang Special Utility District upon completion or acquisition.

E. Net Position

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

F. Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Income Taxes

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

I. Future Accounting Standards

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

J. 2022 Information

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

NOTE 3—CASH AND CASH EQUIVALENTS

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

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 10,196,306	\$ 26,336,392
Total	<u>\$ 10,196,306</u>	<u>\$ 26,336,392</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

Indenture requires the investment of moneys in all funds in accordance with the Investment Act and the Town's official investment policy.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indenture specifies that money in any fund or account will be invested by the Trustee as directed by the Town. If the Town does not give the Trustee written or timely instructions with respect to investment of funds, the Trustee will invest cash balances in the Wilmington U.S. Government Money Market Fund, provided, however, that money required to be expended from any fund or account will be available at the proper time. For purposes of maximizing investment returns, to the extent permitted by law, money in such funds or accounts may be invested in common investments or in a common pool of such investments which shall be kept and held at an official depository bank. Investments at September 30, 2023 and 2022 were in compliance with the Indenture.

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

D. Concentration of Credit Risk

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

E. Recurring Measurements

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

NOTE 4—CAPITAL ASSETS

The PID's capital asset activity for the years ended September 30, 2023, and 2022, was as follows:

2023	Beginning Balance	Additions	Reductions	Ending Balance
Construction in Progress	\$ 18,979,160	\$ 9,937,813	\$ (12,547,896)	\$ 16,369,077
Total Capital Assets	<u>\$ 18,979,160</u>	<u>\$ 9,937,813</u>	<u>\$ (12,547,896)</u>	<u>\$ 16,369,077</u>
2022	Beginning Balance	Additions	Reductions	Ending Balance
Construction in Progress	\$ 1,621,114	\$ 17,358,046	\$ -	\$ 18,979,160
Total Capital Assets	<u>\$ 1,621,114</u>	<u>\$ 17,358,046</u>	<u>\$ -</u>	<u>\$ 18,979,160</u>

Construction in Progress represents costs from Improvement Area #1 and Major Improvement Area.

Public improvements valued at \$12,547,896 for Phase #1 Bonds were accepted by the Town and MSUD in fiscal year 2023. As of September 30, 2023, Phase 1G and Phase 1M, of the Phase #1 Bonds valued at \$5,657,433 were awaiting acceptance.

NOTE 5—LONG-TERM OBLIGATIONS

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

	Balance			Balance	Due in
2023	October 1, 2022	Increase	Decrease	September 30, 2023	one year
Series 2021 Bonds Area #1	\$ 43,200,000	\$ -	\$ (650,000)	\$ 42,550,000	\$ 685,000
Total Long-Term Debt	\$ 43,200,000	\$ -	\$ (650,000)	\$ 42,550,000	\$ 685,000

	Balance			Balance	Due in
2022	October 1, 2021	Increase	Decrease	September 30, 2022	one year
Series 2021 Bonds Area #1	\$ 43,200,000	\$ -	\$ -	\$ 43,200,000	\$ 650,000
Total Long-Term Debt	\$ 43,200,000	\$ -	\$ -	\$ 43,200,000	\$ 650,000

A. Special Assessment Revenue Bonds, Series 2021

On May 28, 2021, the PID issued the \$43,200,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2021, Spiritas Ranch Public Improvement District Improvement Area #1 Projects and Major Improvement Area Projects to fund a portion of the costs of improvement projects for the benefit of the PID, to pay a portion of the interest on the Bonds during construction, to fund a reserve fund, to pay costs incidental to the organization of the PID, and to pay the costs of issuing the Bonds.

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

The Bonds represent 100% of the long-term debt balance, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Indenture. Principal payments began on September 1, 2023, according to the mandatory sinking fund schedule.

Interest on the 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, 2021. Interest on the Bonds is calculated based on a 360-day year comprised of twelve 30-day months. Interest payments totaled \$2,322,000 for the years ended September 30, 2023, and 2022.

B. Optional Redemption

The City reserves the right and option to redeem the Bonds before their scheduled maturity date, in whole or in part, on any date on or after September 1, 2026, at the redemption dates and prices noted below:

<u>Redemption Date</u>	<u>Redemption Price</u>
On or after September 1, 2026	103%
On or after September 1, 2027	102%
On or after September 1, 2028	101%
On or after September 1, 2029	100%

C. Extraordinary Optional Redemption

The Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity, on the first day of any month, at the redemption price of 100% of the principal amount of the Bonds, or portions thereof, to be redeemed, plus accrued interest to the redemption date, from amounts on deposit in the Redemption Fund as a result of assessment prepayments. There were no extraordinary optional redemptions in fiscal years 2022 or 2023.

D. Mandatory Sinking Fund Redemption

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

<u>For year ending September 30:</u>	<u>Series 2021 Bonds Area #1</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 685,000	\$ 2,287,063
2025	725,000	2,250,244
2026	765,000	2,211,275
2027	805,000	2,170,156
2028	845,000	2,126,888
2029-2033	4,970,000	9,900,750
2034-2038	6,455,000	8,414,025
2039-2043	8,375,000	6,483,594
2044-2048	10,885,000	3,977,231
2049-2051	8,040,000	879,350
Total	<u>\$ 42,550,000</u>	<u>\$ 40,700,576</u>

NOTE 6—REVENUES

Annual installments of the special 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 amount billed, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts

available for the payment of such debt service and expense. In addition, the annual payment includes a 0.50% additional interest rate to fund the prepayment and delinquency reserve as described in the Service and Assessment Plan (the “SAP”).

Annual installments of \$1,935,050 were billed to the property owners for assessment year 2022-2023. As of September 30, 2023, all annual installments for fiscal year 2023, had been collected and remitted to the PID. There were no annual installments imposed on the property owners for the 2021-2022 assessment year. Obligations were funded from the Capitalized Interest account and other sources.

NOTE 7—ARBITRAGE

When applicable, arbitrage calculations are performed on the PID’s funds to determine any arbitrage rebate or yield restriction liability. The first required IRS arbitrage report will be computed as of May 28, 2026.

NOTE 8—SUBSEQUENT EVENTS

A. Annual Assessments

There were annual installments of \$3,816,832 imposed on the property owners for the 2023-2024 assessment year to be collected in fiscal year 2024. According to the Billing and Collection report, as of January 22, 2024, there were no delinquencies.

B. City Acceptance

The Town and MSUD accepted Phase 1G of the Phase #1 Bonds on January 23, 2024, and Phase 1M was accepted on January 24, 2024.

C. Bond Issuance

The \$7,000,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2024 Future Improvement Area Projects will be issued on June 18, 2024.



**SPIRITAS EAST 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:

537098BS3

537098BT1

537098BU8

537098BV6

SPIRITAS EAST
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
Spiritas East Public Improvement District
Little Elm, Texas

Opinion

We have audited the financial statements of the Spiritas East 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 Spiritas East Public Improvement District (the "PID" or "District") provides an overall review of the PID's financial activities for the fiscal years ended September 30, 2023, and 2022. The intent of this discussion and analysis is to look at the PID's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the PID's financial performance.

Financial Highlights

1. The PID was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement Assessment Act (the "PID Act") and Resolution No. 1116202103, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the "Town") on November 16, 2021, to finance the costs of certain public improvements for the benefit of property in the PID.
2. On January 14, 2022, the Town issued the \$4,650,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2022, Spiritas East Public Improvement District Project (the "Bonds") to fund a portion of the costs of improvements for the benefit of the District, to pay a portion of the interest on the Bonds during construction, to fund a reserve fund, to pay costs incidental to the organization and administration of the PID, and to pay the costs of issuing the Bonds.
3. The PID's Bonds will be paid solely through the collection of assessments imposed on the assessed properties benefiting from the public improvements.
4. Net position at September 30, 2023, and 2022 totaled (\$287,993) and (\$517,029), respectively.
5. Capital assets, consisting of construction in progress of roadway, water, sewer and drainage improvements, totaled \$3,691,482 and \$1,113,422 as of September 30, 2023, and 2022, respectively. As of September 30, 2023, approximately 86% of the total public improvements budget has been spent.
6. Annual assessments totaling \$50,298 were imposed on the property owners for the 2022-2023 assessment year paid in fiscal year 2023. The annual assessments are remitted to the PID monthly as they are received by the Denton County Tax Assessor Collector (the "DCTAC"). No annual assessments were imposed on property owners for the 2021-2022 assessment year. Obligations for fiscal years 2022 and 2023 were funded from bond proceeds.
7. Annual assessments totaling \$353,253 were imposed on the property owners for assessment year 2023-2024. All annual assessments have been collected by the DCTAC.

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 Statements of Net Position:

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets	\$ 2,327,200	\$ 4,201,095
Capital assets	<u>3,691,482</u>	<u>1,113,422</u>
Total assets	<u>6,018,682</u>	<u>5,314,517</u>
Liabilities:		
Current liabilities	1,399,373	535,656
Long-term debt	<u>4,907,302</u>	<u>5,295,890</u>
Total Liabilities	<u>6,306,675</u>	<u>5,831,546</u>
Net Position		
Net investment in capital assets	(268,018)	(504,873)
Restricted	21,853	1,545
Unrestricted	<u>(41,828)</u>	<u>(13,701)</u>
Total Net Position	<u>\$ (287,993)</u>	<u>\$ (517,029)</u>

Proceeds from the issuance of the Bonds are being used to finance the construction of improvements and administrative costs of the PID.

Summary Statements of Revenues, Expenses and Changes in Net Position

	<u>2023</u>	<u>2022</u>
Operating Revenues	\$ 50,298	\$ -
Operating Expenses	<u>(58,869)</u>	<u>(13,922)</u>
Operating Loss	(8,571)	(13,922)
Non-operating Revenues/(Expenses)	<u>237,607</u>	<u>(503,107)</u>
Change in Net Position	<u>\$ 229,036</u>	<u>\$ (517,029)</u>

Net position increased from fiscal year 2022 to fiscal year 2023 due to the collection of annual assessments, increases in investment earnings and developer contributions, and the one-time bond issuance costs in fiscal year 2022.

Capital Assets

Capital assets, consisting of construction in progress of roadway, water, sewer, and drainage improvements, totaled \$3,691,482 and \$1,113,422 as of September 30, 2023, and 2022, respectively. This represents approximately 86% and 26% of the public improvement budget as of September 30, 2023, and 2022, respectively.

Long-Term Debt

The \$4,650,000 Series 2022, Special Assessment Revenue Bonds were issued on January 14, 2022, in four terms bearing interest at rates from 3.25% to 4.00% with a final maturity of September 1, 2051.

The Bonds represents 93% of the PID's long-term debt balance as of September 30, 2023, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Indenture of Trust (the "Indenture"), entered into between the Town and Wilmington Trust, National Association (the "Trustee") on January 1, 2022.

At bond issuance, the Developer deposited \$664,005 with the Trustee to be held in escrow and used to fund costs of the public improvements in excess of the funds available from the proceeds of the Bonds (the "Developer's escrow deposit"). Any funds remaining at the completion of the public improvements will be returned to the Developer. As of September 30, 2023, \$287,970 was drawn on the Developer's escrow deposit and reported as "developer's contribution" (non-operating revenue) to the PID. There were no draws on the Developer's escrow deposit in fiscal year 2022. The Developer's escrow deposit represents 17% of the PID's long-term debt balance as of September 30, 2023.

The PID's debt will be paid through the collection of assessments imposed on the assessed properties benefiting from the public improvements.

The proceeds from the Bonds, along with the Developer's escrow deposit, are being used to finance construction of certain public infrastructure improvements within the District, to pay a portion of the interest on the Bonds during and after the period of acquisition and construction of the

improvements, to fund a debt service reserve fund, to pay costs of issuing the Bonds, and to pay the initial administrative expenses of the PID.

Mandatory sinking fund payments will begin on September 1, 2024, from bond proceeds and special assessment revenues received by the PID after the payment of administrative expenses.

Pledged Revenues

Annual assessments are to be imposed and collected on all properties within the District benefiting from the public improvements 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.

Annual assessments totaling \$50,298 were imposed on property owners for the 2022-2023 assessment year. As of September 30, 2023, all annual assessments had been collected and remitted to the PID.

Annual assessments totaling \$353,253 have been imposed on property owners for the 2023-2024 assessment year.

