

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

APRIL 30, 2023

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2

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ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Utility
District No. 2
Montgomery County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Utility District No. 2 (the "District") as of and for the year ended April 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 April 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.

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
Montgomery County Utility
District No. 2

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide an assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

August 25, 2023

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2023**

Management's discussion and analysis of Montgomery County Utility District No. 2's (the "District") financial performance provides an overview of the District's financial activities for the year ended April 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 and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-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 and, if applicable, deferred inflows and 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 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 two governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 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 financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI 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 by \$3,257,576 as of April 30, 2023. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2023	2022	Change Positive (Negative)
Current and Other Assets	\$ 2,433,164	\$ 2,655,164	\$ (222,000)
Capital Assets (Net of Accumulated Depreciation)	<u>6,234,313</u>	<u>6,409,332</u>	<u>(175,019)</u>
Total Assets	<u>\$ 8,667,477</u>	<u>\$ 9,064,496</u>	<u>\$ (397,019)</u>
Deferred Outflows of Resources	\$ 94,698	\$ 107,956	\$ (13,258)
Bonds Payable	\$ 5,198,511	\$ 5,560,470	\$ 361,959
Other Liabilities	<u>306,088</u>	<u>266,904</u>	<u>(39,184)</u>
Total Liabilities	<u>\$ 5,504,599</u>	<u>\$ 5,827,374</u>	<u>\$ 322,775</u>
Net Position:			
Net Investment in Capital Assets	\$ 1,130,500	\$ 956,818	\$ 173,682
Restricted	671,783	657,762	14,021
Unrestricted	<u>1,455,293</u>	<u>1,730,498</u>	<u>(275,205)</u>
Total Net Position	<u>\$ 3,257,576</u>	<u>\$ 3,345,078</u>	<u>\$ (87,502)</u>

The following table provides a summary of the District's operations for the years ended April 30, 2023, and April 30, 2022.

	Summary of Changes in the Statement of Activities		
	2023	2022	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,201,657	\$ 1,049,138	\$ 152,519
Charges for Services	767,213	684,950	82,263
Other Revenues	<u>42,428</u>	<u>34,711</u>	<u>7,717</u>
Total Revenues	\$ 2,011,298	\$ 1,768,799	\$ 242,499
Expenses for Services	<u>2,098,800</u>	<u>1,869,870</u>	<u>(228,930)</u>
Change in Net Position	\$ (87,502)	\$ (101,071)	\$ 13,569
Net Position, Beginning of Year	<u>3,345,078</u>	<u>3,446,149</u>	<u>(101,071)</u>
Net Position, End of Year	<u>\$ 3,257,576</u>	<u>\$ 3,345,078</u>	<u>\$ (87,502)</u>

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of April 30, 2023, were \$2,077,106, a decrease of \$267,009 from the prior year.

The General Fund fund balance decreased by \$276,854, primarily due to operating and capital costs exceeding property tax and service revenues.

The Debt Service Fund fund balance increased by \$9,845, primarily due to the structure of the District's debt service obligations.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors approved an unappropriated budget for the current fiscal year. Actual revenues were \$237,247 more than budgeted revenues. Actual expenditures were less than budgeted expenditures by \$275,199. This resulted in a positive budget variance of \$512,446. See the budget to actual comparison on page 29 for further information.

CAPITAL ASSETS

Capital assets as of April 30, 2023, total \$6,234,313 (net of accumulated depreciation) and include equipment and land as well as the water, wastewater and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2023	2022	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 41,250	\$ 41,250	\$
Construction in Progress	28,907		28,907
Capital Assets, Net of Accumulated Depreciation:			
Water System	2,767,678	2,932,010	(164,332)
Wastewater System	3,004,867	3,112,139	(107,272)
Drainage System	391,611	323,933	67,678
Total Net Capital Assets	\$ 6,234,313	\$ 6,409,332	\$ (175,019)

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2023**

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District has total bond debt payable of \$5,235,000. The changes in the debt position of the District during the fiscal year ended April 30, 2023, are summarized as follows:

Bond Debt Payable, May 1, 2022	\$ 5,600,000
Less: Bond Principal Paid	<u>365,000</u>
Bond Debt Payable, April 30, 2023	<u><u>\$ 5,235,000</u></u>

The District’s Series 2012 bonds have an underlying rating of “A-” and carry an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2015 refunding bonds do not have an underlying rating or an insured rating. The above ratings reflect changes, if any, through year end.

