

**MONTGOMERY COUNTY MUNICIPAL UTILITY
DISTRICT NO. 186**

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2024

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal Utility
District No. 186
Montgomery County, Texas

Opinion

We have audited the accompanying financial statements of Montgomery County Municipal Utility District No. 186 (the "District") as of and for the year ended June 30, 2024, and the related notes to the 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 financial position of the District as of June 30, 2024, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Supplementary Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

November 13, 2024

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2024

Our discussion and analysis of the financial performance of Montgomery County Municipal Utility District No. 186 (the “District”) provides an overview of the District’s financial activities for the fiscal year ended June 30, 2024. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial statements include: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also includes required and supplementary information in addition to the financial statements.

FINANCIAL STATEMENTS

The District’s annual report includes three financial statements. These financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

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

The Statement of Revenues, Expenses and Changes in Net Position reports how the District’s net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The Statement of Cash Flows shows the inflows and outflows of cash that occurred during the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2024

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$16,154,976, as of June 30, 2024.

A portion of the District's net position reflects its net investment in capital assets (land, water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The District's Developer has incurred costs related to the construction of certain facilities necessary to provide water and wastewater service to the participating districts.

The following table provides a summary of the changes in the Statement of Net Position for the years ending June 30, 2024, and June 30, 2023:

	Summary of Changes in the Statement of Net Position		
	2024	2023	Change Positive (Negative)
Current and Other Assets	\$ 2,867,529	\$ 5,298,599	\$ (2,431,070)
Capital Assets (Net of Accumulated Depreciation)	19,155,254	14,014,599	5,140,655
Total Assets	\$ 22,022,783	\$ 19,313,198	\$ 2,709,585
Due to Developer	\$ 11,411,886	\$ 18,729,305	\$ 7,317,419
Bonds Payable	26,375,658	6,733,393	(19,642,265)
Other Liabilities	390,215	4,358,440	3,968,225
Total Liabilities	\$ 38,177,759	\$ 29,821,138	\$ (8,356,621)
Net Position:			
Net Investment in Capital Assets	\$ (18,077,488)	\$ (11,124,260)	\$ (6,953,228)
Restricted	1,709,554	511,197	1,198,357
Unrestricted	212,958	105,123	107,835
Total Net Position	\$ (16,154,976)	\$ (10,507,940)	\$ (5,647,036)

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2024

The following provides a summary of the District's operations for the years ended June 30, 2024, and June 30, 2023:

	Summary of Changes in the Statement of Activities		
	2024	2023	Change Positive (Negative)
Revenues:			
Charges for Services	\$ 1,791,380	\$ 1,424,093	\$ 367,287
Other Revenues	59,784	27,900	31,884
Total Revenues	\$ 1,851,164	\$ 1,451,993	\$ 399,171
Expenses for Services	(7,498,200)	(7,115,923)	382,277
Change in Net Position	\$ (5,647,036)	\$ (5,663,930)	\$ 16,894
Net Position, Beginning of Year	(10,507,940)	(4,844,010)	(5,663,930)
Net Position, End of Year	\$ (16,154,976)	\$ (10,507,940)	\$ (5,647,036)

CAPITAL ASSETS

Capital assets as of June 30, 2024, total \$19,155,254 (net of accumulated depreciation) and include land as well as the water, wastewater and drainage systems.

	Capital Assets At Year-End, Net of Accumulated Depreciation		
	2024	2023	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 2,153,976	\$ 2,153,976	\$
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,571,718	1,167,510	404,208
Wastewater System	1,934,422	1,539,523	394,899
Drainage System	13,495,138	9,153,590	4,341,548
Total Net Capital Assets	\$ 19,155,254	\$ 14,014,599	\$ 5,140,655

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2024**

LONG-TERM DEBT

As of June 30, 2024, the District had total bond debt payable of \$26,000,000. The changes in debt position of the District during the fiscal year ended June 30, 2024, are summarized as follows:

Bond Debt Payable, July 1, 2023	\$ 6,610,000
Add: Bond Sales	<u>19,390,000</u>
Bond Debt Payable, June 30, 2024	<u>\$ 26,000,000</u>

The District's Series 2023, Series 2023 Road and Series 2024 Road bonds carry an insured rating of "AA" from S&P by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2024 bonds carry an insured rating of "AA" from S&P by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

