

**MONTGOMERY COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 205**

MONTGOMERY COUNTY, TEXAS

FINANCIAL REPORT

August 31, 2024

Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditor's Report		1
Management's Discussion and Analysis		7
BASIC FINANCIAL STATEMENTS		
Statement of Net Position and Governmental Fund Balance Sheet		14
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance		15
Notes to Financial Statements		17
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		28
Notes to Required Supplementary Information		29
TEXAS SUPPLEMENTARY INFORMATION		
Services and Rates	TSI-1	32
General Fund Expenditures	TSI-2	34
Investments	TSI-3	35
Taxes Levied and Receivable	TSI-4	36
Long-Term Debt Service Requirements by Years	TSI-5	N/A
Change in Long-Term Bonded Debt	TSI-6	N/A
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	38
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	N/A
Board Members, Key Personnel and Consultants	TSI-8	40

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Independent Auditor's Report

Board of Directors

Montgomery County Water Control and Improvement District No. 205

Montgomery County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and General Fund of Montgomery County Water Control and Improvement District No. 205 (the "District"), as of and for the year ended August 31, 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 General Fund of Montgomery County Water Control and Improvement District No. 205, as of August 31, 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.

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
Montgomery County Water Control and Improvement District No. 205
Montgomery County, Texas

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.



Houston, Texas
November 20, 2024

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Management's Discussion and Analysis

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Montgomery County Water Control and Improvement District No. 205
Management's Discussion and Analysis
August 31, 2024

Using this Annual Report

Within this section of the financial report of Montgomery County Water Control and Improvement District No. 205 (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 August 31, 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.

Montgomery County Water Control and Improvement District No. 205
Management's Discussion and Analysis
August 31, 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 August 31, 2024, was negative \$1,705,209. The District's net position is negative because the District incurs debt to construct public road facilities which it conveys to Montgomery County and because the District relies on advances from its developer to fund operating costs. A comparative summary of the District's overall financial position, as of August 31, 2024 and 2023, is as follows:

	2024	2023
Current and other assets	\$ 67,751	\$ 15,830
Capital assets	8,562,926	3,863,518
Total assets	<u>8,630,677</u>	<u>3,879,348</u>
Current liabilities	249,083	10,512
Long-term liabilities	10,086,803	5,371,606
Total liabilities	<u>10,335,886</u>	<u>5,382,118</u>
Net position		
Net investment in capital assets	677,753	447,314
Unrestricted	(2,382,962)	(1,950,084)
Total net position	<u>\$ (1,705,209)</u>	<u>\$ (1,502,770)</u>

Montgomery County Water Control and Improvement District No. 205
Management's Discussion and Analysis
August 31, 2024

The total net position of the District decreased during the current fiscal year by \$202,439. 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	\$ 105,318	\$ 25,067
Other	787	
Total revenues	<u>106,105</u>	<u>25,067</u>
Expenses		
Operating and administrative	221,005	102,731
Depreciation	87,539	33,614
Total expenses	<u>308,544</u>	<u>136,345</u>
Change in net position	(202,439)	(111,278)
Net position, beginning of year	<u>(1,502,770)</u>	<u>(1,391,492)</u>
Net position, end of year	<u><u>\$ (1,705,209)</u></u>	<u><u>\$ (1,502,770)</u></u>

Financial Analysis of the District's General Fund

Fund balance in the District's General Fund, as of August 31, 2024, was negative \$181,332. A comparative summary of the General Fund's financial position as of August 31, 2024 and 2023, is as follows:

	<u>2024</u>	<u>2023</u>
Total assets	<u>\$ 67,751</u>	<u>\$ 15,830</u>
Total liabilities	\$ 249,083	\$ 10,512
Total fund balance	(181,332)	5,318
Total liabilities and fund balance	<u>\$ 67,751</u>	<u>\$ 15,830</u>

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	\$ 106,105	\$ 25,067
Total expenditures	(422,755)	(102,731)
Revenues under expenditures	(316,650)	(77,664)
Other changes in fund balance	130,000	90,000
Net change in fund balance	<u>\$ (186,650)</u>	<u>\$ 12,336</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

Montgomery County Water Control and Improvement District No. 205
Management's Discussion and Analysis
August 31, 2024

financial resources in the General Fund are from a property tax levy and developer advances. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because assessed values increased from prior year.
- The District's developer advances funds to the District as needed to pay operating costs.

Negative fund balance in the General Fund is the result of timing differences between developer advances and expenditures for which those advances are intended to fund.

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 \$186,650 less than budgeted. The *Budgetary Comparison Schedule* on page 28 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.