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

**SPIRITAS EAST 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	\$ 2,316,395	\$ 4,192,263
Accrued interest receivable	9,784	7,957
Prepaid expenses	1,021	875
Total Current Assets	<u>2,327,200</u>	<u>4,201,095</u>
Noncurrent Assets		
Capital assets	<u>3,691,482</u>	<u>1,113,422</u>
Total Noncurrent Assets	<u>3,691,482</u>	<u>1,113,422</u>
Total Assets	<u>6,018,682</u>	<u>5,314,517</u>
Liabilities		
Current Liabilities		
Accounts payable	37,988	7,888
Accrued liabilities	1,244,740	513,123
Accrued interest payable	14,645	14,645
Current portion of long-term debt	102,000	-
Total Current Liabilities	<u>1,399,373</u>	<u>535,656</u>
Noncurrent Liabilities		
Long-term debt	4,924,035	5,314,005
Discount on long-term debt, net	<u>(16,733)</u>	<u>(18,115)</u>
Total Noncurrent Liabilities	<u>4,907,302</u>	<u>5,295,890</u>
Total Liabilities	<u>6,306,675</u>	<u>5,831,546</u>
Net Position		
Net investment in capital assets	(268,018)	(504,873)
Restricted	21,853	1,545
Unrestricted	<u>(41,828)</u>	<u>(13,701)</u>
Net Position	<u>\$ (287,993)</u>	<u>\$ (517,029)</u>

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

SPIRITAS EAST 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	\$ 50,298	\$ -
Total Operating Revenues	<u>50,298</u>	<u>-</u>
Operating Expenses		
Administrative fees	52,869	13,922
Accounting and audit fees	<u>6,000</u>	<u>-</u>
Total Operating Expenses	<u>58,869</u>	<u>13,922</u>
Operating Loss	<u>(8,571)</u>	<u>(13,922)</u>
Non-Operating Revenues/(Expenses)		
Interest and dividend income	126,764	17,936
Developer contribution	287,970	-
Interest expense	(177,127)	(126,445)
Bond issuance costs	<u>-</u>	<u>(394,598)</u>
Total Non-Operating Revenues/(Expenses)	<u>237,607</u>	<u>(503,107)</u>
Change in Net Position	229,036	(517,029)
Net Position, Beginning of Year	<u>(517,029)</u>	<u>-</u>
Net Position, End of Year	<u><u>\$ (287,993)</u></u>	<u><u>\$ (517,029)</u></u>

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

SPIRITAS EAST 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	\$ 50,297	\$ -
Cash payments for administrative fees	(28,915)	(6,909)
Net Cash Provided by (Used in) Operating Activities	<u>21,382</u>	<u>(6,909)</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	124,938	9,979
Net Cash Provided by Investing Activities	<u>124,938</u>	<u>9,979</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from bond issuance	-	4,630,902
Developer escrow deposit	-	664,005
Acquisition and construction of capital assets	(1,846,443)	(600,300)
Interest paid on bonds	(175,745)	(110,817)
Bond issuance costs paid	-	(394,597)
Net Cash (Used in) Provided by Capital and Related Financing Activities	<u>(2,022,188)</u>	<u>4,189,193</u>
Change in Cash and Cash Equivalents	(1,875,868)	4,192,263
Cash and Cash Equivalents, Beginning of Year	<u>4,192,263</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,316,395</u></u>	<u><u>\$ 4,192,263</u></u>
Adjustments to Reconcile Operating Loss to Net Cash		
Provided by (Used in) Operating Activities:		
Operating Loss	\$ (8,571)	\$ (13,922)
Adjustments		
Increase in accounts payable	30,100	7,888
Increase in prepaid expenses	(147)	(875)
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 21,382</u></u>	<u><u>\$ (6,909)</u></u>
Supplemental Information:		
Developer contribution	<u><u>\$ 287,970</u></u>	<u><u>\$ -</u></u>
Construction in progress in accrued liabilities	<u><u>\$ 1,244,740</u></u>	<u><u>\$ 513,123</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 Spiritas East Public Improvement District (the “PID”) was created pursuant to Texas Local Government Code, Chapter 372, Public Improvement Assessment Act (the “PID Act”) and Resolution No. 1116202103, which was passed and approved by the Town Council of the Town of Little Elm, Texas (the “Town Council”) on November 16, 2021.

The \$4,650,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2022, Spiritas East Public Improvement District Improvement Project (the “Bonds”) were issued on January 14, 2022, pursuant to the PID Act, an ordinance adopted by the Town Council on November 16, 2021, and an Indenture of Trust, (the “Indenture”) dated as of January 1, 2022, by and between the Town of Little Elm (the “Town”) and Wilmington Trust, National Association (the “Trustee”). The Bonds were issued to finance certain infrastructure improvement projects provided for the benefit of the PID.

The PID is located within the Town and contains approximately thirty-eight acres of land. At completion, the PID is expected to consist of approximately 146 single-family residential units, landscaping, and infrastructure necessary to provide roadways, drainage and utilities to the PID. The land in the PID is being developed by MM Little Elm 43, LLC, a Texas limited liability company (the “Developer”).

The Bonds are intended to be paid primarily from annual assessments imposed by the Town and collected by the DCTAC from 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 Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

The 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. All infrastructure assets are capitalized. The PID does not depreciate capital assets as all assets will be donated to the Town or Mustang Special Utility District upon completion or acquisition.

E. Net Position

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

F. Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Income Taxes

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

I. Future Accounting Standards

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

J. 2022 Information

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

NOTE 3—CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted entirely of investments in money market accounts as of September 30, 2023, and 2022. 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 Indenture requires the investment of moneys in all funds in accordance with the Investment Act and the Town's official investment policy.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indenture specifies that money in any fund or account will be invested by the Trustee as directed by the Town. If the Town does not give the Trustee written or timely instructions with respect to investment of funds, the Trustee will invest cash balances in the Wilmington U.S. Government Money Market Fund, provided, however, that money required to be expended from any fund or account will be available at the proper time. For purposes of maximizing investment returns, to the extent permitted by law, money in such funds or accounts may be invested in common investments or in a common pool of such investments which shall be kept and held at an official depository bank. Investments at September 30, 2023 and 2022 were in compliance with the Indenture.

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

D. Concentration of Credit Risk

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

E. Recurring Measurements

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

NOTE 4—CAPITAL ASSETS

The PID's capital asset activity for the years ended September 30, 2023, and 2022 was as follows:

<u>2023</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Construction in Progress				
Roadway	\$ -	\$ 1,384,039	\$ -	\$ 1,384,039
Water	-	379,922	-	379,922
Sanitary Sewer	480,737	99,043	-	579,780
Storm Drainage	-	613,117	-	613,117
Soft Costs	632,685	101,939	-	734,624
Total Capital Assets	<u>\$ 1,113,422</u>	<u>\$ 2,578,060</u>	<u>\$ -</u>	<u>\$ 3,691,482</u>
<u>2022</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Construction in Progress				
Roadway	\$ -	\$ -	\$ -	\$ -
Water	-	-	-	-
Sanitary Sewer	-	480,737	-	480,737
Storm Drainage	-	-	-	-
Soft Costs	-	632,685	-	632,685
Total Capital Assets	<u>\$ -</u>	<u>\$ 1,113,422</u>	<u>\$ -</u>	<u>\$ 1,113,422</u>

Construction in progress consists of roadway, water distribution, sanitary sewer, and storm drainage system improvements that will benefit the PID. The proceeds of the Bonds plus the developer's escrow deposit are to be used to fund a portion of the costs of these public improvements.

As of September 30, 2023, approximately 86% of the funds available for the public improvements had been spent. According to the Developer, the public improvements are estimated to be completed by March 31, 2024, and subsequently donated to the Town or the Mustang Special Utility District.

NOTE 5—LONG-TERM OBLIGATIONS

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

2023	Balance October 1, 2022	Increase	Decrease	Balance September 30, 2023	Due in one year
Series 2022 Bonds, Term 2027	\$ 428,000	\$ -	\$ -	\$ 428,000	\$ 102,000
Series 2022 Bonds, Term 2032	615,000	-	-	615,000	-
Series 2022 Bonds, Term 2042	1,588,000	-	-	1,588,000	-
Series 2022 Bonds, Term 2051	2,019,000	-	-	2,019,000	-
Total Series 2022 Bonds	4,650,000	-	-	4,650,000	102,000
Bond Discount	(18,115)	-	1,382	(16,733)	-
Developer's escrow deposit	664,005	-	(287,970)	376,035	-
Total Long-term Debt	\$ 5,295,890	\$ -	\$ (286,588)	\$ 5,009,302	\$ 102,000

2022	Balance October 1, 2021	Increase	Decrease	Balance September 30, 2022	Due in one year
Series 2022 Bonds, Term 2027	\$ -	\$ 428,000	\$ -	\$ 428,000	\$ -
Series 2022 Bonds, Term 2032	-	615,000	-	615,000	-
Series 2022 Bonds, Term 2042	-	1,588,000	-	1,588,000	-
Series 2022 Bonds, Term 2051	-	2,019,000	-	2,019,000	-
Total Series 2022 Bonds	-	4,650,000	-	4,650,000	-
Bond Discount	-	(19,098)	983	(18,115)	-
Developer's escrow deposit	-	664,005	-	664,005	-
Total Long-term Debt	\$ -	\$ 5,294,907	\$ 983	\$ 5,295,890	\$ -

A. Special Assessment Revenue Bonds, Series 2022

On January 14, 2022, the PID issued the \$4,650,000 Town of Little Elm, Texas, Special Assessment Revenue Bonds, Series 2022, Spiritas East Public Improvement District Project to fund a portion of the costs of improvements projects for the benefit of the PID, to pay a portion of the interest on the Bonds during construction, to fund a reserve fund, to pay costs incidental to the organization of the PID, and to pay the costs of issuing the Bonds.

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

The Bonds were issued in four terms as follows:

	<u>Par Value</u>	<u>Rate</u>	<u>Final Maturity</u>	<u>Discount</u>
Term 2027	\$ 428,000	3.250%	September 1, 2027	\$ -
Term 2032	\$ 615,000	3.500%	September 1, 2032	\$ (3,266)
Term 2042	\$ 1,588,000	3.750%	September 1, 2042	\$ (15,832)
Term 2051	\$ 2,019,000	4.000%	September 1, 2051	\$ -

The Bonds represent 93% of the current long-term debt balance, and are subject to mandatory sinking fund, optional, and extraordinary optional redemption requirements as specified in the Indenture. Principal payments will begin on September 1, 2024, according to the mandatory sinking fund schedule.

Interest on the 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, 2023. Interest on the Bonds is calculated based on a 360-day year comprised of twelve 30-day months. Interest payments totaled \$175,745 and \$110,817 for the years ended September 30, 2023, and 2022, respectively.

The Bonds were issued at a total discount of \$19,098 which is being amortized using the straight-line method over the life of each term of Bonds. Amortization totaled \$1,382 and \$983 for fiscal years 2023 and 2022, respectively.

1. Optional Redemption

The Town reserves the right and option to redeem the Bonds maturing on or after September 1, 2042, before their scheduled maturity date, in whole or in part, on any date on or after September 1, 2032, at the redemption price.

2. Extraordinary Optional Redemption

The Bonds are subject to extraordinary optional redemption by the Town prior to their scheduled maturity, on the first day of any month, at the redemption price of 100% of the principal amount of the Bonds, or portions thereof, to be redeemed, plus accrued interest to the redemption date, from amounts from assessment prepayments or unexpended construction funds. No extraordinary optional redemptions have occurred.

3. Mandatory Sinking Fund Redemption

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

For the year ending September 30:	Series 2022 Bonds Term 2027		Series 2022 Bonds Term 2032	
	Principal	Interest	Principal	Interest
2024	\$ 102,000	\$ 27,820	\$ -	\$ 19,988
2025	105,000	21,190	-	19,988
2026	109,000	14,365	-	19,988
2027	112,000	7,280	-	19,988
2028	-	-	115,000	19,988
2029-2033	-	-	500,000	41,275
Total	<u>\$ 428,000</u>	<u>\$ 70,655</u>	<u>\$ 615,000</u>	<u>\$ 141,215</u>

For the year ending September 30:	Series 2022 Bonds Term 2042		Series 2022 Bonds Term 2051	
	Principal	Interest	Principal	Interest
2024	\$ -	\$ 51,610	\$ -	\$ 65,618
2025	-	51,610	-	65,618
2026	-	51,610	-	65,618
2027	-	51,610	-	65,618
2028	-	51,610	-	65,618
2029-2033	135,000	258,050	-	328,088
2034-2038	751,000	188,988	-	328,088
2039-2043	702,000	58,078	192,000	328,088
2044-2048	-	-	1,076,000	229,613
2049-2051	-	-	751,000	49,433
Total	<u>\$ 1,588,000</u>	<u>\$ 763,166</u>	<u>\$ 2,019,000</u>	<u>\$ 1,591,400</u>

For the year ending September 30:	Series 2022 Bonds Total	
	Principal	Interest
2024	\$ 102,000	\$ 165,036
2025	105,000	158,406
2026	109,000	151,581
2027	112,000	144,496
2028	115,000	137,216
2029-2033	635,000	627,413
2034-2038	751,000	517,076
2039-2043	894,000	386,166
2044-2048	1,076,000	229,613
2049-2051	751,000	49,433
Total	<u>\$ 4,650,000</u>	<u>\$ 2,566,436</u>

B. Developer’s Escrow Deposit

At bond issuance, the Developer deposited \$664,005 with the Trustee to be held in escrow and used to fund costs of the public improvements in excess of the funds available from the proceeds of the Bonds. Any funds remaining at the completion of the public improvements will be returned to the Developer. As of September 30, 2023, \$287,970 was drawn on the Developer’s escrow deposit and reported as “developer’s contribution” (non-operating revenue) to the PID. There were no draws on the Developer’s escrow deposit in fiscal year 2022.

NOTE 6—REVENUES

Annual assessments are to be imposed and collected on all properties within the PID benefiting from the public improvements (excepting those for which the assessment lien has been prepaid), to pay debt service and operating costs of the PID. The annual assessments are remitted to the PID as they are received by the Denton County Tax Assessor Collector (the “DCTAC”). The amount billed, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. In addition, the annual payment includes a 0.50% additional interest rate to fund the prepayment and delinquency reserve as described in the Indenture. Annual assessments are payable to the DCTAC no later than February 1 of each year.

Annual assessments totaling \$50,298 were billed to property owners for collection in fiscal year 2023. As of September 30, 2023, all annual assessments had been collected and remitted to the PID. There were no annual assessments billed for collection in fiscal year 2022.

NOTE 7—ARBITRAGE

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

NOTE 8—SUBSEQUENT EVENTS

A. Annual Assessments

Annual assessments imposed on the property owners for the 2023-2024 assessment year to be collected in fiscal year 2024 total \$353,253. According to the DCTAC, all annual assessments for fiscal year 2024 have been collected and remitted to the PID.