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 Montgomery County Utility District No. 2, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
APRIL 30, 2023

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 77,107	\$ 48,124
Investments	1,437,886	164,028
Cash with Fiscal Agent		462,158
Receivables:		
Property Taxes	51,727	47,806
Penalty and Interest on Delinquent Taxes		
Service Accounts	75,364	
Accrued Interest	4,285	
Due from Other Funds		5,761
Prepaid Costs	37,084	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 1,683,453	\$ 727,877
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,683,453	\$ 727,877

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 125,231	\$	\$ 125,231
1,601,914		1,601,914
462,158		462,158
99,533		99,533
	27,595	27,595
75,364		75,364
4,285		4,285
5,761	(5,761)	
37,084		37,084
	41,250	41,250
	28,907	28,907
	6,164,156	6,164,156
\$ 2,411,330	\$ 6,256,147	\$ 8,667,477
\$ -0-	\$ 94,698	\$ 94,698
\$ 2,411,330	\$ 6,350,845	\$ 8,762,175

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
APRIL 30, 2023

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 139,999	\$ 6,531
Accrued Interest Payable		
Due to Other Funds	5,761	
Security Deposits	82,400	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 228,160	\$ 6,531
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 51,727	\$ 47,806
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 37,084	\$
Restricted for Debt Service		673,540
Assigned for 2024 Budget Deficit	1,254,680	
Unassigned	111,802	
TOTAL FUND BALANCES	\$ 1,403,566	\$ 673,540
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,683,453	\$ 727,877
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>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 146,530	\$	\$ 146,530
	77,158	77,158
5,761	(5,761)	
82,400		82,400
	385,000	385,000
	<u>4,813,511</u>	<u>4,813,511</u>
<u>\$ 234,691</u>	<u>\$ 5,269,908</u>	<u>\$ 5,504,599</u>
<u>\$ 99,533</u>	<u>\$ (99,533)</u>	<u>\$ -0-</u>
\$ 37,084	\$ (37,084)	\$
673,540	(673,540)	
1,254,680	(1,254,680)	
<u>111,802</u>	<u>(111,802)</u>	
<u>\$ 2,077,106</u>	<u>\$ (2,077,106)</u>	<u>\$ - 0 -</u>
<u>\$ 2,411,330</u>		
	\$ 1,130,500	\$ 1,130,500
	671,783	671,783
	<u>1,455,293</u>	<u>1,455,293</u>
	<u>\$ 3,257,576</u>	<u>\$ 3,257,576</u>

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
APRIL 30, 2023

Total Fund Balances - Governmental Funds	\$	2,077,106
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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 a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the new debt or the old debt, whichever is shorter.		94,698
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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.		6,234,313
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2022 and prior tax levies became part of recognized revenue in the governmental activities of the District.		127,128
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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	\$ (77,158)	
Bonds Payable	<u>(5,198,511)</u>	<u>(5,275,669)</u>

Total Net Position - Governmental Activities	\$	<u>3,257,576</u>
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The accompanying notes to the financial statements are an integral part of this report.

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MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED APRIL 30, 2023

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 651,838	\$ 549,891
Water Service	269,191	
Wastewater Service	194,680	
SJRA Fees	250,703	
Penalty and Interest	11,743	18,044
Tap Connection and Inspection Fees	21,698	
Investment and Miscellaneous Revenues	34,694	7,734
TOTAL REVENUES	\$ 1,434,547	\$ 575,669
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 243,142	\$ 4,443
Contracted Services	131,121	21,825
Utilities	75,947	
SJRA Assessment	273,381	
Repairs and Maintenance	691,934	
Depreciation		
Other	185,604	15,497
Capital Outlay	110,272	
Debt Service:		
Bond Principal		365,000
Bond Interest		159,059
TOTAL EXPENDITURES/EXPENSES	\$ 1,711,401	\$ 565,824
NET CHANGE IN FUND BALANCES	\$ (276,854)	\$ 9,845
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - MAY 1, 2022	1,680,420	663,695
FUND BALANCES/NET POSITION - APRIL 30, 2023	\$ 1,403,566	\$ 673,540