Capital assets held by the District at August 31, 2024 and 2023, are summarized as follows:

	<u>2024</u>	<u>2023</u>
Capital assets not being depreciated		
Land and improvements	\$ 4,576,745	\$ 2,418,152
Construction in progress	201,750	
Total capital asset	<u>4,778,495</u>	<u>2,418,152</u>
Capital assets being depreciated		
Infrastructure	3,939,198	1,512,594
Less accumulated depreciation	<u>(154,767)</u>	<u>(67,228)</u>
Depreciable capital assets, net	<u>3,784,431</u>	<u>1,445,366</u>
Capital assets, net	<u>\$ 8,562,926</u>	<u>\$ 3,863,518</u>

Capital asset additions during the current year includes the following:

- 34.67 acres of land for the detention and outfall channel to serve Woodson's Reserve
- Detention outfall and outfall channel, phase 1, to serve Woodson's Reserve

Montgomery County Water Control and Improvement District No. 205
Management's Discussion and Analysis
August 31, 2024

The District's construction in progress is for the construction of detention facilities to serve Woodson's Gully.

Additionally, Montgomery County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of the County. Accordingly, these facilities are not considered assets of the District. The estimated value of these assets is recorded as transfers to other governments upon completion of construction. This estimated cost is trued-up when the developer is reimbursed.

Long-Term Debt and Related Liabilities

As of August 31, 2024, the District owes approximately \$10,086,803 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. As discussed in Note 6, the District has an additional commitment in the amount of \$12,954,309 for projects under construction by the developer. As noted, the District will owe its developer for these projects 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.

At August 31, 2024, the District had \$90,843,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the drainage and storm sewer systems within the District and the refunding of such bonds; \$75,450,000 for parks and recreational facilities and the refunding of such bonds; and \$72,450,000 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 developer advances 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:

	<u>2024 Actual</u>	<u>2025 Budget</u>
Total revenues	\$ 106,105	\$ 276,585
Total expenditures	<u>(422,755)</u>	<u>(569,722)</u>
Revenues under expenditures	(316,650)	(293,137)
Other changes in fund balance	<u>130,000</u>	<u>293,137</u>
Net change in fund balance	(186,650)	
Beginning fund balance	<u>5,318</u>	<u>(181,332)</u>
Ending fund balance	<u><u>\$ (181,332)</u></u>	<u><u>\$ (181,332)</u></u>

*Montgomery County Water Control and Improvement District No. 205
Management's Discussion and Analysis
August 31, 2024*

Property Taxes

The District's property tax base increased approximately \$51,018,000 for the 2024 tax year from \$29,327,785 to \$80,345,546. This increase was primarily due to new construction in the District and increased property values. For the 2024 tax year, the District has levied a tax rate of \$0.35 per \$100 of assessed value, all of which is allocated to maintenance and operations. This is the same rate levied for the 2023 tax year.

Basic Financial Statements

Montgomery County Water Control and Improvement District No. 205
Statement of Net Position and Governmental Fund Balance Sheet
August 31, 2024

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 66,675	\$ -	\$ 66,675
Investments	1,076		1,076
Capital assets not being depreciated		4,778,495	4,778,495
Capital assets, net		3,784,431	3,784,431
Total Assets	<u>\$ 67,751</u>	<u>8,562,926</u>	<u>8,630,677</u>
Liabilities			
Accounts payable	\$ 248,316		248,316
Other payables	767		767
Due to developer		10,086,803	10,086,803
Total Liabilities	<u>249,083</u>	<u>10,086,803</u>	<u>10,335,886</u>
Fund Balances/Net Position			
Fund Balances			
Unassigned	<u>(181,332)</u>	<u>181,332</u>	
Total Liabilities and Fund Balance	<u>\$ 67,751</u>		
Net Position			
Net investment in capital assets		677,753	677,753
Unrestricted		(2,382,962)	(2,382,962)
Total Net Position		<u>\$ (1,705,209)</u>	<u>\$ (1,705,209)</u>

See notes to basic financial statements.