B. Status of Public Improvements

As of April 10, 2024, both the Town and Mustang Special Utility District have accepted the public improvements.



Date: 06/04/2024
Agenda Item #: 6. B.
Department: Development Services
Strategic Goal: Promote and expand Little Elm's identity
Staff Contact: Olga Chernomorets, Planning Manager

AGENDA ITEM:

Hold a Public Hearing, Present, Discuss, and Consider Action on **Ordinance No. 1761 Regarding a Request to Allow a 1,912-square Foot Commissary Kitchen, Generally Located 2410 E. Eldorado Parkway, Suite 400, on the Northeast Corner of E. Eldorado Parkway and Little Elm Parkway, within Little Elm's Town Limits, in Order to Allow for Preparation and Storage of Food Items That are Delivered to Customers by Mobile Food Vendors Located Away from the Commissary Location.**

- **Open Public Hearing:**
- **Receive Public Comments:**
- **Close Public Hearing:**
- **Take Action on Ordinance No. 1761:**

DESCRIPTION:

Location.

Generally located 2410 E. Eldorado Parkway, Suite 400, on the northeast corner of E. Eldorado Parkway and Little Elm Parkway, within Little Elm's town limits.

Background.

The subject property was annexed in 2001 through Ordinance No. 519 and subsequently zoned for office and retail uses as part of a large scale Planned Development (PD), through Ordinance No. 521. In 2009, Ordinance No. 953 amended the office/retail area of the existing PD, establishing Light Commercial zoning and changing the rear yard setback, landscaping standards, and establishing standards for multi-Tenant Monument signs. The subject property was developed in 2022 and the single commercial retail building shell was constructed in 2023. The building is designed to have up to five tenants with two of the suites already leased out. The two other tenants on the property include a martial arts studio and a Medstar Family Care Center.

The land to the east was developed as a multi-tenant office park, as part of the same PD. The land to south was developed as a commercial retail building, completed in 2021, also part of the same PD. East Eldorado Parkway runs along the frontage of the property along the eastern boundary, on

the other side of East Eldorado Parkway is a residential subdivision. There is also a residential subdivision to the north of the property, separated by a detention pond and a brick screening wall.

In February 2024, a new tenant reached out regarding opening a commissary kitchen, in addition to other functions permitted by right, such as a grab-and-go restaurant and an ancillary training space. A commissary kitchen is allowed in Light Commercial zoning districts through a Specific Use Permit (SUP). A commissary kitchen is defined in the Zoning Ordinance as:

“A facility that is the home base for a restaurant-equipped vehicle that serves as a mobile food vendor. The commissary also is used for the storage and partial production of food items that are delivered to customers by the mobile food vendor located away from the commissary location. ”

Since the initial proposal, staff and the applicant have been working on how best to define the operation, mitigate any potential nuisances, and ensure the plans meet all building, health, and fire requirements. Since the use of the space as a culinary classroom and grab-and-go restaurant are both allowed by right, finish out work was allowed to proceed concurrently with the SUP request process.

Proposal.

The applicant is proposing to rent out the kitchen space in order to allow mobile food vendors (such as food trucks) to prepare food and have a brick and mortar location within Little Elm, as required per the Ordinance No. 1630, which was adopted in 2021. The ordinance states that mobile food vendors must be tied to a host business within Little Elm and prepare their food there. The requirement to have a host business within Town Limits offers benefits to both the Town and the operators of food trucks, mainly making the permitting and inspection process easier to track.

Previously, mobile food vendors who did not have a physical location worked through a different commissary kitchen, “On-the-Fly”, which closed down in late 2022, leaving mobile food vendors without a place to prepare food within the Town Limits unless they already had a physical location.

In addition to the commissary kitchen, the business will also have a “grab-and-go” counter where those renting the kitchen can also leave pre-prepared meals for individuals to walk in and purchase. The applicant also has a small space which allows for culinary classes, private meals, or similar ancillary events. This use is ancillary to the main use of the business and does not fall under the intent of the recently added banquet hall definition since hosting events is not the primary purpose of this establishment.

Use and Nuisance Prevention.

Approval of this SUP would allow the applicant to rent out kitchen space and allow mobile food trucks to load and unload food and small restaurant equipment on property. The SUP process allows staff to evaluate these types of uses on a case by case basis to prevent or mitigate any potential nuisances, from affecting the health and welfare of adjacent suites and properties, particularly the residents.

Noise and odor are two potential concerns. To mitigate these potential nuisances, staff and the applicant have agreed to have in the business description and narrative state that there will be no emptying of grease traps, cleaning, or maintenance of food trucks on the property. Overnight parking of food trucks will not be allowed.

Overnight delivery of food supplies will be allowed as well as early and late loading and unloading of trucks, but this will not be of normal circumstance and will still be subject to the Town’s noise

ordinances which has stated hours and decibel levels. All operations for food truck will take place at the rear of the building which is over 200 feet from the nearest residential lot.

Staff does not anticipate the creation of an odorous nuisance since the use will be similar to that of a restaurant allowed by right. The property has two dumpsters and access to a third due to proximity of other shared dumpsters allowed through the existing PD. Town ordinance section 102-403 requires all trash to be bagged when thrown away and placed inside the dumpster. Should an odorous nuisance arise, Community Integrity staff will work with the property owners toward a resolution, such as potentially increasing the rate of trash collection on site.

If, in the future, this use wants to expand into another suite, increasing the square footage, it will require a SUP amendment as this SUP only permits 1,912 square feet.

Fire and Building Departments.

Since some uses of the whole business can operate by right without an SUP, the plans have already been under review by the Fire and Building Departments and have been approved for construction.

Comprehensive Plan.

Commissary kitchen is listed under “Retail Use” the Town’s Schedule of Uses, which aligns with the current and future zoning of Light Commercial.

Commission Findings.

At their regular meeting on April 18, 2024, the Planning and Zoning Commission held a public hearing and discussed potential impact on the surrounding tenants, traffic, and kitchen operations. The Commission unanimously (5-0) recommended approval subject to the following conditions:

1. No overnight parking for food trucks.
2. Food truck parking and loading are only allowed at the back of the building.
3. No emptying of grease traps and/or cleaning and maintenance of food trucks on site.

BUDGET IMPACT:

This item has no budget impact.

RECOMMENDED ACTION:

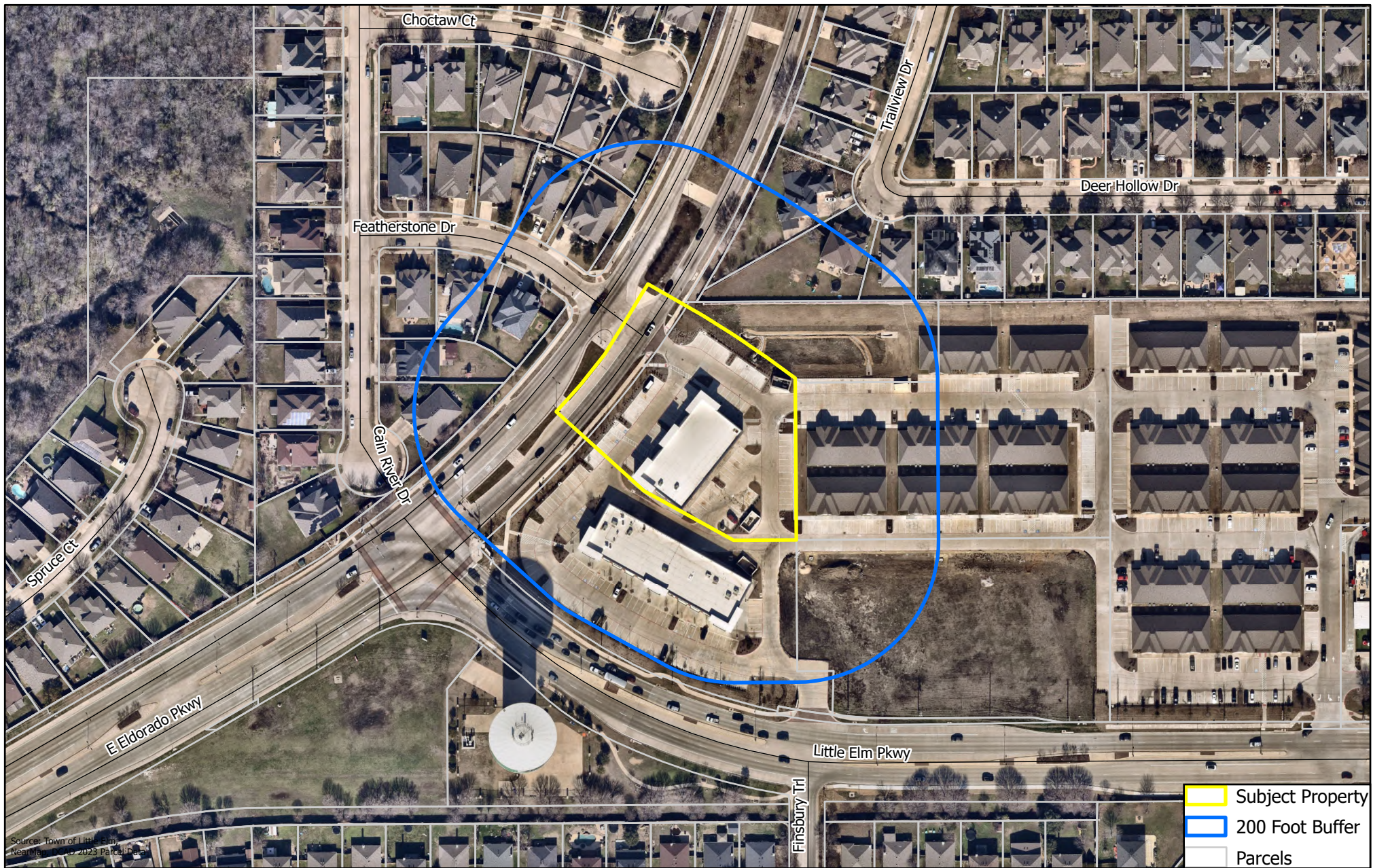
The Planning and Zoning Commission recommends approval with the following conditions:

1. No overnight parking for food trucks.
2. Food truck parking and loading are only allowed at the back of the building.
3. No emptying of grease traps and/or cleaning and maintenance of food trucks on site.

Attachments

Location Map

Ordinance No. 1761



- Subject Property
- 200 Foot Buffer
- Parcels

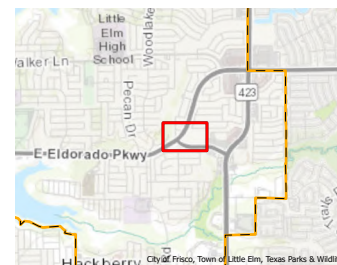
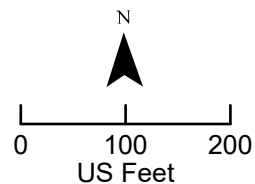
Source: Town of Little Elm, Nearmap, Inc. 2023 Parcel Data



Simply French Commissary Kitchen Specific Use Permit
(SUP-24-000839)
Little Elm, TX, 75068

Town of Little Elm
Denton County, Tx

Date: 4/2/2024



This product is to be used for graphical representation only. The accuracy is not to be taken/used as data produced for engineering purposes or by a Registered Professional Land Surveyor for the State of Texas. For this level of detail, supervision and certification of the produced data by a Registered Professional Land Surveyor for the State of Texas would have to be performed. Town of Little Elm and its members assume no responsibility for the accuracy of said data.

TOWN OF LITTLE ELM

ORDINANCE NO. 1761

AN ORDINANCE OF THE TOWN OF LITTLE ELM, TEXAS, AMENDING THE COMPREHENSIVE ZONING ORDINANCE TO GRANT A NEW SPECIFIC USE PERMIT FOR A 1,912 SQUARE-FOOT COMMISSARY KITCHEN GENERALLY LOCATED AT 2410 E. ELDORADO PARKWAY, SUITE 400; PROVIDING A PENALTY; PROVIDING A SEVERABILITY CLAUSE; PROVIDING A REPEALER CLAUSE; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Town of Little Elm ("Town") is a home rule municipal corporation organized and existing by virtue of the Constitution and laws of the State of Texas and by its Charter adopted on May 1, 2001; and

WHEREAS, the Town possesses all the rights, powers, and authorities possessed by all home rule municipalities, including the authority to regulate land uses under Chapter 211 of the Texas Local Government Code; and

WHEREAS, Chapter 106 (Zoning) of the Little Elm Code of Ordinances, requires a Specific Use Permit be granted by Town Council in order to legally operate and occupy the subject property with a commissary kitchen while it is zoned Light Commercial (LC); and

WHEREAS, a request for a Specific Use Permit for a commissary kitchen has been submitted by Emmanuelle Marchant, on property located at 2410 E. Eldorado Parkway, Suite 400, on the northeast corner of E. Eldorado Parkway and Little Elm Parkway; and

WHEREAS, Section 106.02.17 of the Little Elm Code of Ordinances provides that Town Council may impose such additional development standards and safeguards as the conditions and locations indicate important to the welfare and protection of adjacent property from noise, vibration, dust, dirt, smoke, fumes, odor, gas, explosion, glare, offensive view, or other undesirable or hazardous conditions; and

WHEREAS, Town Council and the Planning & Zoning Commission of the Town of Little Elm, in compliance with the laws of the State of Texas and the ordinances of the Town of Little Elm, have given the required notices and held the required public hearings and afforded a full and fair hearing to all property owners generally and to all persons interested in and situated in the affected area and in the vicinity thereof regarding the requested planned development amendment described herein; and

WHEREAS, at its regular meeting held on April 18, 2024 the Planning & Zoning Commission considered and made recommendations on a request to grant a Specific Use Permit for a 1,912 square-foot commissary kitchen (Case No. SUP-24-000839); and

WHEREAS, after due deliberations and consideration of the recommendation of the Planning & Zoning Commission and any other information and materials received at the public hearing, the Town Council of the Town of Little Elm, Texas, has determined that the request would be in the interest of public health, safety and welfare of the citizens of the Town of Little Elm.

