

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
JUNE 30, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2023

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McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Montgomery County Improvement District
Montgomery County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of East Montgomery County Improvement District (the "District") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 District 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 opinions.

Correction of Error

As described in Note 13 to the financial statements, the District's net position as of June 30, 2022, has been restated to correct a certain misstatement. Our opinions are not modified with respect to this matter.

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 District's ability to continue as a going concern for twelve 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 opinions. 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 District'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 District'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 and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund 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.

Board of Directors
East Montgomery County Improvement District

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

December 14, 2023

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

Management's discussion and analysis of the financial performance of East Montgomery County Improvement District (the "District") provides an overview of the District's financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the governmental-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities, deferred inflows of resources, and deferred outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has four governmental fund types. The General Fund accounts for resources not accounted for in another fund, sales and hotel tax receipts, economic development expenditures and administrative expenditures. The Blended Component Units-Economic Development Zones Fund accounts for sales tax receipts and economic development expenditures within the Zones. The Debt Service Fund accounts for transfers from the General Fund that are restricted for servicing bond debt. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities and related costs.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District’s governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”). RSI includes the budgetary comparison schedule for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$40,895,732 as of June 30, 2023.

The table on the following page provides a comparative summary of the District’s Statement of Net Position as of June 30, 2023 and June 30, 2022. The prior period net position was adjusted as discussed in the notes to the financial statements.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2023</u>	<u>2022</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 15,338,925	\$ 13,013,867	\$ 2,325,058
Capital Assets (Net of Accumulated Depreciation)	<u>41,119,302</u>	<u>34,567,685</u>	<u>6,551,617</u>
Total Assets	<u>\$ 56,458,227</u>	<u>\$ 47,581,552</u>	<u>\$ 8,876,675</u>
Deferred Outflows of Resources	<u>\$ 803,063</u>	<u>\$ 852,760</u>	<u>\$ (49,697)</u>
Bonds Payable	\$ 7,340,000	\$ 7,635,000	\$ 295,000
Notes Payable	5,461,496	4,234,888	(1,226,608)
Grants and Other Liabilities	<u>1,701,866</u>	<u>4,705,876</u>	<u>3,004,010</u>
Total Liabilities	<u>\$ 14,503,362</u>	<u>\$ 16,575,764</u>	<u>\$ 2,072,402</u>
Deferred Inflows of Resources	<u>\$ 1,862,196</u>	<u>\$ 995,891</u>	<u>\$ (866,305)</u>
Net Position:			
Net Investment in Capital Assets	\$ 29,226,055	\$ 23,651,672	\$ 5,574,383
Restricted	1,586,913	1,563,709	23,204
Unrestricted	<u>10,082,764</u>	<u>5,647,276</u>	<u>4,435,488</u>
Total Net Position	<u>\$ 40,895,732</u>	<u>\$ 30,862,657</u>	<u>\$ 10,033,075</u>

The prior period net position was adjusted as discussed in the notes to the financial statements. The following table provides a comparative summary of the District's operations for the years ended June 30, 2023, and June 30, 2022.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2023</u>	<u>2022</u>	<u>Change Positive (Negative)</u>
Revenues:			
Sales and Hotel Tax Revenues	\$ 21,581,752	\$ 19,816,667	\$ 1,765,085
Grants and Reimbursements		1,137,281	(1,137,281)
Rents, Events and Other Revenues	<u>1,524,729</u>	<u>1,927,470</u>	<u>(402,741)</u>
Total Revenues	<u>\$ 23,106,481</u>	<u>\$ 22,881,418</u>	<u>\$ 225,063</u>
Total Expenses	<u>13,073,406</u>	<u>14,553,308</u>	<u>1,479,902</u>
Change in Net Position	<u>\$ 10,033,075</u>	<u>\$ 8,328,110</u>	<u>\$ 1,704,965</u>
Net Position, Beginning of Year	<u>30,862,657</u>	<u>22,534,547</u>	<u>8,328,110</u>
Net Position, End of Year	<u>\$ 40,895,732</u>	<u>\$ 30,862,657</u>	<u>\$ 10,033,075</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2023, were \$12,424,060, an increase of \$3,991,035 from prior year.

The General Fund fund balance increased by \$3,924,777, primarily due to sales tax revenues, hotel and motel tax revenues, rent revenues, event revenues, and interest revenues being greater than operating, capital outlay, and debt service costs.

The Blended Component Units include the activities of the Economic Development Zone Nos. 1, 2, 3 and 4. This fund balance increased by \$39,979 primarily due to sales tax revenues and transfers which exceeded current year economic development expenditures.