Montgomery County Water Control and Improvement District No. 205
Statement of Activities and Governmental Fund Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended August 31, 2024

	General Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 102,647	\$ -	\$ 102,647
Penalties and interest	2,671		2,671
Miscellaneous	110		110
Investment earnings	677		677
Total Revenues	<u>106,105</u>		<u>106,105</u>
Expenditures/Expenses			
Operating and administrative			
Professional fees	87,987		87,987
Contracted services	30,160		30,160
Repairs and maintenance	54,128		54,128
Administrative	25,388		25,388
Other	23,342		23,342
Capital outlay	201,750	(201,750)	
Depreciation		87,539	87,539
Total Expenditures/Expenses	<u>422,755</u>	<u>(114,211)</u>	<u>308,544</u>
Revenues Under Expenditures	(316,650)	316,650	
Other Financing Sources			
Developer advances	<u>130,000</u>	<u>(130,000)</u>	
Net Change in Fund Balance	(186,650)	186,650	
Change in Net Position		(202,439)	(202,439)
Fund Balance/Net Position			
Beginning of the year	5,318	(1,508,088)	(1,502,770)
End of the year	<u>\$ (181,332)</u>	<u>\$ (1,523,877)</u>	<u>\$ (1,705,209)</u>

See notes to basic financial statements.

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Montgomery County Water Control and Improvement District No. 205
Notes to Financial Statements
August 31, 2024

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Montgomery County Water Control and Improvement District No. 205 (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, 87th Session, Senate Bill 2182, effective May 24, 2021, pursuant to the authority of Section 59, Article XVI and Section 52, Article III of the Texas Constitution, and operates in accordance with the Texas Special District Local Laws Code, Chapter 9082, and the Texas Water Code, Chapters 49 and 51. The Board of Directors held its first meeting on February 17, 2022.

The District’s primary activities include construction, maintenance and operation of drainage and storm sewer facilities, park and recreational facilities and road facilities. 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. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

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. The District uses only a General Fund to account for its operations. The District’s primary financial resources are property taxes and developer advances. Expenditures include costs associated with the daily operations of the District.

Montgomery County Water Control and Improvement District No. 205
Notes to Financial Statements
August 31, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

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. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

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

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.

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 that individually are below the capitalization threshold but, in the aggregate, are above the threshold are capitalized. Subsequent replacements of these assets are not capitalized. 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 of drainage and storm sewer facilities, are depreciated using the straight-line method over an estimated useful life of 45 years. The District's detention facilities and drainage channels are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

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 does not have a nonspendable fund balance.

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 does not have a restricted fund balance.

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 a committed fund balance.

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 an assigned fund balance.

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.

Montgomery County Water Control and Improvement District No. 205
Notes to Financial Statements
August 31, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

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 useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to Montgomery County 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.

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds		\$ (181,332)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 8,717,693	
Less accumulated depreciation	<u>(154,767)</u>	
Change due to capital assets		8,562,926
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> .		
		(10,086,803)
Total net position - governmental activities		<u><u>\$ (1,705,209)</u></u>

Montgomery County Water Control and Improvement District No. 205
Notes to Financial Statements
August 31, 2024

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

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

Net change in fund balance - total governmental funds \$ (186,650)

Governmental funds report capital outlays for construction costs as expenditures in the funds; however, in the *Statement of Activities*, these expenditures are capitalized.

Capital outlays	\$ 201,750	
Depreciation expense	<u>(87,539)</u>	
		114,211

Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the *Statement of Net Position*. (130,000)

Change in net position of governmental activities \$ (202,439)

Note 3 – Implementation of New Accounting Guidance

During the current fiscal year, the District implemented GASB Implementation Guide (“GASBIG”) 2021-1, Question 5.1, which requires the capitalization of the acquisition of a group of individual capital assets whose individual acquisition costs are less than the capitalization threshold when the cost of the acquisition of the assets in the aggregate is significant. This new guidance had no effect on the District’s financial statements during the current fiscal year.

Note 4 – 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.

Note 4 – Deposits and Investments (continued)

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 August 31, 2024, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
Texas CLASS	General	\$ 1,076	AAAm	35 days

Texas CLASS

The District participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administer and UMB Bank N.A., as the custodian.

The District’s investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District’s investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Montgomery County Water Control and Improvement District No. 205
Notes to Financial Statements
August 31, 2024

Note 4 – Deposits and Investments (continued)

Texas CLASS (continued)

Investments in Texas CLASS 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 5 – Capital Assets

A summary of changes in capital assets, for the year ended August 31, 2024, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 2,418,152	\$ 2,158,593	\$ 4,576,745
Construction in progress		201,750	201,750
	<u>2,418,152</u>	<u>2,360,343</u>	<u>4,778,495</u>
Capital assets being depreciated			
Infrastructure	1,512,594	2,426,604	3,939,198
Less accumulated depreciation	(67,228)	(87,539)	(154,767)
Subtotal depreciable capital assets, net	<u>1,445,366</u>	<u>2,339,065</u>	<u>3,784,431</u>
Capital assets, net	<u>\$ 3,863,518</u>	<u>\$ 4,699,408</u>	<u>\$ 8,562,926</u>

Depreciation expense for the current fiscal year was \$87,539.