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 1,201,729	\$ (72)	\$ 1,201,657
269,191		269,191
194,680		194,680
250,703		250,703
29,787	1,154	30,941
21,698		21,698
42,428		42,428
\$ 2,010,216	\$ 1,082	\$ 2,011,298
\$ 247,585	\$	\$ 247,585
152,946		152,946
75,947		75,947
273,381		273,381
691,934		691,934
	285,291	285,291
201,101		201,101
110,272	(110,272)	
365,000	(365,000)	
159,059	11,556	170,615
\$ 2,277,225	\$ (178,425)	\$ 2,098,800
\$ (267,009)	\$ 267,009	\$
	(87,502)	(87,502)
2,344,115	1,000,963	3,345,078
\$ 2,077,106	\$ 1,180,470	\$ 3,257,576

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2023

Net Change in Fund Balances - Governmental Funds \$ (267,009)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. (72)

Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. 1,154

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. (285,291)

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. 110,272

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. 365,000

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. (11,556)

Change in Net Position - Governmental Activities \$ (87,502)

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 1. CREATION OF DISTRICT

Montgomery County Utility District No. 2 (the “District”) was created effective June 4, 1971, by an act of the 62nd Texas Legislature, Regular Session, 1971. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service and storm sewer drainage for the residents of the District. The Board of Directors held its first meeting on January 26, 1972, and the first bonds were sold on May 26, 1972.

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. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

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”).

The GASB Codification set 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 Assets; 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.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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.
- 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

As discussed above, 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 two governmental funds and considers each to be a major fund.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund – To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

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 collectable 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 collectable 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.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

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. As of April 30, 2023, the General Fund owed the Debt Service Fund \$5,761 for the excess transfer of maintenance tax collections.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, 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.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$20,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Water System	5-45
Wastewater System	5-45
Drainage System	5-45
Equipment	10

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 original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

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:

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

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 not adopted a formal policy regarding the assignment of fund balances. As of April 30, 2023, the District has assigned \$1,254,680 of the General Fund fund balance for a projected budget deficit for the year ending April 30, 2024.

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. LONG-TERM DEBT

As of April 30, 2023, the District had authorized but unissued tax bonds in the amount of \$6,190,000 for utility facilities. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from the net system revenues of the District.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended April 30, 2023, the District levied an ad valorem debt service tax rate of \$0.21 per \$100 of assessed valuation, which resulted in a tax levy of \$552,494 on the adjusted taxable valuation of \$263,092,293 for the 2022 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

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

	May 1, 2022	Additions	Retirements	April 30, 2023
Bonds Payable	\$ 5,600,000	\$	\$ 365,000	\$ 5,235,000
Unamortized Discounts	(39,530)	_____	(3,041)	(36,489)
Bonds Payable, Net	\$ 5,560,470	\$ -0-	\$ 361,959	\$ 5,198,511
			Amount Due Within One Year	\$ 385,000
			Amount Due After One Year	4,813,511
			Bonds Payable, Net	\$ 5,198,511

The District's bonds payable at April 30, 2023, consists of the following bonds:

	Series 2012	Refunding Series 2015
Amount Outstanding – April 30, 2023	\$ 1,810,000	\$ 3,425,000
Interest Rates	3.25% - 4.00%	2.599%
Maturity Dates – Serially Beginning/Ending	May 1, 2031/2035	May 1, 2023/2030
Interest Payment Dates	May 1/ November 1	May 1/ November 1
Callable Dates	May 1, 2019 (1)	May 1, 2022 (1)

(1) Or any date thereafter at par plus accrued interest from the most recent payment date to the date fixed for redemption. The Series 2015 Refunding bonds are private placement bonds.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 3. LONG-TERM DEBT (Continued)

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

Fiscal Year	Principal	Interest	Total
2024	\$ 385,000	\$ 149,313	\$ 534,313
2025	395,000	139,177	534,177
2026	405,000	128,781	533,781
2027	420,000	118,061	538,061
2028	430,000	107,014	537,014
2029-2033	2,055,000	355,039	2,410,039
2034-2036	1,145,000	60,526	1,205,526
	<u>\$ 5,235,000</u>	<u>\$ 1,057,911</u>	<u>\$ 6,292,911</u>

NOTE 4. SIGNIFICANT BOND RESOLUTIONS AND LEGAL REQUIREMENTS

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

The bond resolutions state that the District should take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government.