The Debt Service Fund fund balance increased by \$22,208 primarily due to the structure of the District's outstanding debt and transfers from the General Fund.

The Capital Projects Fund fund balance increased by \$4,071 due to investment revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$859,145 less than budgeted revenues, actual expenditures were \$627,684 more than budgeted expenditures, and other financing sources exceeded budgeted amounts by \$1,919,886 which resulted in a positive variance of \$433,057.

CAPITAL ASSETS

Capital assets as of June 30, 2023, total \$41,119,302 (net of accumulated depreciation) and include land, buildings, equipment, and detention facilities. Current year activity included the Titan Office Warehouse project, Phillips Way Sanitary Sewer Extension, Industrial Park Office Building, and Convention Center design.

Capital Assets At Year-End			
	2023	2022	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 14,215,784	\$ 14,394,774	\$ (178,990)
Construction in Progress	11,841,454	9,692,549	2,148,905
Capital Assets Subject to Depreciation:			
Buildings and Equipment	18,852,598	13,859,652	4,992,946
Detention Facilities	1,383,426	1,321,133	62,293
Less Accumulated Depreciation	(5,173,960)	(4,700,423)	(473,537)
Total Net Capital Assets	\$ 41,119,302	\$ 34,567,685	\$ 6,551,617

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

LEASE RECEIVABLE

In accordance with GASB Statement No. 87, the District recorded a lease receivable for properties leased by the District. The District, as lessor, has recorded a lease receivable balance of \$2,259,515 and deferred inflows of resources related to future lease revenues of \$1,862,196. See the accompanying notes to the financial statements for further information.

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$7,340,000. The District's underlying rating is "AA-." The Series 2020 Refunding Bonds carry an insured rating of "AA" by S&P based on bond insurance issued by Build America Mutual Assurance Company. The changes in bonds payable during the fiscal year ended June 30, 2023, are summarized in the following table:

Bond Debt Payable, July 1, 2022	\$ 7,635,000
Less: Bond Principal Paid	<u>(295,000)</u>
Bond Debt Payable, June 30, 2023	<u>\$ 7,340,000</u>

The District's notes payable balance totaled \$5,461,496 as of June 30, 2023. The changes in notes payable during the fiscal year ended June 30, 2023, are summarized in the following table:

Notes Payable, July 1, 2022	\$ 4,234,888
Add: Notes Issued	2,872,193
Less: Note Principal Paid	<u>(1,645,585)</u>
Notes Payable, June 30, 2023	<u>\$ 5,461,496</u>

The District also recorded a grant payable to Montgomery County Emergency Services District No. 7 with a balance of \$985,666 as of June 30, 2023. See the accompanying notes for further disclosure.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to East Montgomery County Improvement District, 3700 Buffalo Speedway, Suite 830, Houston, TX 77098.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2023

	General Fund	Blended Component Units
ASSETS		
Cash	\$ 4,121,299	\$ 1,067,081
Investments	1,652,936	
Cash with Fiscal Agent	150,992	
Receivables:		
Sales Taxes	3,674,249	3,271
Grant Revenues	619,677	
Lease Receivable, Due Within One Year		
Lease Receivable, Due After One Year		
Other	35,000	1,779
Prepaid Costs	177	
Due From Other Funds	332,860	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 10,587,190	\$ 1,072,131
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 10,587,190	\$ 1,072,131

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 42,837	\$ 474	\$ 5,231,691	\$	\$ 5,231,691
1,604,926	104,712	3,362,574		3,362,574
		150,992		150,992
		3,677,520		3,677,520
		619,677		619,677
			619,092	619,092
			1,640,423	1,640,423
		36,779		36,779
		177		177
		332,860	(332,860)	
			14,215,784	14,215,784
			11,841,454	11,841,454
			15,062,064	15,062,064
<u>\$ 1,647,763</u>	<u>\$ 105,186</u>	<u>\$ 13,412,270</u>	<u>\$ 43,045,957</u>	<u>\$ 56,458,227</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 803,063</u>	<u>\$ 803,063</u>
<u>\$ 1,647,763</u>	<u>\$ 105,186</u>	<u>\$ 13,412,270</u>	<u>\$ 43,849,020</u>	<u>\$ 57,261,290</u>