NOW, THEREFORE, BE IT ORDAINED BY THE TOWN COUNCIL OF THE TOWN OF LITTLE ELM, TEXAS:

SECTION 1. INCORPORATION OF PREMISES. The above and foregoing premises are true and correct and are incorporated herein and made a part hereof for all purposes.

SECTION 2. AMENDMENT. That Ordinance No. 226 of the Town of Little Elm, Texas, the same being the Comprehensive Zoning Ordinance of the Town, as amended, is hereby amended by the following:

- A. Granting a Specific Use Permit authorizing a commissary kitchen located 2410 E. Eldorado Parkway, Suite 400, subject to the following conditions:
1. Prior to the issuance of a Certificate of Occupancy, said Property shall be improved in accordance with the site plan and floor plan, which are attached hereto as Exhibit A and made a part hereof for all purposes.
 2. The Specific Use Permit granted herein for a commissary kitchen shall be limited to that particular area designated on the approved site plan and floor plan, encompassing a total area not to exceed 1,912 square feet.
 3. There shall not be any overnight parking for food trucks.
 4. Food truck parking and loading are only allowed at the back of the building.
 5. No emptying of grease traps and/or cleaning and maintenance of food trucks on site.

SECTION 3. SAVINGS. This Ordinance (which includes the New Zoning Ordinance) shall be cumulative of all other ordinances of the Town, and shall not repeal any of the provisions of those ordinances except in those instances where the provisions of those ordinances are in direct conflict with the provisions of this Ordinance; provided, however, that any complaint, notice, action, cause of action, or claim which prior to the effective date of this Ordinance has been initiated or has arisen under or pursuant to such other ordinance(s) shall continue to be governed by the provisions of that ordinance or those ordinances, and for that purpose that ordinance or those ordinances shall be deemed to remain and shall continue in full force and effect.

SECTION 4. PENALTY. Any person, firm, or corporation violating any of the provision of this Ordinance shall be punished by a penalty of a fine not to exceed the sum of Two Thousand Dollars (\$2,000) for each offense and each and every day such offense shall

continue shall be deemed to constitute a separate offense.

SECTION 5. SEVERABILITY. The sections, paragraphs, sentences, phrases, and words of this Ordinance are severable, and if any section or provision of this ordinance or the application of that section or provision to any person, firm, corporation, situation or circumstance is for any reason judged invalid or unconstitutional, the adjudication shall not affect any other section or provision of this Ordinance or the application of any other section or provision to any person, firm, corporation, situation or circumstance, nor shall adjudication affect any other section or provision of the New Zoning Ordinance of the Town of Little Elm, Texas, and the Town Council hereby declares that it would have adopted the valid portions and applications of this Ordinance (which includes the New Zoning Ordinance) without the invalid parts and to this end the provisions of this Ordinance shall remain in full force and effect.

SECTION 6. REPEALER. That all ordinances of the Town of Little Elm in conflict with the provisions of this Ordinance are hereby repealed to the extent of that conflict.

SECTION 7. EFFECTIVE DATE. This Ordinance shall take effect immediately upon its adoption in accordance with and as provided by law and the Town Charter.

PASSED AND APPROVED by the Town Council of the Town of Little Elm, Texas on the 4th day of June, 2024.

The Town of Little Elm, Texas

Curtis J. Cornelious, Mayor

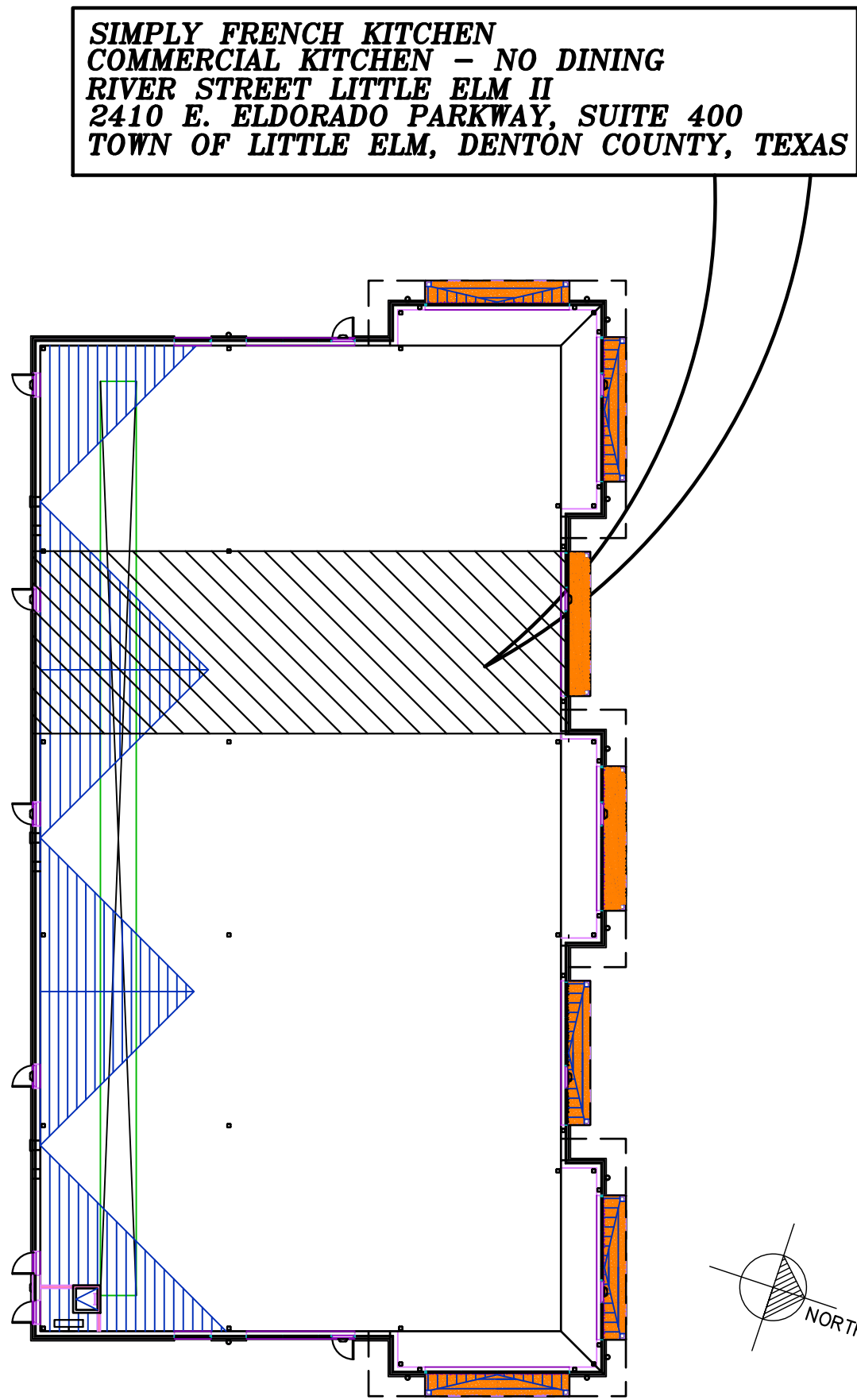
ATTEST:

Caitlan Biggs, Town Secretary

ATTACHMENT – EXHIBIT A

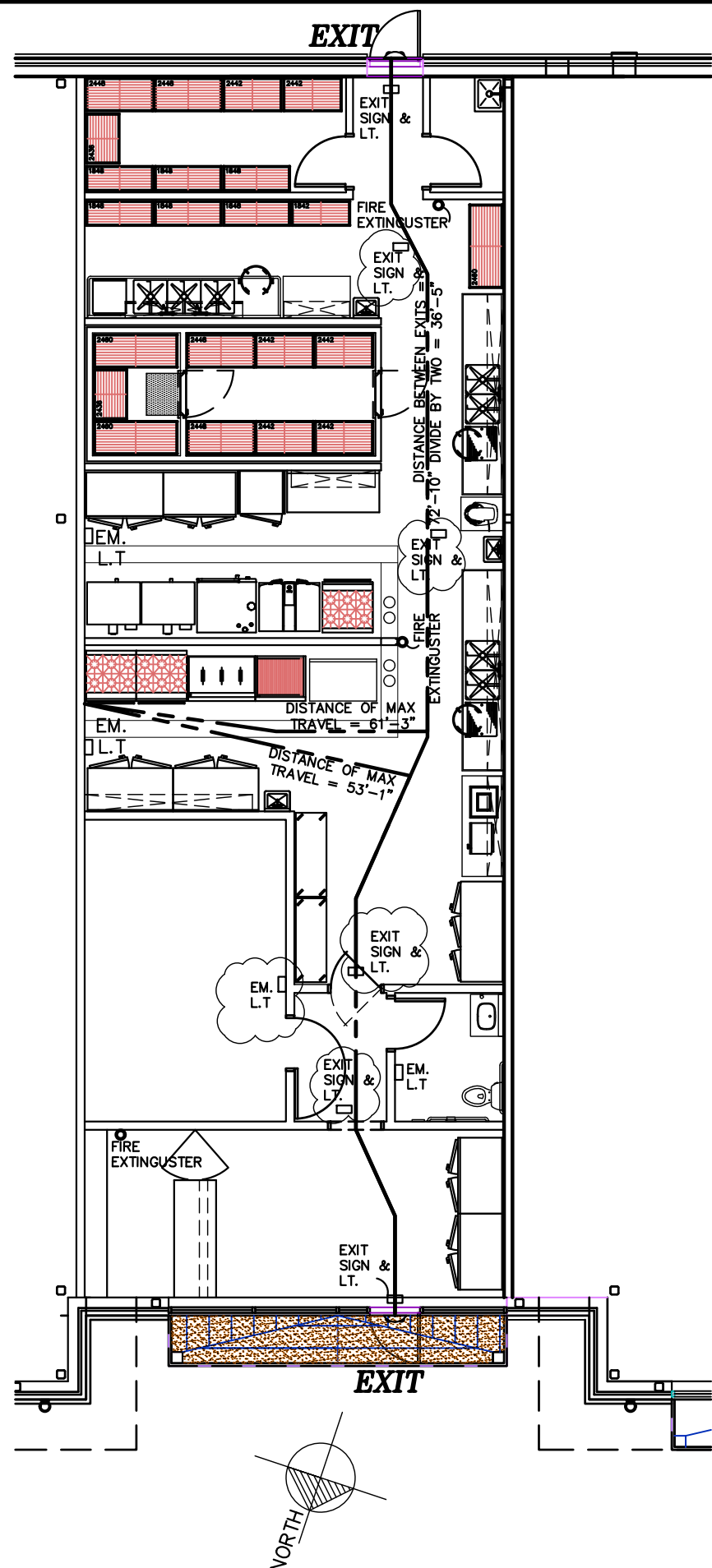
SIMPLY FRENCH KITCHEN
COMMERCIAL KITCHEN – NO DINING
RIVER STREET LITTLE ELM II
2410 E. ELDORADO PARKWAY, SUITE 400
CITY OF LITTLE ELM, DENTON COUNTY, TEXAS

TENANT KEY PLAN



RIVER STREET LITTLE ELM II = 11,200 S.F.
SIMPLY FRENCH = 1,912 S.F.

LIFE SAFETY PLAN



TOTAL FINISHED SPACE = 1,912 S.F.
TOTAL OCCUPANT LOAD = 20 PEOPLE

PROJECT DATA

SHELL
SHELL OCCUPANCY GROUP B
CONSTRUCTION TYPE II-B
FIRE SPRINKLERS YES

TENANT SPACE
TENANT OCCUPANCY GROUP B (COMMERCIAL KITCHEN)
CONSTRUCTION TYPE II-B
FIRE SPRINKLERS YES

OCCUPANT LOAD
TOTAL LEASE AREA = 1,912 S.F.

