

**FULSHEAR MUNICIPAL
UTILITY DISTRICT NO. 2
FORT BEND COUNTY, TEXAS
FINANCIAL REPORT
February 29, 2024**

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Independent Auditor's Report

Board of Directors
Fulshear Municipal Utility District No. 2
Fort Bend County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Fulshear Municipal Utility District No. 2 (the "District"), as of and for the year ended February 29, 2024, 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 Fulshear Municipal Utility District No. 2, as of February 29, 2024, and the respective changes in financial position thereof 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.

***Board of Directors
Fulshear Municipal Utility District No. 2
Fort Bend County, Texas***

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 budgetary comparison information 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

***Board of Directors
Fulshear Municipal Utility District No. 2
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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.

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 Texas Supplementary Information schedules are presented for purposes of additional analysis and are 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 information 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 Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

W.C. Grattan & Co, P.C.C.

Houston, Texas
June 27, 2024

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Management's Discussion and Analysis

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***Fulshear Municipal Utility District No. 2
Management's Discussion and Analysis
February 29, 2024***

Using this Annual Report

Within this section of the financial report of Fulshear Municipal Utility District No. 2 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended February 29, 2024. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Fulshear Municipal Utility District No. 2
Management’s Discussion and Analysis
February 29, 2024***

The *Statement of Activities* reports how the District’s net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District’s use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District’s net position at February 29, 2024, was negative \$16,809,767. The District’s net position is negative because the District incurs debt to construct water, sewer, and drainage facilities and road improvements which it conveys to City of Fulshear. A comparative summary of the District’s overall financial position, as of February 29, 2024 and February 28, 2023 is as follows:

	2024	2023
Current and other assets	\$ 3,386,090	\$ 1,964,084
Capital assets	3,365,168	2,203,610
Total assets	6,751,258	4,167,694
Current liabilities	523,753	178,627
Long-term liabilities	23,037,272	16,714,640
Total liabilities	23,561,025	16,893,267
Net position		
Net investment in capital assets	(1,646,258)	(4,457,770)
Restricted	1,529,688	555,542
Unrestricted	(16,693,197)	(8,823,345)
Total net position	\$ (16,809,767)	\$ (12,725,573)

***Fulshear Municipal Utility District No. 2
Management's Discussion and Analysis
February 29, 2024***

The total net position of the District decreased during the current fiscal year by \$4,084,194. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2024</u>	<u>2023</u>
Revenues		
Property taxes, penalties and interest	\$ 1,868,135	\$ 992,700
Other	86,427	9,593
Total revenues	<u>1,954,562</u>	<u>1,002,293</u>
Expenses		
Operating and administrative	376,758	162,448
Debt interest and fees	404,857	163,044
Developer interest	1,481,181	
Debt issuance costs	1,064,920	
Depreciation/amortization	165,048	144,555
Total expenses	<u>3,492,764</u>	<u>470,047</u>
Change in net position before other item	(1,538,202)	532,246
Other item		
Transfers to other governments	<u>(2,545,992)</u>	<u> </u>
Change in net position	(4,084,194)	532,246
Net position, beginning of year	<u>(12,725,573)</u>	<u>(13,257,819)</u>
Net position, end of year	<u><u>\$ (16,809,767)</u></u>	<u><u>\$ (12,725,573)</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of February 29, 2024, were \$2,963,260, which consists of \$1,390,741 in the General Fund, \$1,529,688 in the Debt Service Fund, and \$42,831 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of February 29, 2024 and February 28, 2023, is as follows:

	<u>2024</u>	<u>2023</u>
Total assets	<u>\$ 1,612,443</u>	<u>\$ 1,366,977</u>
Total liabilities	\$ 70,956	\$ 9,881
Total deferred inflows	150,746	50,413
Total fund balance	<u>1,390,741</u>	<u>1,306,683</u>
Total liabilities, deferred inflows and fund balance	<u><u>\$ 1,612,443</u></u>	<u><u>\$ 1,366,977</u></u>

***Fulshear Municipal Utility District No. 2
Management’s Discussion and Analysis
February 29, 2024***

A comparative summary of the General Fund’s activities for the current and prior fiscal year is as follows:

	<u>2024</u>	<u>2023</u>
Total revenues	\$ 910,963	\$ 529,798
Total expenditures	<u>(826,905)</u>	<u>(201,434)</u>
Revenues over expenditures	<u>\$ 84,058</u>	<u>\$ 328,364</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District’s primary financial resources in the General Fund are from a property tax levy, which dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior fiscal year.