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2023

	General Fund	Blended Component Units
LIABILITIES		
Accounts Payable	\$ 655,027	\$ 323
Accrued Interest Payable		
Due to Other Funds		332,860
Long-Term Liabilities:		
Grant Payable, Due Within One Year		
Grant Payable, Due After One Year		
Notes Payable, Due Within One Year		
Notes Payable, Due After One Year		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 655,027	\$ 333,183
DEFERRED INFLOWS OF RESOURCES		
Lease Revenues	\$ -0-	\$ -0-
FUND BALANCES		
Nonspendable: Prepaid Costs	\$ 177	\$
Restricted for Authorized Construction		
Restricted for Debt Service		
Restricted for Economic Development		738,948
Unassigned	9,931,986	
TOTAL FUND BALANCES	\$ 9,932,163	\$ 738,948
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 10,587,190	\$ 1,072,131
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$	\$ 655,350	\$	\$ 655,350
			60,850	60,850
		332,860	(332,860)	
			114,334	114,334
			871,332	871,332
			2,323,503	2,323,503
			3,137,993	3,137,993
			305,000	305,000
			<u>7,035,000</u>	<u>7,035,000</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 988,210</u>	<u>\$ 13,515,152</u>	<u>\$ 14,503,362</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,862,196</u>	<u>\$ 1,862,196</u>
\$	\$	\$ 177	\$ (177)	\$
	105,186	105,186	(105,186)	
1,647,763		1,647,763	(1,647,763)	
		738,948	(738,948)	
		<u>9,931,986</u>	<u>(9,931,986)</u>	
<u>\$ 1,647,763</u>	<u>\$ 105,186</u>	<u>\$ 12,424,060</u>	<u>\$ (12,424,060)</u>	<u>\$ - 0 -</u>
<u>\$ 1,647,763</u>	<u>\$ 105,186</u>	<u>\$ 13,412,270</u>		
			\$ 29,226,055	\$ 29,226,055
			1,586,913	1,586,913
			<u>10,082,764</u>	<u>10,082,764</u>
			<u>\$ 40,895,732</u>	<u>\$ 40,895,732</u>

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023**

Total Fund Balances - Governmental Funds	\$ 12,424,060
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Interest paid in advance as part of a refunding bond sale is recorded as deferred outflows of resources in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.	803,063
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	41,119,302
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Leases receivable and the corresponding deferred inflows of resources are reported in the government-wide financial statements in accordance with auditing standards.	397,319
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (60,850)	
Grant Payable	(985,666)	
Notes Payable	(5,461,496)	
Bonds Payable	(7,340,000)	
		(13,848,012)

Total Net Position - Governmental Activities	\$ 40,895,732
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The accompanying notes to the financial statements are an integral part of this report.

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**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2023**

	General Fund	Blended Component Units
REVENUES		
Sales Taxes	\$ 19,892,239	\$ 1,409,379
Hotel and Motel Taxes	280,134	
Building Rents and Leases	540,231	
Interest, Events, and Other Revenues	563,321	2,493
TOTAL REVENUES	\$ 21,275,925	\$ 1,411,872
EXPENDITURES/EXPENSES		
Service Operations:		
Programs:		
Community Development	\$ 3,314,851	\$
Economic Development	1,304,522	1,885,975
Scholarships	700,000	
Administrative:		
Professional Fees	326,813	13,333
Salaries and Benefits	1,658,545	
Advertising	112,071	
Computers and Software	117,692	
Travel and Training	311,075	
Other	366,866	1,392
Building	1,741,203	
Depreciation		
Capital Outlay	7,385,098	
Debt Service:		
Bond and Note Principal Retirements	1,645,585	
Bond and Note Interest	286,713	
TOTAL EXPENDITURES/EXPENSES	\$ 19,271,034	\$ 1,900,700
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	\$ 2,004,891	\$ (488,828)
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	\$ (952,307)	\$ 528,807
Loan Proceeds	2,872,193	
TOTAL OTHER FINANCING SOURCES, NET	\$ 1,919,886	\$ 528,807
NET CHANGE IN FUND BALANCES	\$ 3,924,777	\$ 39,979
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JULY 1, 2022, AS ADJUSTED	6,007,386	698,969
FUND BALANCES/NET POSITION - JUNE 30, 2023	\$ 9,932,163	\$ 738,948