The District has contractual commitments for construction projects as follows:

	Contract Amount	Paid To Date	Remaining Amount
Clearing, grubbing and detention to serve Woodson's Gully	\$ 313,850	\$ 201,750	\$ 112,100

Montgomery County Water Control and Improvement District No. 205
Notes to Financial Statements
August 31, 2024

Note 6 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of drainage and storm sewer facilities, parks 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 developer has 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	\$ 5,371,606
Developer funded construction and adjustments	4,585,197
Operating advances from Developer	130,000
Due to Developer, end of year	<u>\$ 10,086,803</u>

In addition, the District will owe the developer approximately \$12,954,309, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	<u>Contract Amount</u>	<u>Percent Complete</u>
Detention Outfall Channel in Woodson’s Reserve, Phase 2	\$ 8,383,573	88%
Utilities and Paving Facilities to serve Woodson’s Reserve Lexington Boulevard and Townsen Boulevard*	1,517,692	92%
Detention Outfall Channel in Woodson’s Reserve, Phase 3	3,053,044	92%
	<u>\$ 12,954,309</u>	

*District's share of the project

Note 7 – Long-Term Debt

At August 31, 2024, the District had \$90,843,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the drainage and storm sewer systems within the District and the refunding of such bonds; \$75,450,000 for parks and recreational facilities and the refunding of such bonds; and \$72,450,000 for road improvements and the refunding of such bonds.

Montgomery County Water Control and Improvement District No. 205
Notes to Financial Statements
August 31, 2024

Note 8 – Property Taxes

On May 7, 2022, 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.

All property values and exempt status, if any, are determined by the Montgomery 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 \$0.35 per \$100 of assessed value, all of which was allocated to maintenance and operations. The resulting tax levy was \$102,647 on the adjusted taxable value of \$29,327,785.

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 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 year or the prior two years.

Note 10 – Economic Dependency

The District is dependent upon its developer for operating advances. The developer continues to own a substantial portion of the taxable property within the District. The developer’s willingness to make future operating advances and/or to pay property taxes will directly affect the District’s ability to meet its future obligations.

Note 11 – Subsequent Event

On September 24, 2024, the District issued its \$7,100,000 Series 2024 Unlimited Tax Bonds at a net effective rate of 4.327494%. Proceeds from the bonds were used to reimburse the District’s developer for operating advances and infrastructure improvements in the District and to pay capitalized interest into the Debt Service Fund.

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Required Supplementary Information

Montgomery County Water Control and Improvement District No. 205
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended August 31, 2024

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 100,360	\$ 102,647	\$ 2,287
Penalties and interest		2,671	2,671
Miscellaneous		110	110
Investment earnings		677	677
Total Revenues	<u>100,360</u>	<u>106,105</u>	<u>5,745</u>
Expenditures			
Operating and administrative			
Professional fees	83,000	87,987	(4,987)
Contracted services	24,120	30,160	(6,040)
Repairs and maintenance	49,752	54,128	(4,376)
Administrative	31,274	25,388	5,886
Other	3,800	23,342	(19,542)
Capital outlay		201,750	(201,750)
Total Expenditures	<u>191,946</u>	<u>422,755</u>	<u>(230,809)</u>
Revenues Under Expenditures	(91,586)	(316,650)	(225,064)
Other Financing Sources			
Developer advances	91,586	130,000	38,414
Net Change in Fund Balance		(186,650)	(186,650)
Fund Balance			
Beginning of the year	5,318	5,318	
End of the year	<u>\$ 5,318</u>	<u>\$ (181,332)</u>	<u>\$ (186,650)</u>

Montgomery County Water Control and Improvement District No. 205
Notes to Required Supplementary Information
August 31, 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 year.

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Texas Supplementary Information

Montgomery County Water Control and Improvement District No. 205
TSI-1. Services and Rates
August 31, 2024

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

- | | | | |
|--|---|--|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Solid Waste / Garbage | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Irrigation |
| <input checked="" type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input checked="" type="checkbox"/> Roads | <input type="checkbox"/> Security |
- Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
- Other (Specify): _____

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:	N/A	_____	_____	_____	_____ to _____
Wastewater:	N/A	_____	_____	_____	_____ to _____
Surcharge:	N/A	_____	_____	_____	_____ 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.

Montgomery County Water Control and Improvement District No. 205
TSI-1. Services and Rates
August 31, 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: Montgomery County

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

City(ies) in which the District is located: N/A

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

Entirely Partly Not at all

ETJs in which the District is located: City of Conroe

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

If Yes, by whom? _____

See accompanying auditor's report.