Debt Service Fund

A comparative summary of the Debt Service Fund’s financial position as of February 29, 2024 and February 28, 2023, is as follows:

	<u>2024</u>	<u>2023</u>
Total assets	<u>\$ 1,730,816</u>	<u>\$ 597,107</u>
Total liabilities	\$ 43,124	\$ 811
Total deferred inflows	158,004	40,754
Total fund balance	<u>1,529,688</u>	<u>555,542</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,730,816</u>	<u>\$ 597,107</u>

A comparative summary of the Debt Service Fund’s activities for the current and prior fiscal year is as follows:

	<u>2024</u>	<u>2023</u>
Total revenues	\$ 822,236	\$ 409,787
Total expenditures	<u>(286,180)</u>	<u>(183,976)</u>
Revenues over expenditures	536,056	225,811
Other changes in fund balance	438,090	
Net change in fund balance	<u>\$ 974,146</u>	<u>\$ 225,811</u>

Financial resources in the Debt Service Fund in both the current and prior fiscal year are from property tax revenues. During the current fiscal year, the District also received capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District set its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flow in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

***Fulshear Municipal Utility District No. 2
Management’s Discussion and Analysis
February 29, 2024***

Capital Projects Fund

A comparative summary of the Capital Projects Fund’s financial position as of February 29, 2024 and February 28, 2023, is as follows:

	2024	2023
Total assets	<u>\$ 42,831</u>	<u>\$ -</u>
Total fund balance	<u>\$ 42,831</u>	<u>\$ -</u>

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2024	2023
Total revenues	\$ 3,781	\$ -
Total expenditures	<u>(12,912,860)</u>	<u>(82)</u>
Revenues under expenditures	(12,909,079)	(82)
Other changes in fund balance	12,951,910	
Net change in fund balance	<u>\$ 42,831</u>	<u>\$ (82)</u>

The District has had considerable capital asset activity in the current fiscal year, which was financed with proceeds from the issuance of its Series 2023 Unlimited Tax Bonds and Series 2023A Unlimited Tax Road Bonds. The District did not have any significant capital asset activity in the prior fiscal year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District’s budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$320,623 less than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District’s financial statements upon completion of construction.

***Fulshear Municipal Utility District No. 2
Management's Discussion and Analysis
February 29, 2024***

Capital assets held by the District at February 29, 2024 and February 28, 2023, are summarized as follows:

	<u>2024</u>	<u>2023</u>
Capital assets not being depreciated		
Land and improvements	\$ 719,329	\$ 110,000
Capital assets being depreciated/amortized		
Landscaping improvements	2,891,100	2,891,100
Impact fees	717,277	
	<u>3,608,377</u>	<u>2,891,100</u>
Less accumulated depreciation/amortization		
Landscaping improvements	(942,045)	(797,490)
Impact fees	(20,493)	
	<u>(962,538)</u>	<u>(797,490)</u>
Depreciable capital assets, net	<u>2,645,839</u>	<u>2,093,610</u>
Capital assets, net	<u>\$ 3,365,168</u>	<u>\$ 2,203,610</u>

Capital asset additions during the current year include the channel repair project and impact fees paid to the City of Fulshear.

The developer and the City of Fulshear (the "City") have entered into an agreement which obligates the developer to construct water, sewer, and drainage facilities, and road improvements to serve the District and, when completed, to convey title to the facilities to the City. The values of these assets are recorded as transfers to other governments upon completion of construction and trued-up when the developer is reimbursed. Detention facilities and certain other capital assets are retained by the District. For the year ended February 29, 2024, capital assets in the amount of \$2,545,992 have been recorded as transfers to other governments in the government-wide statements. See Note 10 for additional information.

Long-Term Debt and Related Liabilities

As of February 29, 2024, the District owes approximately \$5,517,272 to its developer for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

***Fulshear Municipal Utility District No. 2
 Management’s Discussion and Analysis
 February 29, 2024***

At February 29, 2024 and February 28, 2023, the District had total bonded debt outstanding as shown below:

Series	2024	2023
2019 Road	\$ 4,230,000	\$ 4,330,000
2023	8,590,000	
2023A Road	4,800,000	
	<u>\$ 17,620,000</u>	<u>\$ 4,330,000</u>

During the current fiscal year, the District issued \$8,590,000 in unlimited tax bonds and \$4,800,000 in unlimited tax road bonds. At February 29, 2024, the District had \$123,410,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of such bonds; \$43,000,000 for parks and recreational facilities and the refunding of such bonds, and \$75,870,000 for road improvements and the refunding of such bonds.

Next Year’s Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year’s budget to current year actual amounts for the General Fund is as follows:

	2024 Actual	2025 Budget
Total revenues	\$ 910,963	\$ 960,000
Total expenditures	(826,905)	(204,727)
Revenues over expenditures	84,058	755,273
Beginning fund balance	1,306,683	1,390,741
Ending fund balance	<u>\$ 1,390,741</u>	<u>\$ 2,146,014</u>

Property Taxes

The District’s property tax base increased approximately \$43,791,000 for the 2024 tax year from \$156,111,415 to \$199,902,760, based on preliminary values. This increase was primarily due to increased property values.