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$	\$ 21,301,618	\$	\$ 21,301,618
		280,134		280,134
		540,231	358,777	899,008
58,377	4,071	628,262	(2,541)	625,721
<u>\$ 58,377</u>	<u>\$ 4,071</u>	<u>\$ 22,750,245</u>	<u>\$ 356,236</u>	<u>\$ 23,106,481</u>
\$	\$	\$ 3,314,851	\$ (111,955)	\$ 3,202,896
		3,190,497	357,403	3,547,900
		700,000		700,000
		340,146		340,146
		1,658,545		1,658,545
		112,071		112,071
		117,692		117,692
		311,075		311,075
1,075		369,333		369,333
		1,741,203		1,741,203
			473,537	473,537
		7,385,098	(7,385,098)	
295,000		1,940,585	(1,940,585)	
163,594		450,307	48,701	499,008
<u>\$ 459,669</u>	<u>\$ -0-</u>	<u>\$ 21,631,403</u>	<u>\$ (8,557,997)</u>	<u>\$ 13,073,406</u>
<u>\$ (401,292)</u>	<u>\$ 4,071</u>	<u>\$ 1,118,842</u>	<u>\$ 8,914,233</u>	<u>\$ 10,033,075</u>
\$ 423,500	\$	\$	\$	\$
		2,872,193	(2,872,193)	
<u>\$ 423,500</u>	<u>\$ -0-</u>	<u>\$ 2,872,193</u>	<u>\$ (2,872,193)</u>	<u>\$ -0-</u>
\$ 22,208	\$ 4,071	\$ 3,991,035	\$ (3,991,035)	\$
			10,033,075	10,033,075
<u>1,625,555</u>	<u>101,115</u>	<u>8,433,025</u>	<u>22,429,632</u>	<u>30,862,657</u>
<u>\$ 1,647,763</u>	<u>\$ 105,186</u>	<u>\$ 12,424,060</u>	<u>\$ 28,471,672</u>	<u>\$ 40,895,732</u>

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Net Change in Fund Balances - Governmental Funds	\$ 3,991,035
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(473,537)
In the Statement of Net Position, capital assets are increased by new purchases or assets conveyed to the District and reduced for assets sold or conveyed to other entities for ownership and maintenance.	7,027,695
Governmental funds report land sales as revenue. However, in the Statement of Net Position, capital assets are reduced by the sale and the Statement of Activities recognizes the gain on the sale.	(2,541)
Governmental funds report lease income as revenues. However, in the Statement of Net Position, lease principal received decreases long-term receivables and lease revenue is recognized for decreases in deferred inflows related to leases under GASB 87.	358,777
Deferred charges on refunded bonds are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	(49,697)
Governmental funds report principal payments on long-term debt as expenditures. However, in the Statement of Net Position, principal payments on long-term debt are reported as decreases in long-term liabilities.	2,052,540
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	996
Governmental funds report loan proceeds as other financing sources. Loans increase long-term liabilities in the Statement of Net Position.	<u>(2,872,193)</u>
Change in Net Position - Governmental Activities	<u>\$ 10,033,075</u>

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1. CREATION AND PURPOSE OF THE DISTRICT

East Montgomery County Improvement District of Montgomery County, Texas, is a government agency, body politic and corporate and political subdivision of the State of Texas, located 20 miles northeast of downtown Houston along U.S. Highway 59/I-69 in eastern Montgomery County, Texas. The District was created pursuant to special legislation, which is codified at Chapter 3846, Texas Special District Local Laws Code. The District's Board of Directors held its organizational meeting on June 24, 1997 and sold its first series of bonds in October 2000. The territory of the District is coextensive with the territory of the New Caney Independent School District and the Splendora Independent School District, as those boundaries existed on January 1, 1997, but the District does not include any portion of the City of Houston as it existed on January 1, 1997, and does not include any portion of the New Caney Independent School District as the boundaries of the District exist on or after September 1, 2001, that is located in Harris County. The District is governed by an eight-member Board of Directors and employs permanent staff, which includes a President/CEO.

The mission of the District is to promote, develop, encourage and maintain employment, commerce, economic development and public welfare in the eastern area of Montgomery County, Texas. Currently, the four main areas of focus for the District's activities are Economic Development, Community Development, Educational Development and Building Facility Ownership and Management.

In the area of Economic Development, the District is recruiting businesses to relocate to the District and utilize the local labor pool; helping existing commercial/retail/and industrial businesses to expand with a focus on diversification of activities; providing assistance in infrastructure development so that companies relocating or expanding have an easier time with utility or transportation changes that may be required; and responding to business inquiries on the facts and attributes of East Montgomery County. The District has developed and continues to expand an industrial park within the District.

Community Development activities include providing grants to non-profit organizations assisting in their outreach and service goals to the community; supporting local law enforcement and fire organization with needs outside the normal budgeted items; funding high visibility projects for the local Chamber of Commerce as well as park and beautification projects; and coordinating two festivals each year that serve local school children's needs for supplies and family activities.

The Educational Development programs have positively impacted the number of students from the District accessing college level course work. These activities include providing scholarships to high school graduates, whether graduating from New Caney ISD or Splendora ISD, private schools, or home school, for study at the college level. The District created a Scholarship Foundation to administer the scholarship program and to raise funds to establish a permanent endowment fund.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1. CREATION AND PURPOSE OF THE DISTRICT (Continued)

The District owns and operates facilities and buildings which house the District's offices as well as offices used by other entities. These buildings are also available for special group activity events such as private business meetings, receptions and weddings. The District (along with the County) financed a public library and has plans for additional office/public facility building development in the future.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the "Commission"). The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification"). GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Asset; Restricted; and Unrestricted.