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. At fiscal year end, the carrying amount of the District's deposits was \$485,231 and the bank balance was \$980,128. The District was not exposed to custodial credit risk at year-end.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at April 30, 2023, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 77,107	\$ 360,000	\$ 437,107
DEBT SERVICE FUND	48,124		48,124
TOTAL DEPOSITS	\$ 125,231	\$ 360,000	\$ 485,231

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 I 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.

The District records its investments in certificates of deposit at acquisition cost.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 1,077,886	\$ 1,077,886
Certificates of Deposit	360,000	360,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	164,028	164,028
TOTAL INVESTMENTS	\$ 1,601,914	\$ 1,601,914

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At April 30, 2023, the District’s investments in Texas CLASS were rated “AAAm” by Standard & Poor’s. The District also manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage.

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. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions - All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2023 is as follows:

	May 1, 2022	Increases	Decreases	April 30, 2023
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 41,250	\$	\$ 81,365	\$ 41,250
Construction in Progress		110,272		28,907
Total Capital Assets Not Being Depreciated	<u>\$ 41,250</u>	<u>\$ 110,272</u>	<u>\$ 81,365</u>	<u>\$ 70,157</u>
Capital Assets Subject to Depreciation				
Equipment	\$ 103,412	\$	\$	\$ 103,412
Water System	7,495,935			7,495,935
Wastewater System	9,330,783			9,330,783
Drainage System	2,802,707	81,365		2,884,072
Total Capital Assets Subject to Depreciation	<u>\$ 19,732,837</u>	<u>\$ 81,365</u>	<u>\$ - 0 -</u>	<u>\$ 19,814,202</u>
Accumulated Depreciation				
Equipment	\$ 103,412	\$	\$	\$ 103,412
Water System	4,563,925	164,332		4,728,257
Wastewater System	6,218,644	107,272		6,325,916
Drainage System	2,478,774	13,687		2,492,461
Total Accumulated Depreciation	<u>\$ 13,364,755</u>	<u>\$ 285,291</u>	<u>\$ - 0 -</u>	<u>\$ 13,650,046</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 6,368,082</u>	<u>\$ (203,926)</u>	<u>\$ - 0 -</u>	<u>\$ 6,164,156</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 6,409,332</u></u>	<u><u>\$ (93,654)</u></u>	<u><u>\$ 81,365</u></u>	<u><u>\$ 6,234,313</u></u>

NOTE 7. MAINTENANCE TAX

On February 19, 1972, the voters of the District approved the levy and collection of a maintenance tax rate not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. During the year ended April 30, 2023, the District levied an ad valorem maintenance tax rate of \$0.25 per \$100 of assessed valuation, which resulted in a tax levy of \$657,731 on the adjusted taxable valuation of \$263,092,293 for the 2022 tax year.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 8. LONE STAR GROUNDWATER CONSERVATION DISTRICT

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the “Conservation District”). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the “Act”), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Conservation District charges fees to the owners of wells located within the boundaries of the Conservation District, unless exempted.

NOTE 9. 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 settlements have not exceeded coverage in the past three years.

NOTE 10. SAN JACINTO RIVER AUTHORITY

On June 1, 2010, the District entered into the Contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the “Authority”). The District and the Authority operate within the boundaries of the Lone Star Groundwater Conservation District. The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. A surface water treatment and transmission system has been constructed and is operated and maintained by the Authority in order to provide phased treatment, transmission, and delivery of the Authority’s surface water to regulated users for blending with groundwater supplies, so that regulated users may continue to pump groundwater. The Authority charges a fee which enables the Authority to achieve, maintain and implement its Groundwater Reduction Plan. As of April 30, 2023, the fee being charged by the Authority was \$2.99 per 1,000 gallons pumped. During the current fiscal year, the District incurred \$273,381 in costs related to these fees.