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Basic Financial Statements

Fulshear Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet
February 29, 2024

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 52,670	\$ 154,480	\$ -	\$ 207,150	\$ -	\$ 207,150
Investments	1,355,823	1,468,392	42,831	2,867,046		2,867,046
Taxes receivable	150,746	158,004		308,750		308,750
Internal balances	50,060	(50,060)				
Prepaid items	3,144			3,144		3,144
Capital assets not being depreciated					719,329	719,329
Capital assets, net					2,645,839	2,645,839
Total Assets	\$ 1,612,443	\$ 1,730,816	\$ 42,831	\$ 3,386,090	3,365,168	6,751,258
Liabilities						
Accounts payable	\$ 70,956	\$ -	\$ -	\$ 70,956		70,956
Other payables		877		877		877
Accrued interest payable		42,247		42,247	309,673	351,920
Due to developer					5,517,272	5,517,272
Long-term debt						
Due within one year					100,000	100,000
Due after one year					17,520,000	17,520,000
Total Liabilities	70,956	43,124		114,080	23,446,945	23,561,025
Deferred Inflows of Resources						
Deferred property taxes	150,746	158,004		308,750	(308,750)	
Fund Balances/Net Position						
Fund Balances						
Nonspendable	3,144			3,144	(3,144)	
Restricted		1,529,688	42,831	1,572,519	(1,572,519)	
Unassigned	1,387,597			1,387,597	(1,387,597)	
Total Fund Balances	1,390,741	1,529,688	42,831	2,963,260	(2,963,260)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,612,443	\$ 1,730,816	\$ 42,831	\$ 3,386,090		
Net Position						
Net investment in capital assets					(1,646,258)	(1,646,258)
Restricted for debt service					1,529,688	1,529,688
Unrestricted					(16,693,197)	(16,693,197)
Total Net Position					\$ (16,809,767)	\$ (16,809,767)

See notes to basic financial statements.

Fulshear Municipal Utility District No. 2
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 29, 2024

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 857,651	\$ 777,447	\$ -	\$ 1,635,098	\$ 200,941	\$ 1,836,039
Penalties and interest		15,455		15,455	16,641	32,096
Investment earnings	53,312	29,334	3,781	86,427		86,427
Total Revenues	910,963	822,236	3,781	1,736,980	217,582	1,954,562
Expenditures/Expenses						
Operating and administrative						
Professional fees	114,632		136,121	250,753		250,753
Contracted services	13,992	16,175		30,167		30,167
Repairs and maintenance	52,199			52,199		52,199
Utilities	23,581			23,581		23,581
Administrative	13,172	6,886		20,058		20,058
Capital outlay	609,329		10,230,638	10,839,967	(10,839,967)	
Debt service						
Principal		100,000		100,000	(100,000)	
Interest and fees		163,119		163,119	241,738	404,857
Developer interest			1,481,181	1,481,181		1,481,181
Debt issuance costs			1,064,920	1,064,920		1,064,920
Depreciation/amortization					165,048	165,048
Total Expenditures/Expenses	826,905	286,180	12,912,860	14,025,945	(10,533,181)	3,492,764
Revenues Over/(Under)						
Expenditures/Expenses	84,058	536,056	(12,909,079)	(12,288,965)	10,750,763	(1,538,202)
Other Financing Sources						
Proceeds from sale of bonds		438,090	12,951,910	13,390,000	(13,390,000)	
Other Item						
Transfers to other governments					(2,545,992)	(2,545,992)
Net Change in Fund Balances	84,058	974,146	42,831	1,101,035	(1,101,035)	
Change in Net Position					(4,084,194)	(4,084,194)
Fund Balance/Net Position						
Beginning of the year	1,306,683	555,542		1,862,225	(14,587,798)	(12,725,573)
End of the year	\$ 1,390,741	\$ 1,529,688	\$ 42,831	\$ 2,963,260	\$ (19,773,027)	\$ (16,809,767)

See notes to basic financial statements.

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Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fulshear Municipal Utility District No. 2 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was created by an act by the Texas Legislature under Section 52, Article III and Section 59, Article XVI, as passed by the eighty-third (83rd) Texas Legislature on June 14, 2013 and operates in accordance with the Special District Local Laws Code, Chapter 8480 and the Texas Water Code, Chapter 49 and 54. The Board of Directors held its first meeting on January 29, 2015 and the first bonds were issued on March 28, 2019.

The District was created for the purpose of providing water, sewer and drainage facilities, parks, roads and other public infrastructure to facilitate the development of land within its boundaries. As further discussed in Note 10, the District transfers the water, sewer and drainage facilities, and road improvements to the City of Fulshear for operation and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other 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 statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service are property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer, and drainage facilities and road improvements.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes and interest earned on investments. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At February 29, 2024, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist landscaping improvements and impact fees, are depreciated or amortized in the case of intangible assets using the straight-line method as follows:

Assets	Useful Life
Landscaping improvements	20 years
Impact fees	Remaining life of contract

The District’s drainage channels are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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. The District’s nonspendable fund balance consists of prepaid items.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and capitalized interest from the sale of bonds and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (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 not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the City of Fulshear and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		\$ 2,963,260
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 4,327,706	
Less accumulated depreciation/amortization	<u>(962,538)</u>	
Change due to capital assets		3,365,168
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable	(17,620,000)	
Interest payable on bonds	<u>(309,673)</u>	
Change due to long-term debt		(17,929,673)
Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		
		(5,517,272)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		
		308,750
Total net position - governmental activities		<u><u>\$ (16,809,767)</u></u>

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ 1,101,035

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and penalties and interest. 217,582

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 10,839,967	
Depreciation/amortization expense	<u>(165,048)</u>	
		10,674,919

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government-wide statements.