GRAB-N-GO, SALES, RESTROOM, KITCHEN = 1,696 S.F.
1,696 S.F. @ 200/S.F. GROSS = 9 PEOPLE

CLASSROOM = 216 S.F. @ 20/S.F. NET = 11 PEOPLE

TOTAL OCCUPANT LOAD = 20 OCCUPANTS

EXITING REQUIREMENTS
MAXIMUM TRAVEL DISTANCE ALLOWED-----150 FEET
MAXIMUM TRAVEL DISTANCE PROVIDED-----61'-3"
NUMBER OF EXITS REQUIRED-----2
NUMBER OF EXITS PROVIDED-----2
NOTE:
EXIT HARDWARE SHALL HAVE A MAXIMUM OF 15 POUND UNLATCHING RELEASE

PLUMBING REQUIREMENTS
TOILETS / URINALS REQUIRED-----1 REQUIRED
TOILETS / URINALS PROVIDED-----1 PROVIDED
LAVATORIES REQUIRED -----1 REQUIRED
ACCESSABLE RESTROOMS REQ'D. AND PROVIDED-----1 REQUIRED
DRINKING WATER -----HIGH/LOW ADA
MOP SINK-----1 PROVIDED

TOWN OF LITTLE ELM BUILDING CODES
2018 INTERNATIONAL FIRE CODE
2018 INTERNATIONAL BUILDING CODE
2018 INTERNATIONAL PLUMBING CODE
2018 INTERNATIONAL MECHANICAL CODE
2017 NATIONAL ELECTRICAL CODE

INDEX OF DRAWINGS

ARCHITECTURAL
A0.1 COVER, SITE INFO, CODES, INDEX, PROJECT TEAM
A1.1 EXISTING SHELL FLOOR PLAN
A1.2 FLOOR PLAN / DOOR SCHEDULE
A1.3 REFLECTED CEILING PLAN
A2.1 INTERIOR ELEVATION
A3.1 WALL SECTIONS

KITCHEN EQUIPMENT
K.1 EQUIPMENT FLOOR PLAN AND SCHEDULE

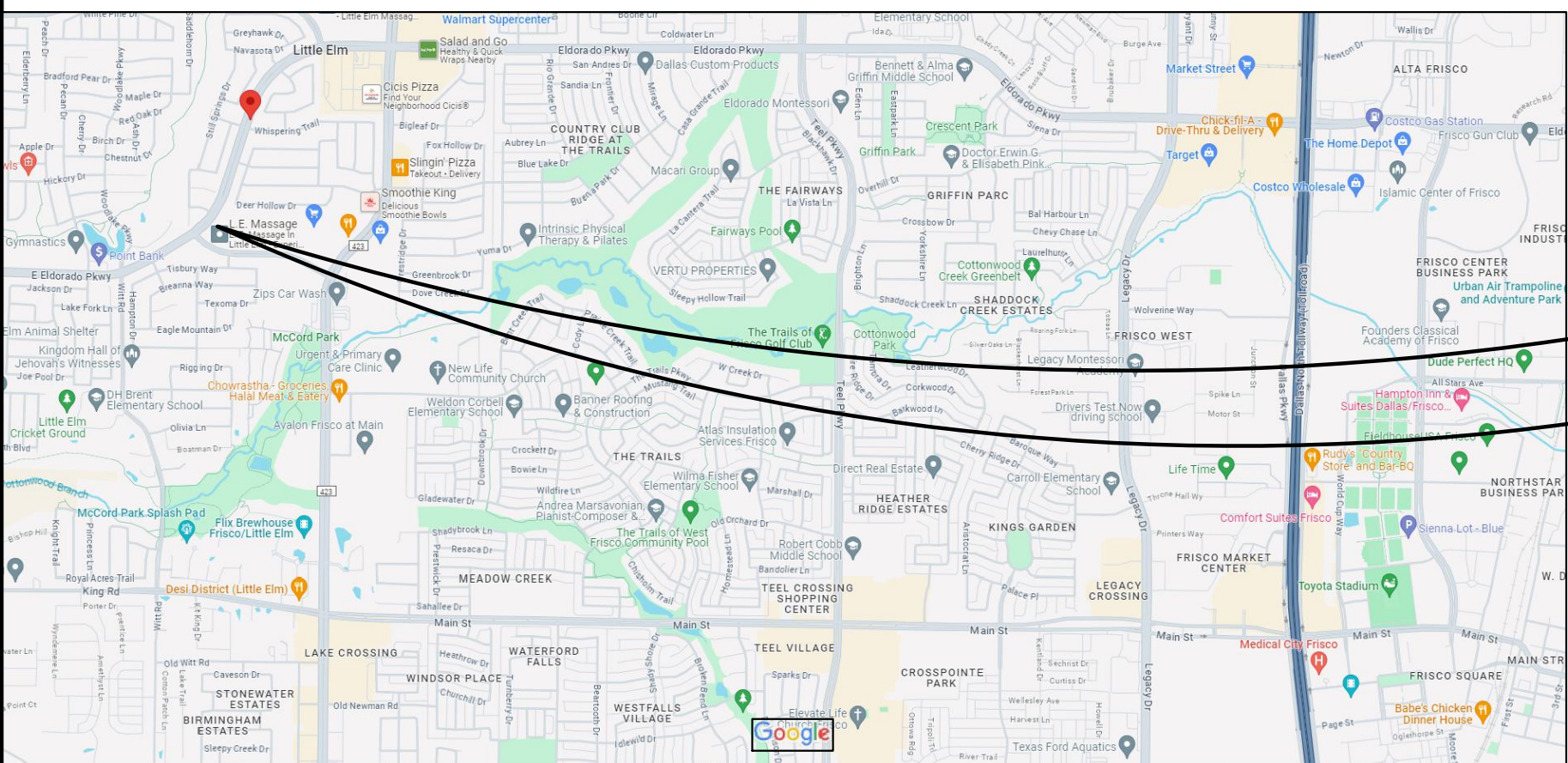
EXHAUST HOOD
H.1 BACK HOOD
H.2 FRONT HOOD
H.3 ROOF EXHAUST – BACK HOOD FAN 1
H.4 ROOF EXHAUST – BACK HOOD FAN 2
H.5 ROOF EXHAUST – FRONT HOOD FAN 1
H.6 ROOF EXHAUST – FRONT HOOD FAN 2
H.7 FIRE SYSTEM
H.8 SUPPLY AIR FAN – MUA UNTEMPERED
H.9 OPTIONAL MUA – HEAT & COOL
H.10 CONTROL INFORMATION/ WIRING SCHEMATIC

MECHANICAL
M.1 HVAC FLOOR PLAN

ELECTRICAL
E.1 ELECTRICAL POWER PLAN
E.2 ELECTRICAL LIGHTING PLAN

PLUMBING
P.1 PLUMBING PLAN

PROPERTY LOCATION MAP



SIMPLY FRENCH KITCHEN
COMMERCIAL KITCHEN – NO DINING
RIVER STREET LITTLE ELM II
2410 E. ELDORADO PARKWAY, SUITE 400
TOWN OF LITTLE ELM, DENTON COUNTY, TEXAS

PROJECT TEAM

OWNER:
RIVER STREET DEVELOPMENT, INC
P.O. BOX 190746
DALLAS, TEXAS 75219
214-377-8466

TENANT:
SIMPLY FRENCH KITCHEN
CONTACT: EMMANUELLE MARCHANT
em@simplyfrenchtexas.com
972-824-8112

CONTRACTOR:
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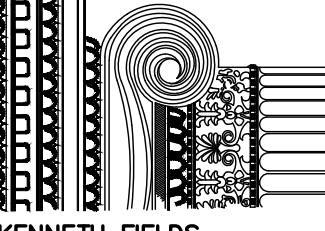
ARCHITECTURE:
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MECHANICAL, ELECTRICAL, PLUMBING:
AZEN MECHANICAL CORP.
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samjoemep@gmail.com
817-228-3321

SIMPLY FRENCH KITCHEN
COMMERCIAL KITCHEN – NO DINING
RIVER STREET LITTLE ELM II
2410 E. ELDORADO PARKWAY, SUITE 400
TOWN OF LITTLE ELM, DENTON COUNTY, TEXAS



CORINTHIAN DESIGN ASSOCIATES, LLC
RESIDENTIAL / COMMERCIAL
PLANNING & DESIGN



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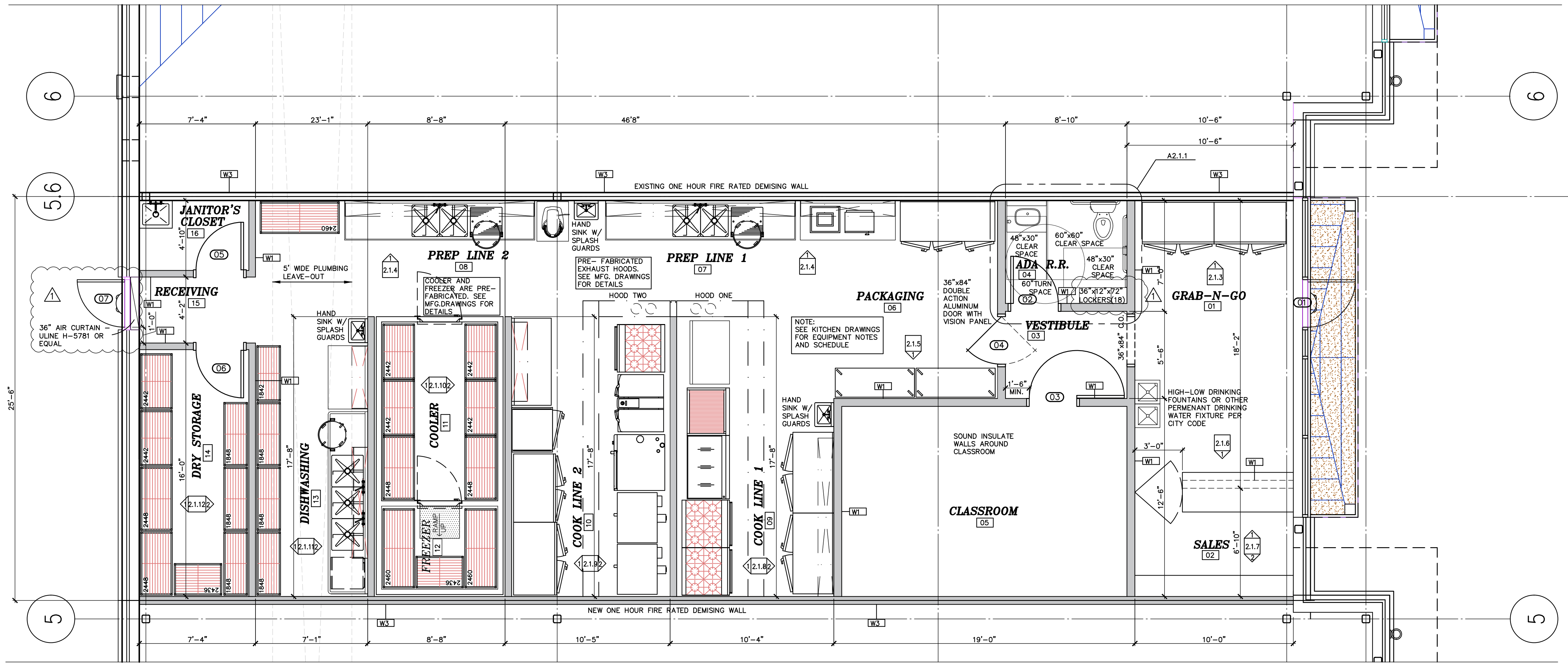
DATE ISSUED
DECEMBER 29, 2023

DATE REVISED
MARCH 15, 2024

JOB NO.
SIMPLY FRENCH

SHEET

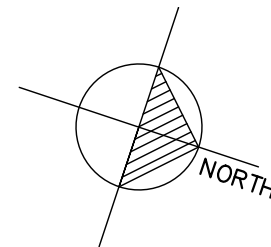
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1 FLOOR PLAN - 1,912 S.F.

SCALE: 1/4" = 1'-0"

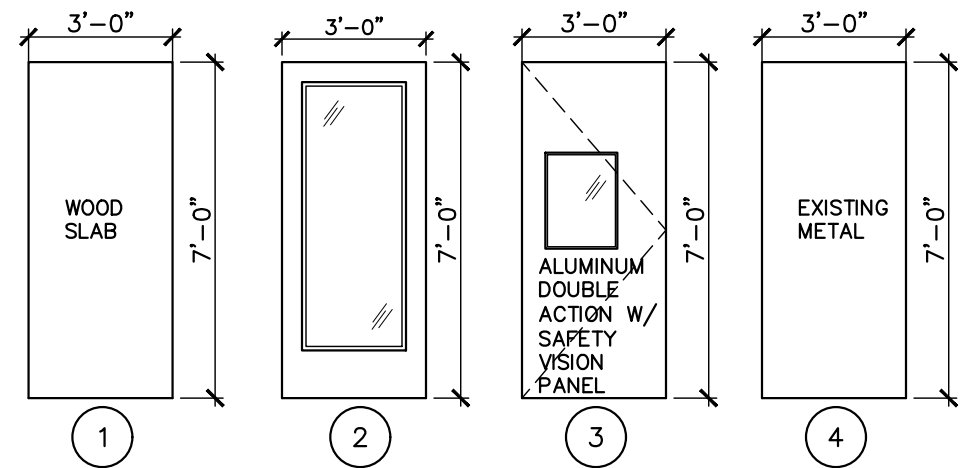
GRAPHIC SCALE = FEET



SUITE B10 AREA CALCULATIONS	
GRAB-N-GO, RESTRM., KITCHEN	1,696 SQ FT
CLASSROOM	216 SQ FT
TOTAL LEASED AREA	1,912 SQ FT

LEGEND	
	EXISTING WALLS TO REMAIN
	NEW WALLS

DOOR TYPES



DOOR & FRAME SCHEDULE

NOTE: VERIFY DOOR DIMENSIONS PER MFG. SPECS.