As of June 30, 2024, the District recorded an amount due to Developer of \$11,411,886 which consists of completed projects funded by the Developer.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Municipal Utility District No. 186, c/o The Muller Law Group, PLLC, 202 Century Square Blvd, Sugar Land, Texas 77478.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
STATEMENT OF NET POSITION - PROPRIETARY FUND TYPE
JUNE 30, 2024

	<u>Enterprise Fund</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 131,768
Cash-Restricted	773,014
Investments-Restricted	1,350,442
Due from Others	54,220
Due from Other Governmental Units	558,085
TOTAL CURRENT ASSETS	<u>2,867,529</u>
NONCURRENT ASSETS	
CAPITAL ASSETS	
Land and Land Improvements	\$ 2,153,976
Capital Assets (Net of Accumulated Depreciation)	17,001,278
TOTAL CAPITAL ASSETS, NET OF	
ACCUMULATED DEPRECIATION	<u>\$ 19,155,254</u>
TOTAL ASSETS	<u>\$ 22,022,783</u>
 <u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts Payable	\$ 268,901
Accrued Interest Payable	84,839
Due to Other Governmental Units	36,475
TOTAL CURRENT LIABILITIES	<u>\$ 390,215</u>
NONCURRENT LIABILITIES	
Due to Developer	\$ 11,411,886
Bonds Payable -	
Due Within One Year	140,000
Due After One Year	26,235,658
TOTAL NONCURRENT LIABILITIES	<u>37,787,544</u>
TOTAL LIABILITIES	<u>\$ 38,177,759</u>
 NET POSITION	
Net Investment in Capital Assets	\$ (18,077,488)
Restricted for Debt Service	1,709,554
Unrestricted	212,958
TOTAL NET POSITION	<u>\$ (16,154,976)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Enterprise Fund</u>
REVENUES	
Regional Operator Fees	\$ 856,327
Regional Capacity Fees	935,053
Miscellaneous Revenues	<u>59,784</u>
OPERATING REVENUES	<u>\$ 1,851,164</u>
OPERATING EXPENSES	
Service Operations:	
Professional Fees	\$ 182,270
Contracted Services	227,116
Purchased Water Service	606,456
Utilities	12,774
Repairs and Maintenance	241,847
Tap Connection and Inspection Expenses	563,795
Depreciation	518,386
Other	<u>49,493</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,402,137</u>
OPERATING INCOME (LOSS)	<u>\$ (550,973)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Revenues	\$ 7,903
Contract Tax Payment from Participant	593,164
Conveyance of Assets	(1,706,837)
Developer Interest	(1,337,586)
Debt Service:	
Bond Issuance Costs	(1,803,668)
Bond Interest	(728,197)
Bond Anticipation Note Interest	<u>(120,842)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ (5,096,063)</u>
CHANGE IN NET POSITION	\$ (5,647,036)
NET POSITION - JULY 1, 2023	<u>(10,507,940)</u>
NET POSITION - JUNE 30, 2024	<u><u>\$ (16,154,976)</u></u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Participants	\$ 1,518,752
Cash Payments for Goods and Services	<u>(1,819,531)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (300,779)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Bond Proceeds, net of Bond Anticipation Note Redemption, net of	
Bond Premium and Bond Discount, less Capital Outlay	\$ 15,043,811
Bond and Bond Anticipation Note Issuance Costs	(1,803,668)
Bond and Bond Anticipation Note Interest	(816,830)
Developer Reimbursement including Interest	(15,487,083)
Contract Tax Payment from Participant	<u>593,164</u>
NET CASH PROVIDED (USED) FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (2,470,606)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Receipt of Interest	<u>\$ 7,903</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (2,763,482)
CASH AND CASH EQUIVALENTS - JULY 1, 2023	<u>5,018,706</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2024	<u><u>\$ 2,255,224</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (550,973)
Depreciation	518,386
(Increase)Decrease in Receivables	(332,412)
Increase (Decrease) in Accounts Payable	<u>64,220</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (300,779)</u></u>

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

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 186 (the “District”) was created effective September 1, 2020, from the division of Montgomery County Municipal Utility District No. 140 (“District No. 140”) into six districts in accordance with Section 8245.125 of the Texas Special District Local Laws Code. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, roads, and to construct parks and recreational facilities for the residents and customers within the District’s Service Area (defined herein). The Board of Directors held its first meeting on January 19, 2021.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the “Commission”)

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

The District has contracted with District No. 140 to serve as the Master District for the financing, operation, and maintenance of regional water, wastewater, drainage, road and park facilities.