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MONTGOMERY COUNTY UTILITY DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

APRIL 30, 2023

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED APRIL 30, 2023

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 530,000	\$ 651,838	\$ 121,838
Water Service	240,000	269,191	29,191
Wastewater Service	190,000	194,680	4,680
SJRA Fees	200,000	250,703	50,703
Penalty and Interest	7,000	11,743	4,743
Tap Connection and Inspection Fees	11,200	21,698	10,498
Investment and Miscellaneous Revenues	<u>19,100</u>	<u>34,694</u>	<u>15,594</u>
TOTAL REVENUES	<u>\$ 1,197,300</u>	<u>\$ 1,434,547</u>	<u>\$ 237,247</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 171,500	\$ 243,142	\$ (71,642)
Contracted Services	125,000	131,121	(6,121)
Utilities	80,600	75,947	4,653
SJRA Assessment	230,000	273,381	(43,381)
Repairs and Maintenance	609,000	691,934	(82,934)
Other	203,500	185,604	17,896
Capital Outlay	<u>567,000</u>	<u>110,272</u>	<u>456,728</u>
TOTAL EXPENDITURES	<u>\$ 1,986,600</u>	<u>\$ 1,711,401</u>	<u>\$ 275,199</u>
NET CHANGE IN FUND BALANCE	\$ (789,300)	\$ (276,854)	\$ 512,446
FUND BALANCE - MAY 1, 2022	<u>1,680,420</u>	<u>1,680,420</u>	<u></u>
FUND BALANCE - APRIL 30, 2023	<u>\$ 891,120</u>	<u>\$ 1,403,566</u>	<u>\$ 512,446</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
APRIL 30, 2023

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2023

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	<u>867</u>	<u>862</u>	x 1.0	<u>862</u>
1"	<u>38</u>	<u>37</u>	x 2.5	<u>93</u>
1½"	<u>2</u>	<u>2</u>	x 5.0	<u>10</u>
2"	<u>9</u>	<u>9</u>	x 8.0	<u>72</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>920</u></u>	<u><u>914</u></u>		<u><u>1,142</u></u>
Total Wastewater Connections	<u><u>920</u></u>	<u><u>914</u></u>	x 1.0	<u><u>914</u></u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped in system:	93,002,000	Water Accountability Ratio: 99.2 % (Gallons billed/Gallons pumped)
Gallons billed to customers:	92,254,000	

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2023

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

Does the District have Operation and Maintenance standby fees? Yes No

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely Partly Not at all

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely Partly Not at all

ETJ in which the District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED APRIL 30, 2023

PROFESSIONAL FEES:	
Auditing	\$ 15,000
Engineering	121,893
Legal	<u>106,249</u>
TOTAL PROFESSIONAL FEES	<u>\$ 243,142</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 46,292
Operations and Billing	<u>84,829</u>
TOTAL CONTRACTED SERVICES	<u>\$ 131,121</u>
UTILITIES:	
Electricity	\$ 71,941
Telephone	<u>4,006</u>
TOTAL UTILITIES	<u>\$ 75,947</u>
REPAIRS AND MAINTENANCE	<u>\$ 691,934</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 15,340
Election Costs	2,570
Insurance	32,872
Office Supplies and Postage	22,982
Travel and Meetings	<u>6,916</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 80,680</u>
CAPITAL OUTLAY	<u>\$ 110,272</u>
OTHER EXPENDITURES:	
Chemicals	\$ 29,468
Laboratory Fees	18,191
Permit Fees	21,296
Connection, Inspection, and Reconnection Fees	15,586
SJRA Assessment	273,381
Regulatory Assessment	2,218
Sludge Hauling	8,316
Other	<u>9,849</u>
TOTAL OTHER EXPENDITURES	<u>\$ 378,305</u>
TOTAL EXPENDITURES	<u>\$ 1,711,401</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
INVESTMENTS
APRIL 30, 2023

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 1,077,886	\$
Certificate of Deposit	XXXX9328	3.50%	11/28/23	100,000	1,467
Certificate of Deposit	XXXX9401	3.50%	12/03/23	130,000	1,832
Certificate of Deposit	XXXX0454	4.69%	03/01/24	<u>130,000</u>	<u>986</u>
TOTAL GENERAL FUND				<u>\$ 1,437,886</u>	<u>\$ 4,285</u>
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	<u>\$ 164,028</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 1,601,914</u>	<u>\$ 4,285</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED APRIL 30, 2023