MK	ROOM NAME	TYPE	DOOR			GLASS	FINISH	H/W SET	FRAME		NOTES
			WIDTH	HEIGHT	THKNS				MAT	FINISH	
01	FRONT ENTRY	1	3'-0"	7'-0"		EXISTING					EXISTING STOREFRONT DOOR AND HARDWARE
02	RESTROOM	2	3'-0"	7'-0"		WOOD		2	METAL	BRONZE	SOLID CORE SLAB
03	CLASSROOM	1	3'-0"	7'-0"		GLASS	TEMPERED	1	METAL	BRONZE	SOLID CORE WOOD WITH FULL GLASS PANEL
04	KITCHEN	3	3'-0"	7'-0"		ALUMINUM	TEMPERED	3	METAL	BRONZE	ALUMINUM DOUBLE ACTION KITCHEN DOOR WITH SAFETY VISION PANEL
05	JANITOR CLOS.	1	3'-0"	7'-0"		WOOD		1	METAL	BRONZE	SOLID CORE SLAB
06	DRY STORAGE	1	3'-0"	7'-0"		WOOD		1	METAL	BRONZE	SOLID CORE SLAB
07	REAR EXIT	4	3'-0"	7'-0"		EXISTING					EXISTING WOOD DOOR AND HARDWARE

HARDWARE SETS

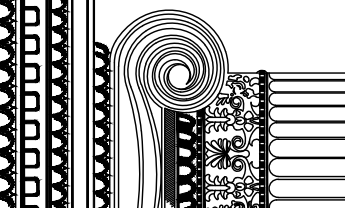
NOTE: ALL HARDWARE TO BE SCHLAGE OR EQUAL QUALITY

MARK	QUANTITY	DESCRIPTION
1	1	LEVER PASSAGE, 3 HINGES, DOOR STOP (CLASSROOM, JANITOR CLOSET, DRY STORAGE)
2	1	LEVER PRIVACY W/ PUSH BUTTON LOCK, 3 HINGES, DOOR STOP, COAT HOOK (RESTROOM)
3	1	BY ALUMINUM DOOR MANUFACTURER (KITCHEN)

SIMPLY FRENCH KITCHEN
COMMERCIAL KITCHEN - NO DINING
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DECEMBER 29, 2023

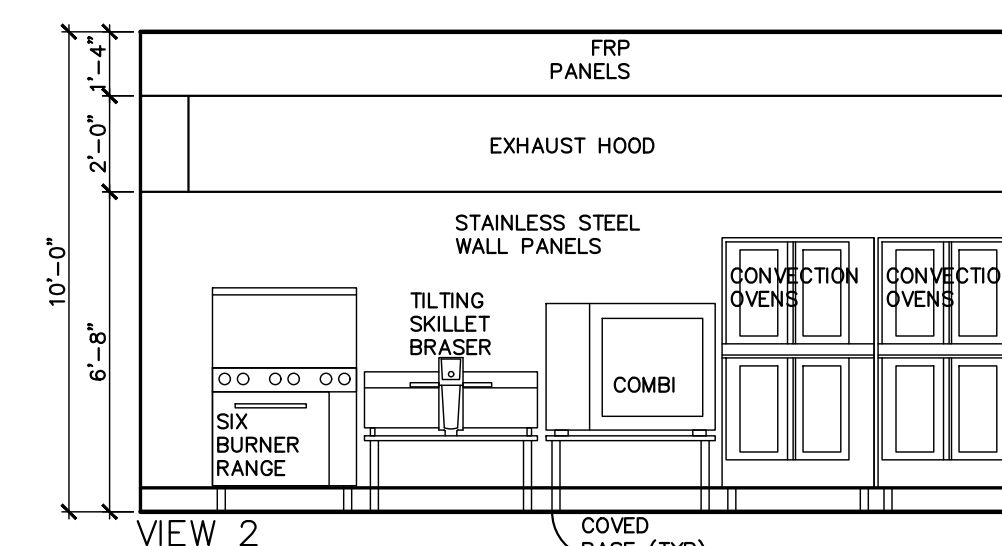
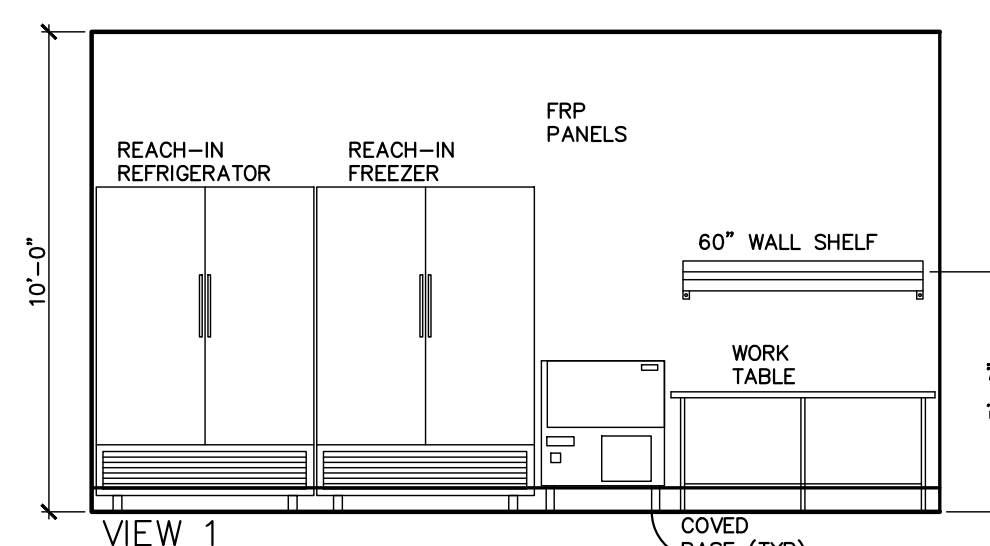
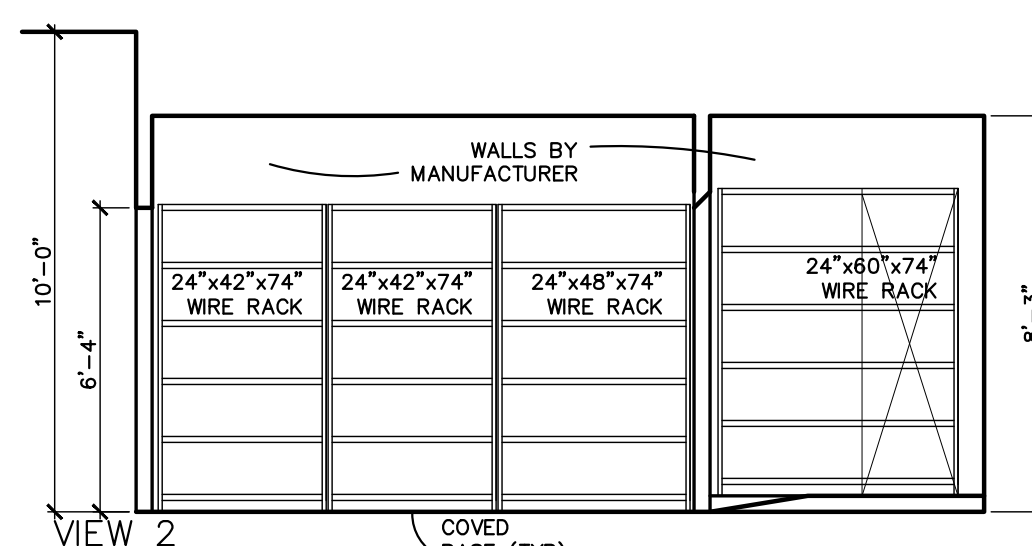
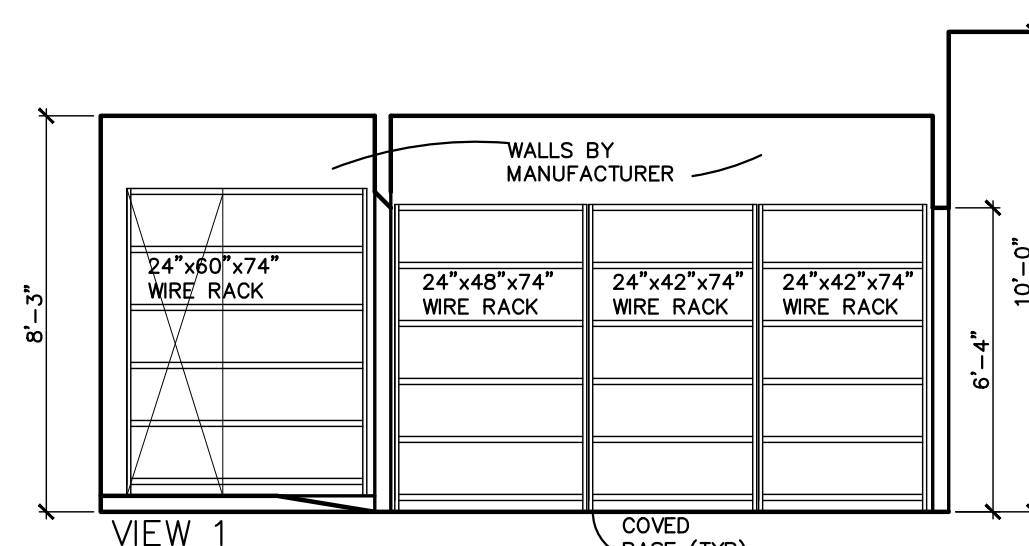
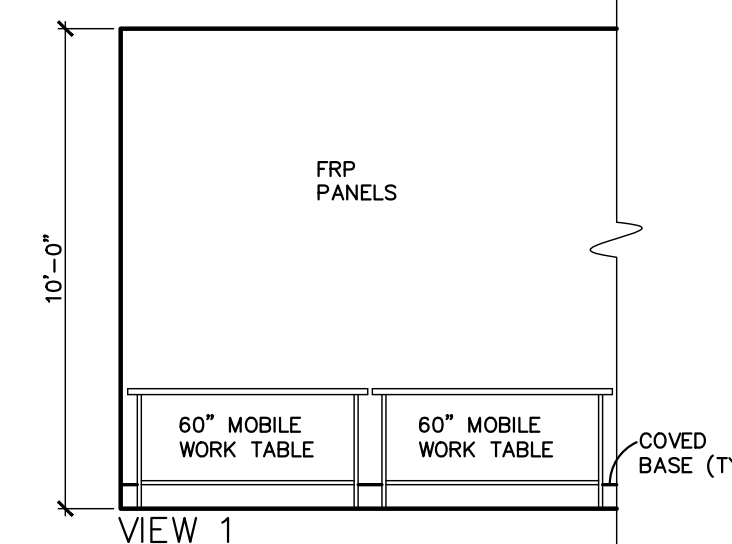
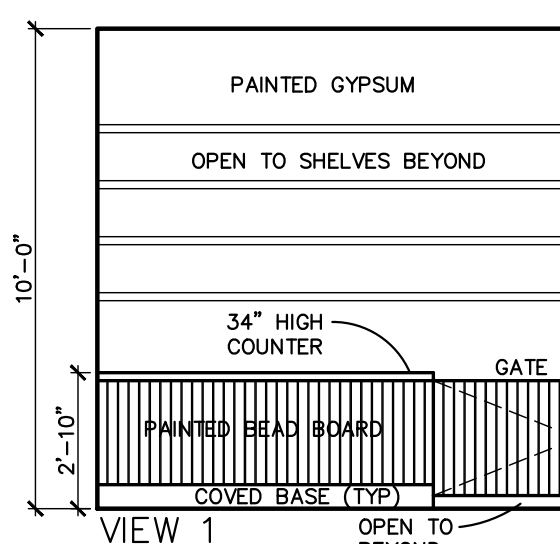
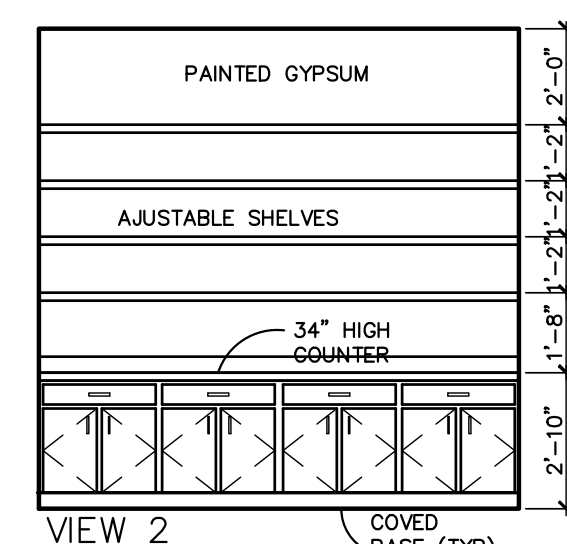
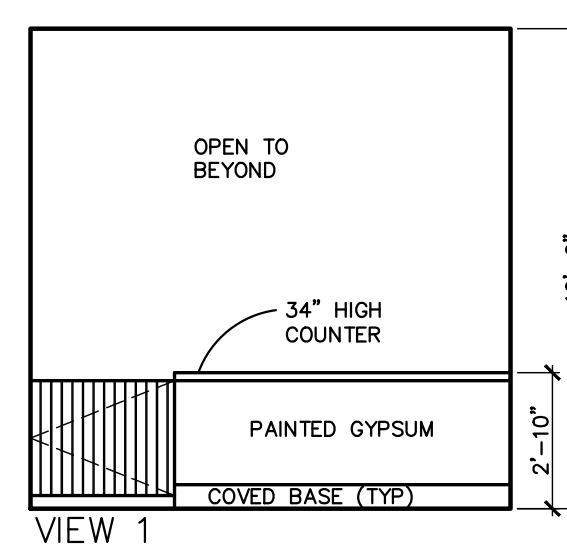
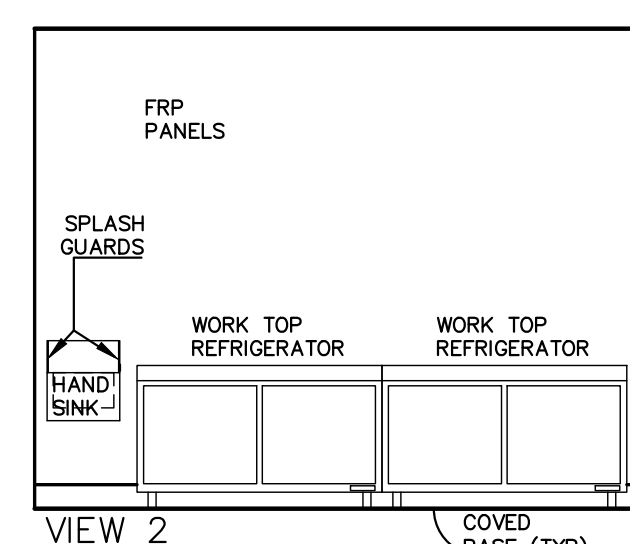
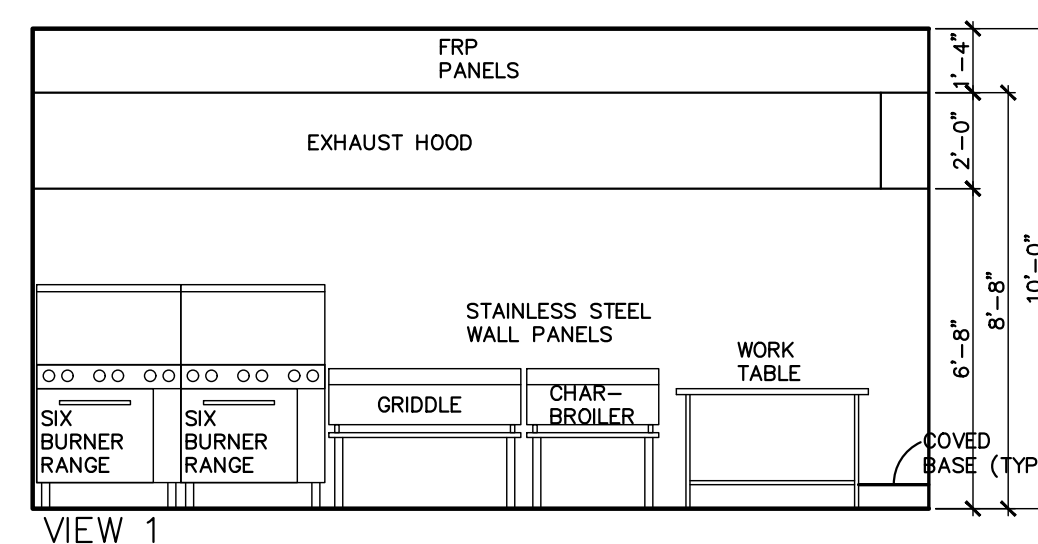
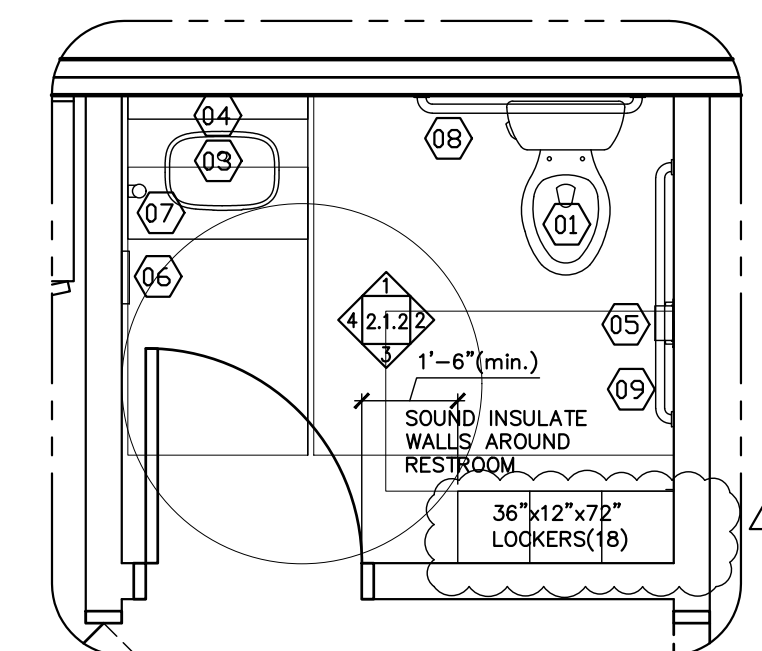
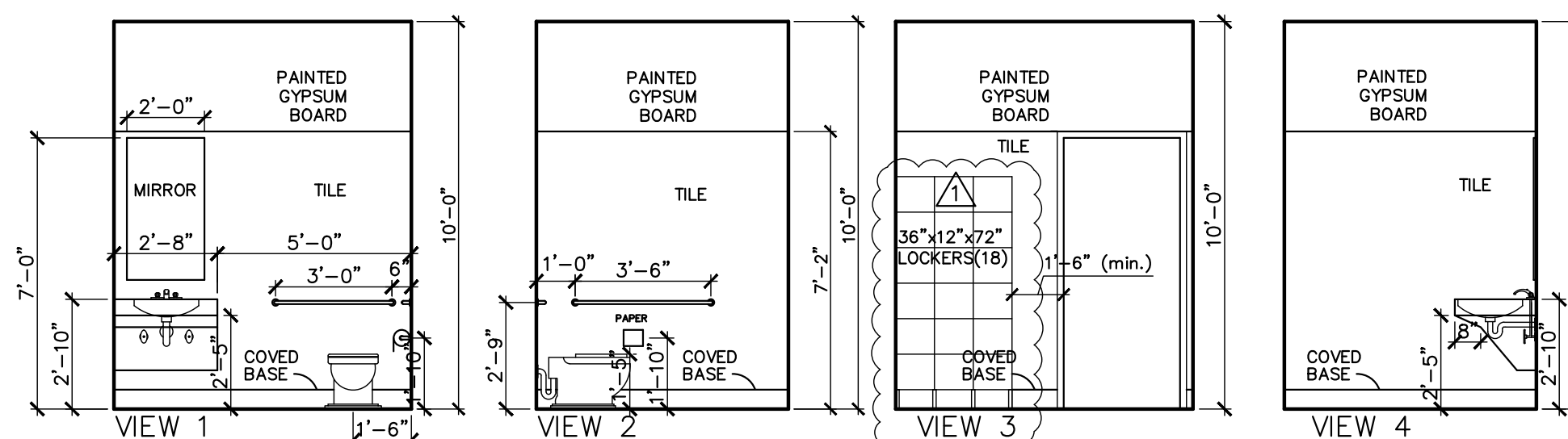
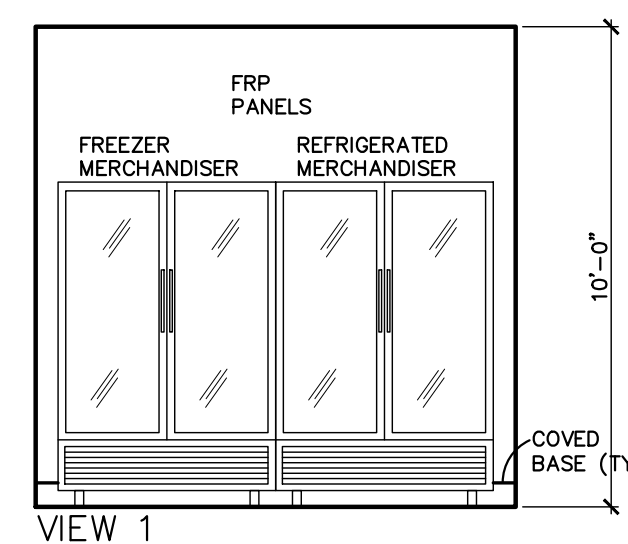
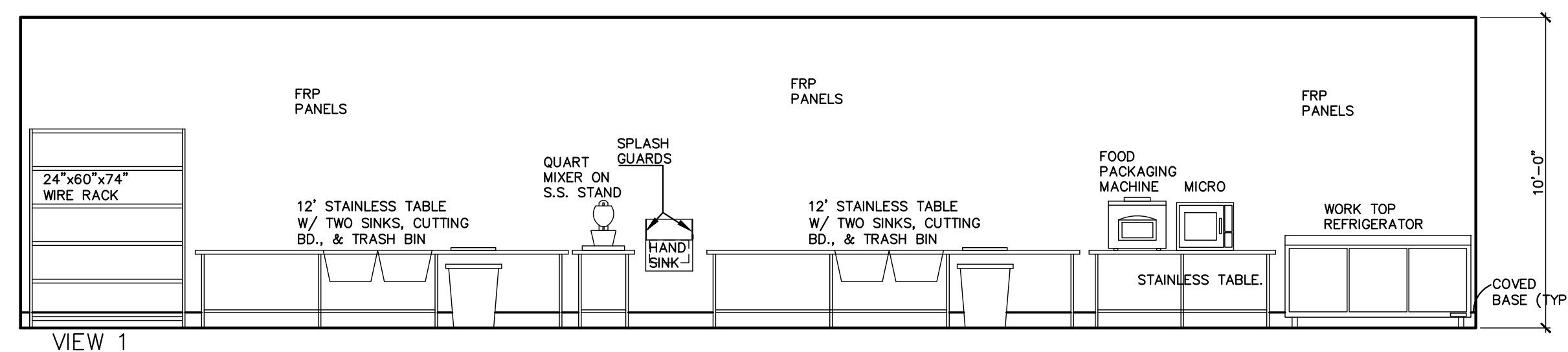
DATE REVISED