These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements. The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position. The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

The District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds - The District has four governmental funds and considers these to be major funds.

General Fund – To account for resources not required to be accounted for in another fund, sales tax receipts, hotel and motel tax receipts, economic development expenditures, and general operating expenditures.

Blended Component Units – To account for sales tax receipts and economic development expenditures within the East Montgomery County Economic Development Zone Nos. 1, 2, 3 and 4.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Debt Service Fund – To account for financial resources restricted for servicing bond debt.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. The General Fund transferred \$423,500 to the Debt Service Fund to provide for debt service on the outstanding bonds. The General Fund transferred \$528,807 to the Blended Component Units to fund economic development costs. As of year end, the Blended Component Units owed the General Fund \$332,860 for prior year operating advances.

Capital Assets

Capital assets, which include land, buildings, detention facilities, equipment, and vehicles, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation over periods ranging from 7 to 40 years.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the budgeted amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

Eligible District employees may participate in a 401(k) Plan. See Note 9 for more information on the retirement plan.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position. Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has no assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. BONDS PAYABLE

The District's bonds payable at June 30, 2023, consist of the following:

	Series 2020 Taxable Sales Tax Revenue <u>Refunding Bonds</u>
Amount Outstanding - June 30, 2023	\$ 7,340,000
Interest Rates	1.00% - 2.87%
Maturity Dates – Serially Beginning/Ending	August 15, 2023/2039
Interest Payment Dates	August 15/ February 15
Callable Dates	August 15, 2030*

* Or any date thereafter, at the option of the District, as a whole or in part, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Term bonds maturing on August 15, 2039 are subject to mandatory sinking fund redemption commencing on August 15, 2036.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3. BONDS PAYABLE (Continued)

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2023:

	July 1, 2022	Additions	Retirements	June 30, 2023
Bonds Payable	\$ 7,635,000	\$ -0-	\$ 295,000	\$ 7,340,000
			Amount Due Within One Year	\$ 305,000
			Amount Due After One Year	<u>7,035,000</u>
			Bonds Payable, Net	<u>\$ 7,340,000</u>

As of June 30, 2023, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 305,000	\$ 160,741	\$ 465,741
2025	315,000	157,326	472,326
2026	325,000	153,243	478,243
2027	335,000	148,453	483,453
2028	350,000	142,969	492,969
2029-2033	1,990,000	607,771	2,597,771
2034-2038	2,505,000	352,291	2,857,291
2039-2040	<u>1,215,000</u>	<u>35,373</u>	<u>1,250,373</u>
	<u>\$ 7,340,000</u>	<u>\$ 1,758,167</u>	<u>\$ 9,098,167</u>

The bond order states that the District is required to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year shall continue to be provided through the life of the bonds.

The Series 2020 Refunding Bonds (the “Bonds”) are payable from and secured by a lien on and pledge of 60% of the revenues derived from sales taxes levied within the District. The Debt Service Fund is to be maintained by the District as security for the payment of the Bonds. The total amount to be accumulated and maintained in the Debt Service Fund is an amount equal to the least of (1) the maximum annual debt service requirements on the Bonds, (2) 125% of the average debt service requirements on the Bonds, and (3) 10% of the stated principal amount of the Bonds then outstanding.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4. NOTES PAYABLE

During fiscal year 2022, the District executed a note payable for the purchase of land for \$755,300 which accrues interest at 5.25% (paid semi-annually). The note matures on December 9, 2023, and has a current balance of \$601,017.

During fiscal year 2022, the District executed a note payable for the purchase of land for \$784,000 which accrues interest at 4.50% (paid semi-annually). The note matured in fiscal year 2023 and was fully repaid.

During fiscal year 2022, the District executed a note payable for the purchase of land for \$1,404,000 which accrued interest at 4.50% (paid semi-annually). The note matures on March 5, 2024, and has a current balance of \$755,601.

During fiscal year 2022, the District executed a note payable for the purchase of land for \$600,000 which accrues interest at 4.35% with principal and interest paid in monthly installments of \$4,565. The note matures on May 22, 2027, and has a current balance of \$568,304.

During fiscal year 2022, the District executed a note payable for the purchase of land for \$698,000 which accrues interest at 4.35% with principal and interest paid in monthly installments of \$5,311. The note matures on June 10, 2027, and has a current balance of \$664,381.