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
MAY 1, 2022	\$	50,078		\$ 49,527
Adjustments to Beginning				
Balance		<u>(4,244)</u>	\$ 45,834	<u>(4,324)</u> \$ 45,203
Original 2022 Tax Levy	\$	605,659		\$ 508,754
Adjustment to 2022 Tax Levy		<u>52,072</u>	<u>657,731</u>	<u>43,740</u> <u>552,494</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 703,565		\$ 597,697
TAX COLLECTIONS:				
Prior Years	\$	19,528		\$ 18,750
Current Year		<u>632,310</u>	<u>651,838</u>	<u>531,141</u> <u>549,891</u>
TAXES RECEIVABLE -				
APRIL 30, 2023		<u>\$ 51,727</u>		<u>\$ 47,806</u>
TAXES RECEIVABLE BY				
YEAR:				
2022		\$ 25,421		\$ 21,353
2021		5,961		5,596
2020		4,129		3,876
2019		3,765		3,389
2018		3,787		3,787
2017		3,351		3,351
2016		1,540		1,741
2015		1,101		1,293
2014		618		791
2013		620		793
2012		570		730
2011		298		382
2010		283		362
2009		<u>283</u>		<u>362</u>
TOTAL		<u>\$ 51,727</u>		<u>\$ 47,806</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED APRIL 30, 2023**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
PROPERTY VALUATIONS:				
Land	\$ 66,598,990	\$ 51,325,710	\$ 51,325,570	\$ 50,808,620
Improvements	262,793,590	212,277,660	194,925,260	185,453,840
Personal Property	2,943,754	2,176,299	1,843,564	2,362,824
Exemptions	<u>(69,244,041)</u>	<u>(44,324,237)</u>	<u>(39,368,100)</u>	<u>(38,192,170)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 263,092,293</u>	<u>\$ 221,455,432</u>	<u>\$ 208,726,294</u>	<u>\$ 200,433,114</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.21	\$ 0.230	\$ 0.230	\$ 0.225
Maintenance	<u>0.25</u>	<u>0.245</u>	<u>0.245</u>	<u>0.250</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.46</u>	<u>\$ 0.475</u>	<u>\$ 0.475</u>	<u>\$ 0.475</u>
ADJUSTED TAX LEVY*	<u>\$ 1,210,225</u>	<u>\$ 1,051,914</u>	<u>\$ 991,451</u>	<u>\$ 951,680</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>96.14 %</u>	<u>98.90 %</u>	<u>99.19 %</u>	<u>99.25 %</u>

* Based upon adjusted tax at time of audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.25 per \$100 of assessed valuation approved by voters on February 19, 1972.

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2023

S E R I E S - 2 0 1 2			
Due During Fiscal Years Ending April 30	Principal Due May 1	Interest Due May 1/ November 1	Total
2024	\$	\$ 65,300	\$ 65,300
2025		65,300	65,300
2026		65,300	65,300
2027		65,300	65,300
2028		65,300	65,300
2029		65,300	65,300
2030		65,300	65,300
2031		65,300	65,300
2032	325,000	58,800	383,800
2033	340,000	45,500	385,500
2034	360,000	32,850	392,850
2035	380,000	20,588	400,588
2036	405,000	7,088	412,088
	\$ 1,810,000	\$ 687,226	\$ 2,497,226

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2023

SERIES - 2015 REFUNDING

Due During Fiscal Years Ending April 30	Principal Due May 1	Interest Due May 1/ November 1	Total
2024	\$ 385,000	\$ 84,013	\$ 469,013
2025	395,000	73,877	468,877
2026	405,000	63,481	468,481
2027	420,000	52,761	472,761
2028	430,000	41,714	471,714
2029	450,000	30,278	480,278
2030	465,000	18,388	483,388
2031	475,000	6,173	481,173
2032			
2033			
2034			
2035			
2036			
	<u>\$ 3,425,000</u>	<u>\$ 370,685</u>	<u>\$ 3,795,685</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2023