FEBRUARY 28, 2024

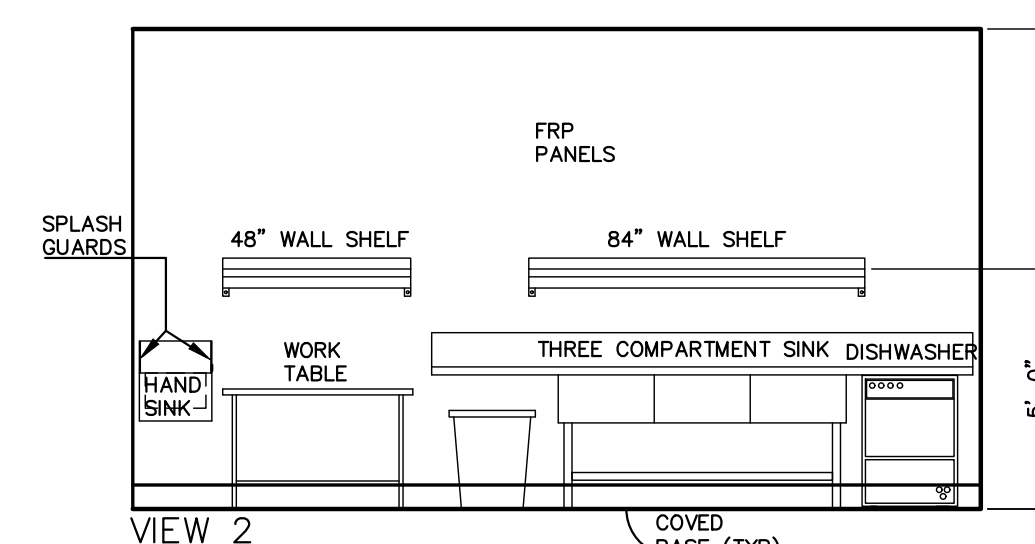
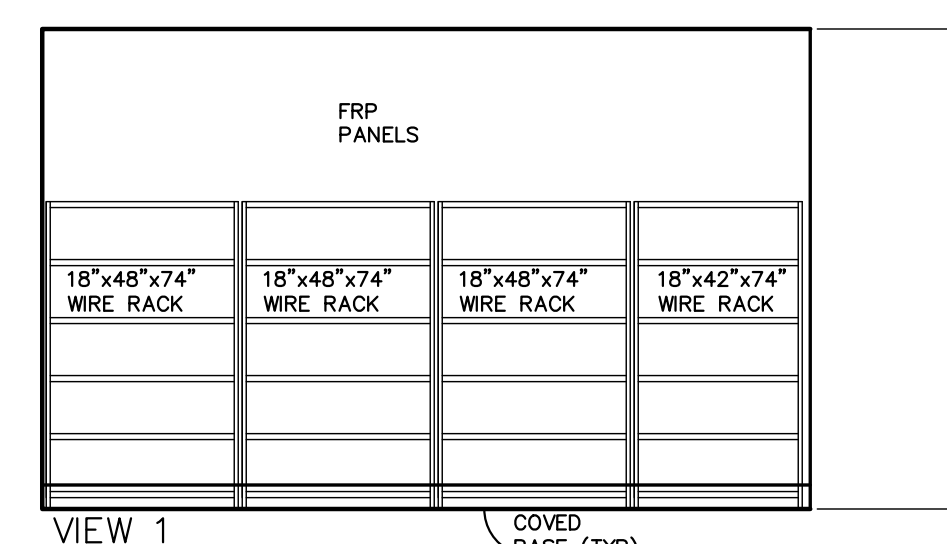
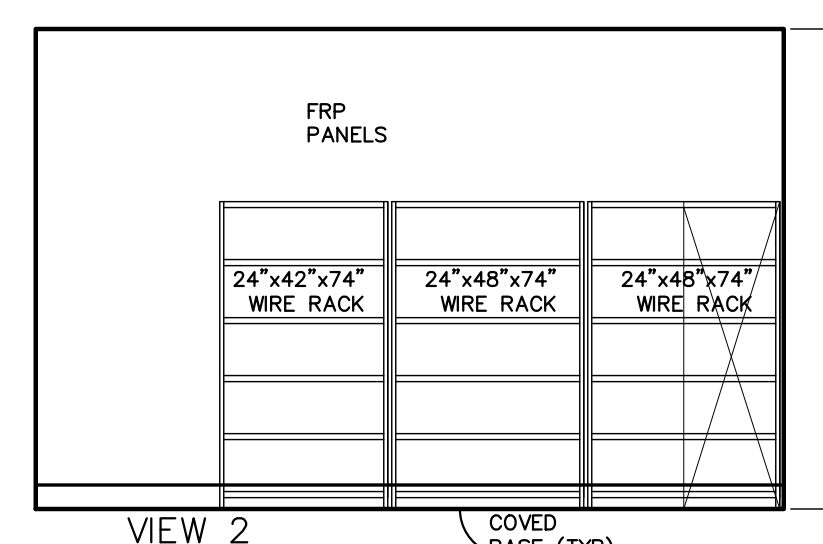
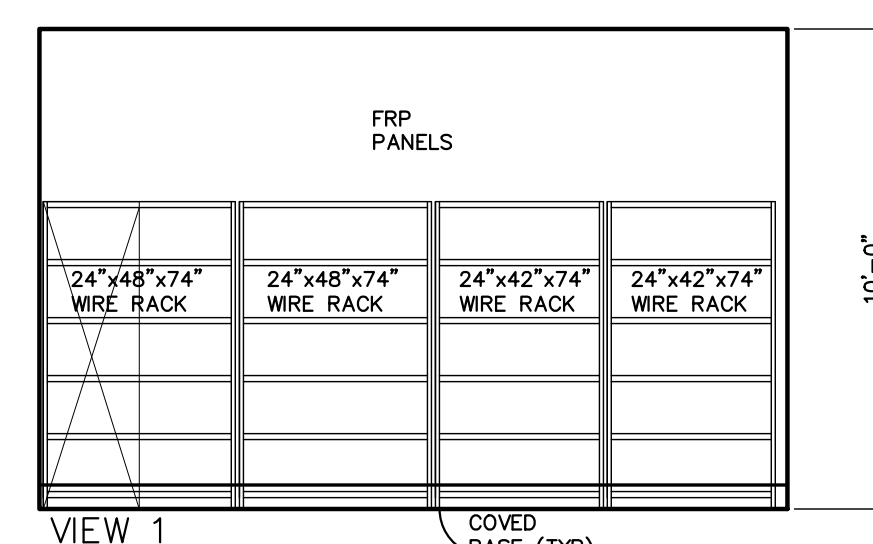
JOB NO.