Issuance of long-term debt	(13,390,000)	
Principal payments	100,000	
Interest expense accrual	<u>(241,738)</u>	
		(13,531,738)

The District conveys its infrastructure and road improvements to the City of Fulshear upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (2,545,992)

Change in net position of governmental activities	\$ (4,084,194)
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Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of February 29, 2024, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexSTAR	General	\$ 1,355,823	AAAm	37 days
	Debt Service	1,468,392		
	Capital Projects	42,831		
		<u>\$ 2,867,046</u>		

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 3 – Deposits and Investments (continued)

TexSTAR

The District participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

TexSTAR uses amortized cost rather than fair value to report net assets to compute share price. Accordingly, investments in TexSTAR are stated at amortized cost which approximates fair value. Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at February 29, 2024, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 50,060	Maintenance tax collections not remitted as of year end

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended February 29, 2024, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 110,000	\$ 609,329	\$ 719,329
Capital assets being depreciated/amortized			
Landscaping improvements	2,891,100		2,891,100
Capital recovery fees		717,277	717,277
	<u>2,891,100</u>	<u>717,277</u>	<u>3,608,377</u>
Less accumulated depreciation/amortization			
Landscaping improvements	(797,490)	(144,555)	(942,045)
Capital recovery fees		(20,493)	(20,493)
	<u>(797,490)</u>	<u>(165,048)</u>	<u>(962,538)</u>
Subtotal depreciable capital assets, net	<u>2,093,610</u>	<u>552,229</u>	<u>2,645,839</u>
Capital assets, net	<u>\$ 2,203,610</u>	<u>\$ 1,161,558</u>	<u>\$ 3,365,168</u>

Depreciation/amortization expense for the current fiscal year was \$165,048.

Note 6 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, drainage, and park and recreational facilities and road improvements. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

The District’s developers have also advanced funds to the District for operating expenses.

Changes in the estimated amounts due to developer during the year are as follows:

Due to developer, beginning of year	\$ 12,484,640
Developer reimbursements	(10,230,637)
Adjustments to developer funded capital assets	<u>3,263,269</u>
Due to developer, end of year	<u>\$ 5,517,272</u>

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 17,620,000
Due within one year	\$ 100,000

The District’s bonds payable at February 29, 2024, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2019 Road	\$ 4,230,000	\$ 4,330,000	3.00% - 4.00%	April 1, 2023/2046	April 1, October 1	April 1, 2024
2023	8,590,000	8,590,000	5.00% - 7.50%	April 1, 2026/2049	April 1, October 1	April 1, 2028
2023A Road	4,800,000	4,800,000	4.50% - 7.00%	April 1, 2026/2049	April 1, October 1	April 1, 2028
	\$ 17,620,000					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At February 29, 2024, the District had authorized but unissued bonds in the amount of \$123,410,000 for the purpose of acquisition, constructing and improving the water, sewer and drainage facilities and the refunding of such bonds; \$43,000,000 for park and recreational facilities and the refunding of such bonds; and \$75,870,000 for road improvements and the refunding of such bonds.

On October 26, 2023, the District issued its \$8,590,000 Series 2023 Unlimited Tax Bonds at a net effective interest rate of 5.429229%. Proceeds of the bonds were used (1) to reimburse its developer for the construction of capital assets within the District and the acquisition of land for certain District facilities (2) to pay developer interest at the net effective interest rate of the bonds and (3) to pay capitalized interest into the Debt Service Fund.

Additionally, on December 14, 2023, the District issued its \$4,800,000 Series 2023A Unlimited Tax Road Bonds at a net effective interest rate of 5.095718%. Proceeds of the bonds were used to reimburse its developer for the construction of road facilities within the District and the acquisition of land for certain District facilities and to pay developer interest at the net effective interest rate of the bonds.

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 7 – Long-Term Debt (continued)

The change in the District’s long-term debt during the year is as follows:

Bonds payable, beginning of year	\$ 4,330,000
Bonds issued	13,390,000
Bonds retired	<u>(100,000)</u>
Bonds payable, end of year	<u>\$ 17,620,000</u>