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending April 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2024	\$ 385,000	\$ 149,313	\$ 534,313
2025	395,000	139,177	534,177
2026	405,000	128,781	533,781
2027	420,000	118,061	538,061
2028	430,000	107,014	537,014
2029	450,000	95,578	545,578
2030	465,000	83,688	548,688
2031	475,000	71,473	546,473
2032	325,000	58,800	383,800
2033	340,000	45,500	385,500
2034	360,000	32,850	392,850
2035	380,000	20,588	400,588
2036	405,000	7,088	412,088
	<u>\$ 5,235,000</u>	<u>\$ 1,057,911</u>	<u>\$ 6,292,911</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED APRIL 30, 2023

Description	Original Bonds Issued	Bonds Outstanding May 1, 2022
Montgomery County Utility District No. 2 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2012	\$ 1,810,000	\$ 1,810,000
Montgomery County Utility District No. 2 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2015	<u>4,900,000</u>	<u>3,790,000</u>
TOTAL	<u>\$ 6,710,000</u>	<u>\$ 5,600,000</u>

Bond Authority:	Tax Bonds	Refunding Bonds
Amount Authorized by Voters	\$ 16,730,000	\$ 1,270,000
Amount Issued	<u>10,540,000</u>	<u>1,270,000</u>
Remaining to be Issued	<u>\$ 6,190,000</u>	<u>\$ - 0 -</u>

Debt Service Fund cash, investments and cash with paying agent balances as of
April 30, 2023: \$ 674,310

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 484,070

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding April 30, 2023</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$	\$ 65,300	\$ 1,810,000	Regions Bank, N.A. Houston, TX
	<u>365,000</u>	<u>93,759</u>	<u>3,425,000</u>	Regions Bank, N.A. Houston, TX
<u>\$ - 0 -</u>	<u>\$ 365,000</u>	<u>\$ 159,059</u>	<u>\$ 5,235,000</u>	

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2023	2022	2021
REVENUES			
Property Taxes	\$ 651,838	\$ 536,700	\$ 506,979
Water Service	519,894	447,254	533,953
Wastewater Service	194,680	195,786	196,743
Penalty and Interest	11,743	8,694	11,242
Tap Connection and Inspection Fees	21,698	16,245	19,603
Investment and Miscellaneous Revenues	34,694	25,473	37,796
TOTAL REVENUES	\$ 1,434,547	\$ 1,230,152	\$ 1,306,316
EXPENDITURES			
Professional Fees	\$ 243,142	\$ 307,604	\$ 202,400
Purchased/Contracted Services	1,172,383	858,306	921,995
Other	185,604	199,175	160,168
Capital Outlay	110,272	44,336	
TOTAL EXPENDITURES	\$ 1,711,401	\$ 1,409,421	\$ 1,284,563
NET CHANGE IN FUND BALANCE	\$ (276,854)	\$ (179,269)	\$ 21,753
BEGINNING FUND BALANCE	1,680,420	1,859,689	1,837,936
ENDING FUND BALANCE	\$ 1,403,566	\$ 1,680,420	\$ 1,859,689