During the current fiscal year, the District executed a note payable to help finance the Titan Building construction for up to \$3,100,000 which accrues interest at a variable rate (currently 8.75%) with principal and interest paid in monthly installments of \$59,582. The note matures on November 6, 2028, and has a current balance of \$2,872,193.

The following is a summary of transactions regarding notes payable for the year ended June 30, 2023:

	July 1, 2022	Additions	Retirements	June 30, 2023
Notes Payable	<u>\$ 4,234,888</u>	<u>\$ 2,872,193</u>	<u>\$ 1,645,585</u>	<u>\$ 5,461,496</u>
		Amount Due Within One Year		\$ 2,323,503
		Amount Due After One Year		<u>3,137,993</u>
		Notes Payable, Net		<u>\$ 5,461,496</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 4. NOTES PAYABLE (Continued)

As of June 30, 2023, the debt service requirements on the notes outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 2,323,503	\$ 299,547	\$ 2,623,050
2025	530,739	239,028	769,767
2026	579,658	190,110	769,768
2027	1,071,822	134,952	1,206,774
2028	655,392	59,595	714,987
2029	300,382	6,702	307,084
	<u>\$ 5,461,496</u>	<u>\$ 929,934</u>	<u>\$ 6,391,430</u>

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged.

The carrying values of the deposits as of June 30, 2023, are summarized in the following table:

	<u>Cash</u>
GENERAL FUND	\$ 4,121,299
BLENDED COMPONENT UNITS	1,067,081
DEBT SERVICE FUND	42,837
CAPITAL PROJECTS FUND	<u>474</u>
TOTAL DEPOSITS	<u>\$ 5,231,691</u>

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

At fiscal year end, the carrying amount of the District's deposits was \$5,231,691 and the bank balance was \$6,402,886. Of the bank balance, \$542,837 was covered by the Federal Deposit Insurance Corporation and the remaining was covered by collateral held by a third party or covered under letters of credit. The District was not exposed to custodial credit risk at year-end.

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors. Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act.

The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. UMB Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level 1 investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of June 30, 2023, the District had the following investments and maturities:

Funds and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 1,652,936	\$ 1,652,936
<u>DEBT SERVICE FUND</u>		
Texas CLASS	1,604,926	1,604,926
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	104,712	104,712
TOTAL INVESTMENTS	\$ 3,362,574	\$ 3,362,574

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2023, the District's investments in Texas CLASS were rated "AAAm" by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in Texas CLASS to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service.

All cash and investments of the Capital Projects Fund are restricted for the purchase or construction of capital assets.

All cash and investments of the Blended Component Units are restricted for the activities related to the East Montgomery County Improvement District Economic Development Zone Nos. 1, 2, 3 and 4.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6. SALES AND USE TAX REVENUES

In September 1997, the voters of the District authorized the District's Board of Directors to levy and collect a 1% sales and use tax within the District, subject to the applicable provisions of the Texas Tax Code. In November 2009, an additional local sales and use tax of 1/2% was approved by voters. The District relies on this tax for the funding of substantially all of its programs, functions and services. A portion of the sales tax revenues are pledged for the payment of principal and interest on the District's outstanding bonds (see Note 3).

NOTE 7. DEPARTMENT OF COMMERCE GRANT

On January 22, 2018, the United States Department of Commerce's Economic Development Administration ("EDA") awarded federal assistance to the District in the amount of \$1,500,000 for the design and construction of a business center building in the East Montgomery County Industrial Park. The grant pays 80% of eligible costs up to a maximum of \$1,500,000. The District is responsible for the other 20% plus any amounts over the original estimated project cost of \$1,875,000, or at least \$375,000 in matching funds. In prior fiscal years, the District was reimbursed EDA grant monies totaling \$1,253,511.

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and there have been no settlements in the past three years.

NOTE 9. QUALIFIED RETIREMENT PLAN

On January 1, 2006, the District established a 401(k) plan for eligible employees. The full name of the plan is East Montgomery County Improvement District 401(k) Plan, and records are maintained on a 12-month calendar year. The Plan's administrator is the District, and contributions are held in a Trust Fund with trustees responsible for safekeeping. Eligibility requirements include completion of six months of service and attainment of the age of 21. The District makes matching contributions to the plan which are tax deferred.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, are summarized in the following table:

	July 1, 2022	Increases	Decreases	June 30, 2023
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 14,394,774	\$ 51,975	\$ 230,965	\$ 14,215,784
Construction in Progress	<u>9,692,549</u>	<u>7,385,098</u>	<u>5,236,193</u>	<u>11,841,454</u>
Total Capital Assets Not Being Depreciated	<u>\$ 24,087,323</u>	<u>\$ 7,437,073</u>	<u>\$ 5,467,158</u>	<u>\$ 26,057,238</u>
Capital Assets Subject to Depreciation				
Buildings and Equipment	\$ 13,859,652	\$ 4,992,946	\$	\$ 18,852,598
Detention Facilities	<u>1,321,133</u>	<u>62,293</u>	<u></u>	<u>1,383,426</u>
Total Capital Assets Subject to Depreciation	<u>\$ 15,180,785</u>	<u>\$ 5,055,239</u>	<u>\$ - 0 -</u>	<u>\$ 20,236,024</u>
Accumulated Depreciation				
Buildings and Equipment	\$ 4,639,977	\$ 438,956	\$	\$ 5,078,933
Detention Facilities	<u>60,446</u>	<u>34,581</u>	<u></u>	<u>95,027</u>
Total Accumulated Depreciation	<u>\$ 4,700,423</u>	<u>\$ 473,537</u>	<u>\$ - 0 -</u>	<u>\$ 5,173,960</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,480,362</u>	<u>\$ 4,581,702</u>	<u>\$ - 0 -</u>	<u>\$ 15,062,064</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 34,567,685</u>	<u>\$ 12,018,775</u>	<u>\$ 5,467,158</u>	<u>\$ 41,119,302</u>

NOTE 11. LEASE RECEIVABLE

In the prior fiscal year, the District, as the lessor, entered into a Commercial Property Lease with a tenant which is required to be recorded in the financial statements in accordance with GASB Statement No. 87. Monthly lease payments range from \$23,730 to \$31,640 over the course of the 60-month lease which extends through July 31, 2025, and accrues interest at 8% annually.

The changes in lease receivable during the current fiscal year are summarized in the following table:

Lease Receivable, July 1, 2022	\$ 1,034,433
Less: Lease Principal Received	<u>(308,058)</u>
Lease Receivable, June 30, 2023	<u>\$ 726,375</u>

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 11. LEASE RECEIVABLE (Continued)

Future payments to be received by the District under the terms of the lease are summarized in the following table:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 333,627	\$ 46,053	\$ 379,680
2025	361,318	18,362	379,680
2026	<u>31,430</u>	<u>210</u>	<u>31,640</u>
	<u>\$ 726,375</u>	<u>\$ 64,625</u>	<u>\$ 791,000</u>

The District recognized lease revenue of \$645,983 during the current fiscal year which resulted in a year-end balance for deferred inflows of resources of \$349,908.

In the current fiscal year, the District, as the lessor, entered into a Commercial Property Lease with a tenant which is also required to be recorded in the financial statements in accordance with GASB Statement No. 87. Monthly lease payments are \$33,150 over the course of the 60-month lease which extends through February 8, 2028, and accrues interest at 8% annually.

The changes in lease receivable during the current fiscal year are summarized in the following table:

Lease Receivable, July 1, 2022	\$ - 0 -
Add: New Lease Receivable	1,634,906
Less: Lease Principal Received	<u>(101,766)</u>
Lease Receivable, June 30, 2023	<u>\$ 1,533,140</u>

Future payments to be received by the District under the terms of the lease are summarized in the following table:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 285,465	\$ 112,335	\$ 397,800
2025	309,159	88,641	397,800
2026	334,819	62,981	397,800
2027	362,608	35,192	397,800
2028	<u>241,089</u>	<u>6,834</u>	<u>247,923</u>
	<u>\$ 1,533,140</u>	<u>\$ 305,983</u>	<u>\$ 1,839,123</u>

The District recognized a beginning deferred inflows of resources of \$1,634,906 in the current year related to this lease. The District recognized lease revenue of \$122,618 during the current fiscal year which resulted in a year-end balance for deferred inflows of resources of \$1,512,288.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 12. COMMITMENTS AND CONTINGENCIES

Utility Development Agreement with East Montgomery County Municipal Utility District No. 3

The District entered into an agreement with East Montgomery County Municipal Utility District No. 3 (“District No. 3”) for the construction of certain utilities necessary to provide water, sewer, and drainage services to the service area, and to convey those utilities to District No. 3 upon their completion. During the current year, there were no amounts that District No. 3 reimbursed to the District.

Joint Agreement with Montgomery County Emergency Services District No. 6

The District has an agreement with Montgomery County Emergency Services District No. 6 (“ESD No. 6”) whereby the District makes payments to ESD No. 6 based on sales tax collections to be used to provide expanded emergency services within its boundaries. During the current fiscal year, the District recognized \$697,972 of expenditures related to ESD No. 6.