As of February 29, 2024, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2025	\$ 100,000	\$ 884,744	\$ 984,744
2026	100,000	881,744	981,744
2027	415,000	867,744	1,282,744
2028	430,000	842,194	1,272,194
2029	445,000	815,387	1,260,387
2030	465,000	787,072	1,252,072
2031	505,000	756,887	1,261,887
2032	525,000	724,807	1,249,807
2033	545,000	691,686	1,236,686
2034	565,000	658,824	1,223,824
2035	615,000	625,881	1,240,881
2036	640,000	594,534	1,234,534
2037	665,000	564,728	1,229,728
2038	710,000	533,225	1,243,225
2039	735,000	500,025	1,235,025
2040	770,000	465,259	1,235,259
2041	820,000	428,288	1,248,288
2042	850,000	389,338	1,239,338
2043	910,000	348,294	1,258,294
2044	945,000	305,031	1,250,031
2045	1,005,000	259,550	1,264,550
2046	1,045,000	211,731	1,256,731
2047	1,115,000	161,166	1,276,166
2048	855,000	113,625	968,625
2049	900,000	69,750	969,750
2050	945,000	23,625	968,625
	<u>\$ 17,620,000</u>	<u>\$ 13,505,139</u>	<u>\$ 31,125,139</u>

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 8 – Property Taxes

On January 29, 2015, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value, and \$1.50 per \$100 of assessed value for use in financing the maintenance of road improvements, and \$0.10 per \$100 of assessed value for use in financing the maintenance of parks and recreational facilities. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Fort Bend Central 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.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2024 fiscal year was financed through the 2023 tax levy, pursuant to which the District levied property taxes of \$1.17 per \$100 of assessed value, of which \$0.61 was allocated to maintenance and operations, \$0.35 was allocated to road debt services, and \$0.21 was allocated to water, sewer and drainage debt service. The resulting tax levy was \$1,826,504 on the adjusted taxable value of \$156,111,415.

Property taxes receivable, at February 29, 2024, consisted of the following:

Current year taxes receivable	\$ 260,791
Prior years taxes receivable	24,961
	<u>285,752</u>
Penalty and interest receivable	22,998
Property taxes receivable	<u>\$ 308,750</u>

Note 9 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Fulshear (the “City”), the District transfers all of its water, sewer, and drainage facilities and road improvements to the City (see Note 10). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended February 29, 2024, the District reported transfers to other governments in the amount of \$2,545,992 for developer reimbursements for land acquisition and right-of-way land acquisition transferred to the City in previous fiscal years.

Fulshear Municipal Utility District No. 2
Notes to Financial Statements
February 29, 2024

Note 10 – Development Agreement with the City of Fulshear

On May 6, 2014, the District’s developer, DHK Fulshear LP (the “Developer”), and the City of Fulshear (the “City”) entered into a Developmental Agreement to establish the City’s regulatory authority over the development of the District, certain restrictions and commitments related to the development of the District, and to set forth detailed design and construction standards and stipulations regarding the conveyance of ownership of the District facilities to the City.

The Developer intends to make provisions for public water supply and distribution, wastewater collection and treatment, and drainage services through public utility facilities to be provided by the District and water supply and sanitary sewer treatment capacity provided by the City. The District is responsible for the design and construction of the water, sanitary sewer, and drainage facilities to serve the land within the District. All final plans must be approved by the City before construction. As the facilities are constructed and inspected by the City, the District shall transfer these facilities to the City (excluding detention ponds or drainage channels, which are owned and operated by the District) for ownership and operation. Additionally, the District constructs roadways to serve the District, which are accepted by the City for operation and maintenance.

Pursuant to the agreement, the District agree to pay the City impact fees of \$3,641 per equivalent single-family connection for water supply and distribution and sanitary sewer treatment capacity. As of February 29, 2024, the District has paid \$717,277 to the City.

Note 11 – 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current fiscal year or the three prior fiscal years.

Required Supplementary Information

***Fulshear Municipal Utility District No. 2
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended February 29, 2024***

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 550,000	\$ 857,651	\$ 307,651
Investment earnings	5,000	53,312	48,312
Total Revenues	<u>555,000</u>	<u>910,963</u>	<u>355,963</u>
Expenditures			
Operating and administrative			
Professional fees	44,000	114,632	(70,632)
Contracted services	15,600	13,992	1,608
Repairs and maintenance	68,000	52,199	15,801
Utilities	12,000	23,581	(11,581)
Administrative	9,219	13,172	(3,953)
Other	1,500		1,500
Capital outlay		609,329	(609,329)
Total Expenditures	<u>150,319</u>	<u>826,905</u>	<u>(676,586)</u>
Revenues Over Expenditures	404,681	84,058	(320,623)
Fund Balance			
Beginning of the year	<u>1,306,683</u>	<u>1,306,683</u>	
End of the year	<u>\$ 1,711,364</u>	<u>\$ 1,390,741</u>	<u>\$ (320,623)</u>

Fulshear Municipal Utility District No. 2
Notes to Required Supplementary Information
February 29, 2024

Budgets and Budgetary Accounting

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. There were no amendments to the budget during the fiscal year.