*Montgomery County Water Control and Improvement District No. 205
 TSI-2 General Fund Expenditures
 For the Year Ended August 31, 2024*

Professional fees	
Legal	\$ 61,687
Audit	13,000
Engineering	13,300
	<u>87,987</u>
Contracted services	
Bookkeeping	25,172
Tax Assessor/Collector	3,500
Central Appraisal District	1,488
	<u>30,160</u>
Repairs and maintenance	<u>54,128</u>
Administrative	
Director fees	10,608
Printing and office supplies	2,814
Insurance	3,024
Other	8,942
	<u>25,388</u>
Other	<u>23,342</u>
Capital outlay	<u>201,750</u>
Total expenditures	<u>\$ 422,755</u>

See accompanying auditor's report.

Montgomery County Water Control and Improvement District No. 205
TSI-3. Investments
August 31, 2024

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
Texas CLASS	Variable	N/A	\$ 1,076

See accompanying auditors' report.

Montgomery County Water Control and Improvement District No. 205
TSI-4. Taxes Levied and Receivable
August 31, 2024

	Maintenance Taxes	
Taxes Receivable, Beginning of Year	\$	-
2023 Original Tax Levy		102,408
Adjustments		239
Adjusted Tax Levy		102,647
Tax collections:		
Current year		102,647
Taxes Receivable, End of Year	\$	-
	2023	2022
Property Valuations:		
Land	\$ 34,566,330	\$ 6,570,460
Improvements	4,326,310	
Personal Property	75,065	
Exemptions	(9,639,920)	
Total Property Valuations	\$ 29,327,785	\$ 6,570,460
Tax Rates per \$100 Valuation:		
Maintenance tax rates	\$ 0.35	\$ 0.35
Adjusted Tax Levy:	\$ 102,647	\$ 22,997
Percentage of Taxes Collected to Taxes Levied **	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 7, 2022

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

See accompanying auditor's report.

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Montgomery County Water Control and Improvement District No. 205
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Three Fiscal Periods

	Amounts		
	2024	2023	2022**
Revenues			
Property taxes	\$ 102,647	\$ 22,997	\$ -
Penalties and interest	2,671	2,070	
Miscellaneous	110		
Investment earnings	677		
Total Revenues	<u>106,105</u>	<u>25,067</u>	
Expenditures			
Operating and administrative			
Professional fees	87,987	60,043	74,067
Contracted services	30,160	22,856	7,923
Repairs and maintenance	54,128		
Administrative	25,388	14,490	11,494
Other	23,342	5,342	1,534
Capital outlay	201,750		782,250
Total Expenditures	<u>422,755</u>	<u>102,731</u>	<u>877,268</u>
Revenues Under Expenditures	<u>\$ (316,650)</u>	<u>\$ (77,664)</u>	<u>\$ (877,268)</u>

*Percentage is negligible

** Seven-month period

See accompanying auditor's report.

Percent of Fund Total Revenues

2024	2023	2022**
96%	92%	
3%	8%	
*		
1%		
100%	100%	

83%	240%	-
28%	91%	-
51%		
24%	58%	-
22%	21%	-
190%		-
398%	410%	-
(298%)	(310%)	-

Montgomery County Water Control and Improvement District No. 205
TSI-8. Board Members, Key Personnel and Consultants
August 31, 2024

Complete District Mailing Address: 1300 Post Oak Boulevard, Suite 2400, Houston TX 77056
District Business Telephone Number: 713-623-4531
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): May 15, 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				
Erica Sinner	5/24 - 5/28	\$ 2,652	\$ -	President
Alene Frey	5/24 - 5/28	1,547		Vice President
Chad P. Collins	5/22 - 5/26	2,652		Secretary
Dana Neuneker	5/24 - 5/28	1,989		Assistant Secretary
Elaine Balagia	12/23 - 5/26	1,768		Assistant Secretary
Consultants				
		Amounts Paid		
Schwartz, Page & Harding, L.L.P. <i>General legal fees</i>	2022	\$ 67,714		Attorney
Municipal Accounts & Consulting, L.P.	2022	25,563		Bookkeeper
Bob Leared Interests, Inc.	2022	3,500		Tax Collector
Montgomery Central Appraisal District	Legislation	1,488		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2023			Delinquent Tax Attorney
Pape-Dawson, Inc.	2022			Engineer
Quiddity Engineering LLC	2022	12,230		Engineer
Clark Condon Associates, Inc.	2022			Landscape Architect
McGrath & Co., PLLC	2022	13,000		Auditor
Masterson Advisors LLC	2022			Financial Advisor

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