SHEET

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RESTROOM & FIXTURE SCHEDULE				(VERIFY EQUAL EQUIPMENT AND COLOR SELECTIONS WITH OWNER BEFORE CONSTRUCTION)		
MK	NAME	MANUFACTURER (OR EQUAL)	MODEL #	ADA	COLOR	QUAN
01	FLOOR MOUNT TOILET W/ SENSOR FLUSH COMBO	SLDAN	WETS 2023.1001-COMBO	YES	WHITE/CHROME	1
02	1.6 CU. FT. MICROWAVE	WHIRLPOOL	WMC30S16HZ	NO	STAINLESS STEEL	1
03	WALL MOUNT RESTROOM SINK	KOHLER	K-2084	YES	WHITE	1
04	HANDS FREE FAUCET	KOHLER	K-13461	YES	CHROME	1
05	DOUBLE TOILET PAPER DISPENSER	KIMBERLY CLARK	K-09606	YES	STAINLESS S.	1
06	TOWEL DISPENSER	KIMBERLY CLARK	K-09905	YES	SMOKE GREY	1
07	SOAP DISPENSER	KIMBERLY CLARK	K-32508	YES	FAUX STAINLESS	1
08	STAINLESS STEEL 36" GRAB BAR	PROFLD	PFGB36SF2	YES	SATIN FINISH	1
09	STAINLESS STEEL 42" GRAB BAR	PROFLD	PFGB42SF2	YES	SATIN FINISH	1
10	WATER DISPENSER	KRAUS	FF-102	YES	STAINLESS STEEL	1
11	STAINLESS STEEL 25"x21 1/4" SINK	DAYTON	GE12521	YES	STAINLESS STEEL	1
12	FLEXIBLE SPOUT KITCHEN FAUCET	ELKAY	LKD2439C	YES	CHROME	1
13	24" - 16 GAUGE TYPE 430 SS UTILITY SINK	REGENCY	600S12424B	NO	SATIN FINISH	1
14	WALL MOUNT 6" FAUCET W/ HOSE & BRACKET	FISHER	72714	NO	CHROME	1
15	33" WIDE BTM. FREEZER REFRIGERATOR, ICE MKR	WHIRLPOOL	WRB322DMB	YES	STAINLESS STEEL	1



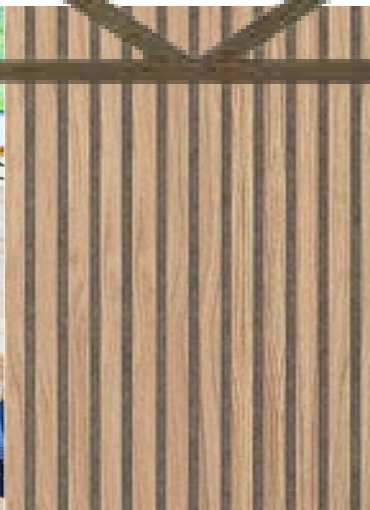
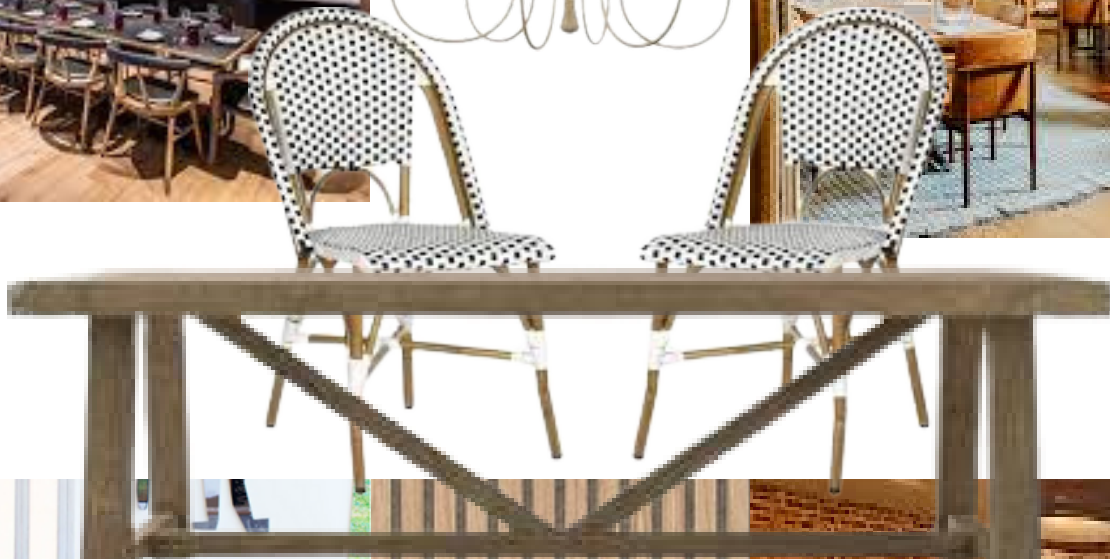
SFK - Grab & Go

INSPIRATION



SFK - Community Room

INSPIRATION



Emmanuelle Marchant

Simply French Kitchen

2410 E Eldorado pkwy, suite 400

Little Elm, TX 75068

February 24th 20204

Rezoning request

The proposal for rezoning from a commercial kitchen to a commissary kitchen in Little Elm is a visionary initiative aimed at not only fostering economic development but also empowering culinary entrepreneurs. The following statement articulates the persuasive reasons why the town should embrace this transformation, enabling budding chefs, food truck operators, and local artisans to develop their culinary ideas without the burden of initial financial investment.

Eliminating Financial Barriers for Culinary Entrepreneurs: The conversion to a commissary kitchen eliminates one of the primary obstacles faced by culinary entrepreneurs – the high cost of setting up an individual commercial kitchen. By providing a shared space, Simply French Kitchen facilitates collaboration and idea incubation without imposing a significant financial burden on individual entrepreneurs.

Municipal Compliance for Food Trucks: Municipality laws mandate that food trucks must have access to a commercial kitchen within the township limits. Currently, the town of Little Elm can no longer issue permits due to the absence of a commissary kitchen within its Township limits.

Simply French Kitchen addresses this requirement, ensuring that food truck operators can comply with regulations seamlessly. This not only aids in the growth of local food truck businesses but also enhances the town's reputation for regulatory compliance and responsible entrepreneurship.

Fostering Economic Development: The rezoning proposal positions Simply French kitchen as a catalyst for economic development. Simply French kitchen's design is a commercial kitchen created by a food entrepreneur: the refrigeration, storage, and space capacity such as the one designed cannot be found in the town of Little Elm or neighboring city Frisco. The space is designed to allow for three teams to simultaneously work, in the shared environment. The commissary kitchen side will be available to rent 24 hours a day.

By providing a supportive environment for culinary startups, the town can expect increased job creation, enhanced local commerce, and a thriving ecosystem of food-related businesses. This, in turn, contributes to the overall economic vitality of Little Elm

Unique Front Store Concept: The incorporation of a unique front store within Simply French Kitchen is a distinctive feature that sets this project apart. The front store serves as a professional space where members of the commissary kitchen can showcase and sell their culinary creations to the public. This not only provides exposure for the entrepreneurs but also adds an attractive element to the town, drawing in residents and visitors alike. The front store will open Monday to Friday from 11 am until 6:30 pm, Saturday from 10- 2 pm. Adjustments will be made should the rise of a delivery platform be needed by a member to allow such platforms delivery personnel to access the store.

Cultivating a Culinary Hub: The proposed zoning change will pave the way for culinary classes, transforming Simply French Kitchen into an educational hub. By offering classes on cooking techniques, nutrition, and diverse cuisines, the community gains access to hands-on learning experiences. This not only caters to aspiring chefs but also enriches the general culinary knowledge of residents, fostering a culture of lifelong learning.

Multipurpose Hosting Rooms: The versatility of Simply French Kitchen, with its classroom space, extends beyond culinary endeavors. The zoning change allows for the creation of hosting rooms that can be used for various purposes. Residents can rent these spaces for private events, corporate gatherings, or community meetings. This flexibility not only enhances the utility of the kitchen but also positions it as a venue for a range of activities, fostering community connectivity.

The availability of hosting rooms for events translates into economic benefits for Little Elm]. Residents and businesses looking for event spaces contribute to the local economy through rentals, thereby supporting the sustained growth of Simply French Kitchen and fostering economic development within the community.

Food Trucks & deliveries: No food truck will be allowed to park overnight: food trucks will be allowed to be parked only to load. We will not allow any cleaning or maintenance of any food trucks at our location/ Food trucks will need to be parked, cleaned, maintained, and disposed of grey water a location providing these services. Deliveries might be received overnight if the kitchen is rented when the delivery happens. Very rarely this option will be used as businesses that will rent the kitchen do not have the volume of sales required to receive overnight deliveries.

In conclusion, the rezoning proposal for Simply French Kitchen is a strategic move that aligns economic development with the support of local culinary entrepreneurship. By removing financial barriers, ensuring municipal compliance for food trucks, and introducing a unique front store concept and our classroom, the town has the opportunity to cultivate a vibrant culinary ecosystem. Simply French Kitchen is not just a business venture; it is a catalyst for positive change, community engagement, and the elevation of Little Elm as a culinary destination. Embracing this rezoning proposal is not

just a decision in favor of a business; it's a commitment to a flourishing and dynamic local economy.

A stylized, handwritten signature in black ink, appearing to read 'Emmanuelle Marchant'.

Emmanuelle Marchant



Date: 06/04/2024
Agenda Item #: 6. C.
Department: Development Services
Strategic Goal: Promote and expand Little Elm's identity
Staff Contact: Olga Chernomorets, Planning Manager

AGENDA ITEM:

Present, Discuss, and Consider Action to **Appoint a Lakefront Residential Overlay District Design Review Committee Council Liaison Replacement.**

DESCRIPTION:

The future land use section of 2017 Comprehensive Plan calls for an objective within the recommendations section of the Lakefront District to plan for redevelopment and expansion of the district. In working with Council, Staff identified the residential areas surrounding the Lakefront Zoning District as areas that are prime for redevelopment. The purpose of the Lakefront Residential Overlay District is to establish zoning overlay for residential areas around the existing Lakefront District within the context of redevelopment. Section 106.04.06. - Lakefront Residential Overlay District established standards and visual examples intended to create a residential area that provides flexibility and variety in unique architectural design and high quality alternative materials. The intent of the Overlay District is to expand upon the Lakefront District's desire to provide a comfortable and attractive environment that will provide a unique, yet compatible residential neighborhood by encouraging redevelopment that is distinct from traditional residential subdivisions. The procedures section within the overlay regulations requires that a design review committee be established to provide guidance of interpretation of the Lakefront Residential Overlay District and make recommendations on proposed redevelopment within the overlay. The committee shall be comprised of the following:

1. Director of Development Services
2. Building Official
3. Planning Manager
4. Representative of the Town Council

Upon submittal of a new project, Staff performs the technical review and coordinates a Committee meeting during which the Committee reviews the proposed development plans and makes the determination whether the proposed design meets the intent of the LROD. Once the Committee approves the project design, Staff drafts a Development Agreement between the Town and the property owner, which is then added to the next available Council agenda for final approval.

Council Member Neil Blais previously served as the LROD Design Review Committee Council Liaison.

BUDGET IMPACT:

This item has no budget impact.

RECOMMENDED ACTION:

Staff requests direction from Town Council.