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Texas Supplementary Information

Fulshear Municipal Utility District No. 2
TSI-1. Services and Rates
February 29, 2024

1. Services provided by the District During the Fiscal Year:

- Retail Water Wholesale Water Solid Waste/Garbage Drainage
 Retail Wastewater Wholesale Wastewater Flood Control Irrigation
 Parks / Recreation Fire Protection Roads Security
 Participates in joint venture, regional system and/or wastewater service

Other (Specify): Water, wastewater and drainage facilities accepted by the City of Fulshear

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate (Y/N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	_____	_____	_____	_____	_____ to _____
Wastewater:	_____	_____	_____	_____	_____ to _____
Surcharge:	_____	_____	_____	_____	_____ to _____

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____		_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-1. Services and Rates
February 29, 2024

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons pumped into system:	<u> N/A </u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u> N/A </u>	<u> N/A </u>

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District:

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Fort Bend County

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: City of Fulshear

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

Entirely Partly Not at all

ETJs in which the District is located: _____

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-2 General Fund Expenditures
For the Year Ended February 29, 2024

Professional fees	
Legal	\$ 97,032
Audit	13,000
Engineering	4,600
	<u>114,632</u>
Contracted services	
Bookkeeping	<u>13,992</u>
Repairs and maintenance	<u>52,199</u>
Utilities	<u>23,581</u>
Administrative	
Directors fees	8,343
Printing and office supplies	1,298
Insurance	3,048
Other	483
	<u>13,172</u>
Capital outlay	<u>609,329</u>
Total expenditures	<u>\$ 826,905</u>

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-3. Investments
February 29, 2024

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexSTAR	Variable	N/A	\$ 1,355,823
Debt Service			
TexSTAR	Variable	N/A	737,619
TexSTAR	Variable	N/A	730,773
			<u>1,468,392</u>
Capital Projects			
TexSTAR	Variable	N/A	30,079
TexSTAR	Variable	N/A	12,752
			<u>42,831</u>
Total - All Funds			<u>\$ 2,867,046</u>

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-4. Taxes Levied and Receivable
February 29, 2024

	Maintenance Taxes	Road Debt Service Taxes	W-S-D Debt Service Taxes	Total
Taxes Receivable, Beginning of Year	\$ 50,413	\$ 34,397	\$ -	\$ 84,810
Adjustments to Prior Year Tax Levy	5,642	3,884		9,526
Adjusted Receivable	56,055	38,281		94,336
2023 Original Tax Levy	978,135	561,225	336,735	1,876,095
Adjustments	(25,855)	(14,835)	(8,901)	(49,591)
Adjusted Tax Levy	952,280	546,390	327,834	1,826,504
Total to be accounted for	1,008,335	584,671	327,834	1,920,840
Tax collections:				
Current year	816,312	468,376	281,025	1,565,713
Prior years	41,277	28,098		69,375
Total Collections	857,589	496,474	281,025	1,635,088
Taxes Receivable, End of Year	\$ 150,746	\$ 88,197	\$ 46,809	\$ 285,752
Taxes Receivable, By Years				
2023	\$ 135,968	\$ 78,014	\$ 46,809	\$ 260,791
2022	14,778	10,183		24,961
Taxes Receivable, End of Year	\$ 150,746	\$ 88,197	\$ 46,809	\$ 285,752
	2023	2022	2021	2020
Property Valuations:				
Land	\$ 38,563,036	\$ 24,527,807	\$ 20,314,797	\$ 18,781,759
Improvements	135,402,580	65,769,022	33,047,846	26,112,730
Personal Property	334,622	132,060	129,470	110,390
Exemptions	(18,188,823)	(8,490,301)	(487,113)	(76,382)
Total Property Valuations	\$ 156,111,415	\$ 81,938,588	\$ 53,005,000	\$ 44,928,497
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.61	\$ 0.71	\$ 0.79	\$ 0.70
Road debt service tax rates	0.35	0.49	0.41	0.50
Debt service tax rates	0.21			
Total Tax Rates per \$100 Valuation	\$ 1.17	\$ 1.20	\$ 1.20	\$ 1.20
Adjusted Tax Levy:	\$ 1,826,504	\$ 983,263	\$ 636,060	\$ 539,142
Percentage of Taxes Collected to Taxes Levied ****	85.72%	97.46%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 14, 2015

** Maximum Road Maintenance Tax Rate Approved by Voters: \$1.50 on May 14, 2015

*** Maximum Park and Recreational Facilities Maintenance Tax Rate

Approved by Voters: \$0.10 on May 14, 2015

**** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-5. Long-Term Debt Service Requirements
Series 2019 Road--by Years
February 29, 2024

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2025	\$ 100,000	\$ 158,544	\$ 258,544
2026	100,000	155,544	255,544
2027	125,000	152,169	277,169
2028	125,000	148,419	273,419
2029	125,000	144,512	269,512
2030	125,000	140,372	265,372
2031	150,000	135,637	285,637
2032	150,000	130,294	280,294
2033	150,000	124,762	274,762
2034	150,000	119,137	269,137
2035	175,000	113,044	288,044
2036	175,000	106,372	281,372
2037	175,000	99,590	274,590
2038	200,000	92,200	292,200
2039	200,000	84,200	284,200
2040	200,000	76,200	276,200
2041	225,000	67,700	292,700
2042	225,000	58,700	283,700
2043	250,000	49,200	299,200
2044	250,000	39,200	289,200
2045	275,000	28,700	303,700
2046	275,000	17,700	292,700
2047	305,000	6,100	311,100
	<u>\$ 4,230,000</u>	<u>\$ 2,248,296</u>	<u>\$ 6,478,296</u>