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2020	2019	2023	2022	2021	2020	2019
\$ 500,347	\$ 452,094	45.5 %	43.6 %	38.7 %	40.5 %	38.0 %
466,672	488,605	36.2	36.4	40.9	37.7	41.0
186,988	184,143	13.6	15.9	15.1	15.1	15.5
9,787	11,734	0.8	0.7	0.9	0.8	1.0
11,520	6,300	1.5	1.3	1.5	0.9	0.5
61,725	48,170	2.4	2.1	2.9	5.0	4.0
<u>\$ 1,237,039</u>	<u>\$ 1,191,046</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 180,310	\$ 151,736	16.9 %	25.0 %	15.5 %	14.6 %	12.7 %
740,807	616,811	81.7	69.8	70.6	59.9	51.8
174,247	165,917	12.9	16.2	12.3	14.1	13.9
	211,501	7.7	3.6			17.8
<u>\$ 1,095,364</u>	<u>\$ 1,145,965</u>	<u>119.2 %</u>	<u>114.6 %</u>	<u>98.4 %</u>	<u>88.6 %</u>	<u>96.2 %</u>
\$ 141,675	\$ 45,081	<u>(19.2) %</u>	<u>(14.6) %</u>	<u>1.6 %</u>	<u>11.4 %</u>	<u>3.8 %</u>
<u>1,696,261</u>	<u>1,651,180</u>					
<u>\$ 1,837,936</u>	<u>\$ 1,696,261</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2023	2022	2021
REVENUES			
Property Taxes	\$ 549,891	\$ 504,897	\$ 474,886
Penalty and Interest	18,044	12,577	6,485
Investment and Miscellaneous Revenues	<u>7,734</u>	<u>9,238</u>	<u>6,203</u>
TOTAL REVENUES	<u>\$ 575,669</u>	<u>\$ 526,712</u>	<u>\$ 487,574</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 40,959	\$ 38,934	\$ 34,271
Debt Service Principal	365,000	355,000	340,000
Debt Service Interest and Fees	<u>159,865</u>	<u>169,168</u>	<u>179,719</u>
TOTAL EXPENDITURES	<u>\$ 565,824</u>	<u>\$ 563,102</u>	<u>\$ 553,990</u>
NET CHANGE IN FUND BALANCE	\$ 9,845	\$ (36,390)	\$ (66,416)
BEGINNING FUND BALANCE	<u>663,695</u>	<u>700,085</u>	<u>766,501</u>
ENDING FUND BALANCE	<u>\$ 673,540</u>	<u>\$ 663,695</u>	<u>\$ 700,085</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>914</u>	<u>906</u>	<u>892</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>914</u>	<u>899</u>	<u>886</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2020</u>	<u>2019</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
\$ 452,743	\$ 453,466	95.6 %	95.8 %	97.4 %	94.3 %	94.6 %
19,109	16,644	3.1	2.4	1.3	4.0	3.5
8,242	8,900	1.3	1.8	1.3	1.7	1.9
<u>\$ 480,094</u>	<u>\$ 479,010</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 36,615	\$ 36,635	7.1 %	7.4 %	7.0 %	7.6 %	7.6 %
325,000	315,000	63.4	67.4	69.7	67.7	65.8
191,791	202,629	27.8	32.1	36.9	39.9	42.3
<u>\$ 553,406</u>	<u>\$ 554,264</u>	<u>98.3 %</u>	<u>106.9 %</u>	<u>113.6 %</u>	<u>115.2 %</u>	<u>115.7 %</u>
\$ (73,312)	\$ (75,254)	1.7 %	(6.9) %	(13.6) %	(15.2) %	(15.7) %
839,813	915,067					
<u>\$ 766,501</u>	<u>\$ 839,813</u>					
885	879					
868	863					

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2023

District Mailing Address - Montgomery County Utility District No. 2
c/o Coats Rose, P.C.
9 Greenway Plaza, Suite 1000
Houston, TX 77046

District Telephone Number - (713) 651-0111

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended April 30, 2023	Expense reimbursements for the year ended April 30, 2023	Title
Kevin Lacy	05/20 05/24 (Elected)	\$ 2,100	\$ 135	President
Roy J. Smith	05/20 05/24 (Elected)	\$ 4,650	\$ 3,507	Vice President
Leslie Hausler	02/23 05/26 (Appointed)	\$ 300	\$ -0-	Secretary/ Assistant Vice President
Pam Harton	05/22 05/26 (Elected)	\$ 2,250	\$ -0-	Treasurer
Jon Crenshaw	05/22 05/26 (Elected)	\$ 2,250	\$ 432	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

The submission date of the most recent District Registration Form: February 24, 2023

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on March 16, 2012. Fees of office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2023

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended April 30, 2023</u>	<u>Title</u>
Coats Rose, P.C.	01/25/84	\$ 109,955	General Counsel
McCall Gibson Swedlund Barfoot PLLC	04/29/14	\$ 15,000	Auditor
Municipal Accounts & Consulting, L.P.	12/16/05	\$ 49,581	Bookkeeper
AEI Engineering, a Baxter Woodman Company	12/17/99	\$ 163,285	Engineer
Robert W. Baird Co. Incorporated	04/10/15	\$ -0-	Financial Advisor
Regional Water Corporation	10/01/08	\$ 459,526	Operator
Bob Leared RTA	04/22/74	\$ 22,236	Tax Assessor/ Collector
Larson & Weisinger	04/30/88	\$ 3,324	Delinquent Tax Attorney

See accompanying independent auditor's report.