Agreements with Montgomery County Emergency Services District No. 7

The District has an agreement with Montgomery County Emergency Services District No. 7 (“ESD No. 7”) whereby the District makes payments to ESD No. 7 based on sales tax collections. ESD No. 7 uses these resources to provide expanded emergency services within its boundaries. In the current fiscal year, the District recognized \$768,283 to ESD No. 7.

In the prior fiscal year, the District executed a fire truck funding agreement with ESD No. 7 whereby the District agreed to provide funding to ESD No. 7 of \$1,352,790 which is to be used by ESD No. 7 to pay the principal and interest on ESD No. 7’s loan for the purchase of a fire truck. The grant will be paid in 10 equal annual installments of \$135,279 which includes both principal and interest accruing at 2.125%. Current year principal payments totaled \$111,955 resulting in a balance due of \$985,666.

The following table summarizes the remaining payments to be made under the terms of the grant:

Fiscal Year	Principal	Interest	Total
2024	\$ 114,334	\$ 20,945	\$ 135,279
2025	116,763	18,516	135,279
2026	119,244	16,035	135,279
2027	121,778	13,501	135,279
2028	124,366	10,913	135,279
2029-2031	389,181	16,656	405,837
	<u>\$ 985,666</u>	<u>\$ 96,566</u>	<u>\$ 1,082,232</u>

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 13. PRIOR PERIOD ADJUSTMENT

The District increased its beginning Net Position by \$439,691 to correct a prior period overstatement of accumulated depreciation. This resulted in a beginning Net Position balance of \$30,862,657.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Sales Tax Revenues	\$ 19,500,250	\$ 19,892,239	\$ 391,989
Hotel and Motel Tax Revenues	320,000	280,134	(39,866)
Grant Revenues	866,000		(866,000)
Building Rents and Leases	881,820	540,231	(341,589)
Interest, Events, and Other Revenues	<u>567,000</u>	<u>563,321</u>	<u>(3,679)</u>
TOTAL REVENUES	<u>\$ 22,135,070</u>	<u>\$ 21,275,925</u>	<u>\$ (859,145)</u>
EXPENDITURES			
Service Operations:			
Programs:			
Community Development:			
ESD No. 6 and ESD No. 7 Donations	\$ 2,918,450	\$ 1,466,255	\$ 1,452,195
Special Events	1,380,000	1,339,310	40,690
Projects	1,183,000	314,979	868,021
Grants	<u>225,000</u>	<u>194,307</u>	<u>30,693</u>
Total Community Development Expenditures	<u>\$ 5,706,450</u>	<u>\$ 3,314,851</u>	<u>\$ 2,391,599</u>
Economic Development	<u>\$ 1,479,000</u>	<u>\$ 1,304,522</u>	<u>\$ 174,478</u>
Scholarships	<u>\$ 500,000</u>	<u>\$ 700,000</u>	<u>\$ (200,000)</u>
Administrative:			
Salaries	\$ 1,593,450	\$ 1,658,545	\$ (65,095)
Computers and Software	114,000	117,692	(3,692)
Travel and Training	351,000	311,075	39,925
Professional Fees	485,000	433,493	51,507
Advertising	389,000	112,071	276,929
Office, Postage, and Utilities	298,750	212,580	86,170
Miscellaneous	<u>31,200</u>	<u>47,606</u>	<u>(16,406)</u>
Total Administrative Expenditures	<u>\$ 3,262,400</u>	<u>\$ 2,893,062</u>	<u>\$ 369,338</u>
Building, Including Capital Outlay	<u>\$ 6,724,000</u>	<u>\$ 9,126,301</u>	<u>\$ (2,402,301)</u>
Note Principal and Interest	<u>\$ 971,500</u>	<u>\$ 1,932,298</u>	<u>\$ (960,798)</u>
TOTAL EXPENDITURES	<u>\$ 18,643,350</u>	<u>\$ 19,271,034</u>	<u>\$ (627,684)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 3,491,720</u>	<u>\$ 2,004,891</u>	<u>\$ (1,486,829)</u>
OTHER FINANCING SOURCES(USES)			
Loan Proceeds	\$	\$ 2,872,193	\$ 2,872,193
Transfers Out		<u>(952,307)</u>	<u>(952,307)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ 1,919,886</u>	<u>\$ 1,919,886</u>
NET CHANGE IN FUND BALANCE	<u>\$ 3,491,720</u>	<u>\$ 3,924,777</u>	<u>\$ 433,057</u>
FUND BALANCE - JULY 1, 2022	<u>6,007,386</u>	<u>6,007,386</u>	
FUND BALANCE - JUNE 30, 2023	<u>\$ 9,499,106</u>	<u>\$ 9,932,163</u>	<u>\$ 433,057</u>

See accompanying independent auditor's report.