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-5. Long-Term Debt Service Requirements
Series 2023--by Years
February 29, 2024

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2025	\$ -	\$ 480,700	\$ 480,700
2026		480,700	480,700
2027	190,000	473,575	663,575
2028	200,000	458,950	658,950
2029	210,000	443,575	653,575
2030	220,000	427,450	647,450
2031	230,000	410,575	640,575
2032	245,000	392,763	637,763
2033	255,000	374,012	629,012
2034	270,000	354,325	624,325
2035	285,000	334,225	619,225
2036	300,000	316,750	616,750
2037	315,000	301,375	616,375
2038	330,000	285,250	615,250
2039	345,000	268,375	613,375
2040	365,000	250,625	615,625
2041	380,000	232,000	612,000
2042	400,000	212,500	612,500
2043	420,000	192,000	612,000
2044	445,000	170,375	615,375
2045	465,000	147,625	612,625
2046	490,000	123,750	613,750
2047	515,000	98,625	613,625
2048	545,000	72,125	617,125
2049	570,000	44,250	614,250
2050	600,000	15,000	615,000
	<u>\$ 8,590,000</u>	<u>\$ 7,361,475</u>	<u>\$ 15,951,475</u>

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-5. Long-Term Debt Service Requirements
Series 2023A Road--by Years
February 29, 2024

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2025	\$ -	\$ 204,584	\$ 204,584
2026		245,500	245,500
2027	100,000	242,000	342,000
2028	105,000	234,825	339,825
2029	110,000	227,300	337,300
2030	120,000	219,250	339,250
2031	125,000	210,675	335,675
2032	130,000	201,750	331,750
2033	140,000	192,912	332,912
2034	145,000	185,362	330,362
2035	155,000	178,612	333,612
2036	165,000	171,412	336,412
2037	175,000	163,763	338,763
2038	180,000	155,775	335,775
2039	190,000	147,450	337,450
2040	205,000	138,434	343,434
2041	215,000	128,588	343,588
2042	225,000	118,138	343,138
2043	240,000	107,094	347,094
2044	250,000	95,456	345,456
2045	265,000	83,225	348,225
2046	280,000	70,281	350,281
2047	295,000	56,441	351,441
2048	310,000	41,500	351,500
2049	330,000	25,500	355,500
2050	345,000	8,625	353,625
	<u>\$ 4,800,000</u>	<u>\$ 3,854,452</u>	<u>\$ 8,654,452</u>

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
February 29, 2024

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2025	\$ 100,000	\$ 884,744	\$ 984,744
2026	100,000	881,744	981,744
2027	415,000	867,744	1,282,744
2028	430,000	842,194	1,272,194
2029	445,000	815,387	1,260,387
2030	465,000	787,072	1,252,072
2031	505,000	756,887	1,261,887
2032	525,000	724,807	1,249,807
2033	545,000	691,686	1,236,686
2034	565,000	658,824	1,223,824
2035	615,000	625,881	1,240,881
2036	640,000	594,534	1,234,534
2037	665,000	564,728	1,229,728
2038	710,000	533,225	1,243,225
2039	735,000	500,025	1,235,025
2040	770,000	465,259	1,235,259
2041	820,000	428,288	1,248,288
2042	850,000	389,338	1,239,338
2043	910,000	348,294	1,258,294
2044	945,000	305,031	1,250,031
2045	1,005,000	259,550	1,264,550
2046	1,045,000	211,731	1,256,731
2047	1,115,000	161,166	1,276,166
2048	855,000	113,625	968,625
2049	900,000	69,750	969,750
2050	945,000	23,625	968,625
	<u>\$ 17,620,000</u>	<u>\$ 13,505,139</u>	<u>\$ 31,125,139</u>

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-6. Change in Long-Term Bonded Debt
February 29, 2024

	Bond Issue			Totals
	Series 2019 Road	Series 2023	Series 2023A Road	
Interest rate	3.00% - 4.00%	5.00% - 7.50%	4.50% - 7.00%	
Dates interest payable	4/1 ; 10/1	4/1 ; 10/1	4/1 ; 10/1	
Maturity dates	4/1/23 - 4/1/46	4/1/26 - 4/1/49	4/1/26 - 4/1/49	
Beginning bonds outstanding	\$ 4,330,000	\$ -	\$ -	\$ 4,330,000
Bonds issued		8,590,000	4,800,000	13,390,000
Bonds retired	100,000			100,000
Ending bonds outstanding	<u>\$ 4,230,000</u>	<u>\$ 8,590,000</u>	<u>\$ 4,800,000</u>	<u>\$ 17,620,000</u>
Interest paid during fiscal year	<u>\$ 161,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 161,544</u>
Paying agent's name and city All Series	<u>The Bank of New York Mellon Trust Company, N.A., Dallas, Texas</u>			
Bond Authority:		Water, Sewer and Drainage Bonds	Road Bonds	Park and Recreational Bonds
Amount Authorized by Voters		\$ 132,000,000	\$ 85,000,000	\$ 43,000,000
Amount Issued		(8,590,000)	(9,130,000)	
Remaining To Be Issued		<u>\$ 123,410,000</u>	<u>\$ 75,870,000</u>	<u>\$ 43,000,000</u>

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investment balances as of February 29, 2024: \$ 1,622,872

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,197,121

See accompanying auditor's report.

Fulshear Municipal Utility District No. 2
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2024	2023	2022	2021	2020
Revenues					
Property taxes	\$ 857,651	\$ 525,218	\$ 408,423	\$ 314,668	\$ 255,672
Investment earnings	53,312	4,580	52	488	595
Total Revenues	910,963	529,798	408,475	315,156	256,267
Expenditures					
Operating and administrative					
Professional fees	114,632	44,858	43,658	47,104	108,171
Contracted services	13,992	11,941	13,320	11,212	11,097
Repairs and maintenance	52,199	64,951	26,436	10,088	27,390
Utilities	23,581	13,033	12,864		
Administrative	13,172	6,651	12,083	6,236	5,880
Other				31	
Capital outlay	609,329	60,000			50,000
Debt service					
Developer interest					36,694
Debt issuance costs					7,836
Total Expenditures	826,905	201,434	108,361	74,671	247,068
Revenues Over Expenditures	\$ 84,058	\$ 328,364	\$ 300,114	\$ 240,485	\$ 9,199

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues

2024	2023	2022	2021	2020
94%	99%	100%	100%	100%
6%	1%	*	*	*
100%	100%	100%	100%	100%
13%	8%	11%	15%	42%
2%	2%	3%	4%	4%
6%	12%	6%	3%	11%
3%	2%	3%		
1%	1%	3%	2%	2%
			*	
67%	11%			20%
				14%
				3%
92%	36%	26%	24%	96%
8%	64%	74%	76%	4%

Fulshear Municipal Utility District No. 2

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund

For the Last Five Fiscal Years

	Amounts				
	2024	2023	2022	2021	2020
Revenues					
Property taxes	\$ 777,447	\$ 399,840	\$ 214,598	\$ 219,243	\$ 175,510
Penalties and interest	15,455	4,934	5,449	908	1,467
Investment earnings	29,334	5,013	13	229	396
Total Revenues	<u>822,236</u>	<u>409,787</u>	<u>220,060</u>	<u>220,380</u>	<u>177,373</u>
Expenditures					
Tax collection services	23,061	20,527	15,467	14,234	11,945
Other		405	168	161	182
Debt service					
Principal	100,000				
Interest and fees	163,119	163,044	163,044	163,044	82,881
Total Expenditures	<u>286,180</u>	<u>183,976</u>	<u>178,679</u>	<u>177,439</u>	<u>95,008</u>
Revenues Over Expenditures	<u>\$ 536,056</u>	<u>\$ 225,811</u>	<u>\$ 41,381</u>	<u>\$ 42,941</u>	<u>\$ 82,365</u>

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues

2024	2023	2022	2021	2020
94%	98%	98%	100%	99%
2%	1%	2%	*	1%
4%	1%	*	*	*
100%	100%	100%	100%	100%
3%	5%	7%	6%	7%
	*	*	*	*
12%				
20%	40%	74%	74%	47%
35%	45%	81%	80%	54%
65%	55%	19%	20%	46%

Fulshear Municipal Utility District No. 2
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended February 29, 2024

Complete District Mailing Address: 9 Greenway Plaza, Suite 1000, Houston, Texas 77046-3653

District Business Telephone Number: (713) 651-0111

Submission Date of the most recent District Registration Form

(TWC Sections 36.054 and 49.054): February 28, 2024

Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200

(Set by Board Resolution -- TWC Section 49.060)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Jeff Hogan	05/24 - 05/28	\$ 1,847	\$ -	President
Mary Alford	05/24 - 05/28	1,476		Vice President
Connie McMaken	05/20 - 05/26	1,847		Secretary
Joy Bastawrous	02/24 - 05/28			Assistant Secretary
David Little	10/23 - 05/26	1,547		Assistant Secretary
Joe Goodwin	05/20 - 10/23	150		Former Director
McCay Dickson	05/20 - 02/24	1,476		Former Director
Consultants				
Coats Rose, P.C.	2015	Amounts Paid		Attorney
<i>General legal fees</i>		\$ 95,791		
<i>Bond counsel</i>		320,984		
Myrtle Cruz, Inc.	2015	22,084		Bookkeeper
Bob Leared Interests	2015	6,000		Tax Collector
Fort Bend Central Appraisal District	Legislation	8,735		Property Valuation
Robert Deden Services, Inc.	2015	171,906		Engineer
McGrath & Co., PLLC	2017	29,050		Auditor
The GMS Group	2015	271,415		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditor's report.