The transactions of the District are being accounted for in the following fund type:

Proprietary Fund Type – Proprietary Funds are used to account for the District’s on-going activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and changes in cash flows. The following is the District’s Proprietary Fund Type:

Enterprise Fund - To account for the District’s cost for providing services, including capital costs (such as depreciation) which are recovered with fees and charges rather than taxes or similar revenues.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Enterprise Fund is accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at cost which approximates the fair market value on the date donated. Repair and maintenance is recorded as an expense in the Statement of Revenues, Expenses and Changes in Net Position. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation over periods ranging from 10 to 45 years.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in financial position, and cash flows. All assets and liabilities associated with the activities are reported. Equity is classified as net position. GASB requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

The District considers all amounts in checking accounts, money market accounts, savings accounts, and all highly liquid investments with a maturity of 90 days or less when purchased to be cash and cash equivalents.

Accounting Estimates

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3. LONG-TERM DEBT

	Series 2023 Contract Revenue Bonds (W,S&D)	Series 2023 Contract Revenue Bonds (Road)	Series 2024 Contract Revenue Bonds (W,S&D)	Series 2024 Contract Revenue Bonds (Road)
Amount Outstanding – June 30, 2024	\$ 6,610,000	\$ 9,000,000	\$ 6,000,000	\$ 4,390,000
Interest Rates	4.00% - 6.50%	4.50% - 7.00%	3.00% - 5.50%	4.00% - 6.50%
Maturity Dates - Serially Beginning/Ending	December 1, 2024/2047	December 1, 2025/2048	December 1, 2025/2048	December 1, 2026/2049
Interest Payment Dates	December 1/ June 1	December 1/ June 1	December 1/ June 1	December 1/ June 1
Callable Dates	December 1, 2029*	December 1, 2029*	December 1, 2030*	December 1, 2030*

* Or any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2023 Road term bonds due on December 1, 2029, 2033, 2038, 2040, 2046, and 2048 are subject to mandatory redemption beginning December 1, 2025, 2032, 2037, 2039, 2045 and 2047, respectively. Series 2024 term bonds due on December 1, 2033, 2039, 2041, 2043, 2045 and 2047 are subject to mandatory redemption beginning December 1, 2032, 2038, 2040, 2042, 2044 and 2046, respectively. Series 2024 Road term bonds due on December 1, 2035 are subject to mandatory redemption beginning December 1, 2034.

Bond payable activity for the current fiscal year are summarized in the following table:

	July 1, 2023	Additions	Retirements	June 30, 2024
Bonds Payable	\$ 6,610,000	\$ 19,390,000	\$	\$ 26,000,000
Unamortized Discounts	(89,019)	(195,238)	(6,816)	(277,441)
Unamortized Premiums	212,412	462,849	22,162	653,099
Total Bonds Payable, Net	<u>\$ 6,733,393</u>	<u>\$ 19,657,611</u>	<u>\$ 15,346</u>	<u>\$ 26,375,658</u>
		Amount Due Within One Year		\$ 140,000
		Amount Due After One Year		26,235,658
		Total Bonds Payable, Net		<u>\$ 26,375,658</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3. LONG-TERM DEBT (Continued)

As of June 30, 2024, the debt service requirements on the bonds outstanding were as follows

Fiscal Year	Principal	Interest	Total
2025	\$ 140,000	\$ 1,180,194	\$ 1,320,194
2026	600,000	1,171,713	1,771,713
2027	715,000	1,130,751	1,845,751
2028	745,000	1,084,713	1,829,713
2029	770,000	1,036,826	1,806,826
2030-2034	4,265,000	4,471,430	8,736,430
2035-2039	5,130,000	3,469,999	8,599,999
2040-2044	6,215,000	2,305,582	8,520,582
2045-2049	7,125,000	835,674	7,960,674
2050	295,000	6,453	301,453
	<u>\$ 26,000,000</u>	<u>\$ 16,693,335</u>	<u>\$ 42,693,335</u>

The bonds are payable from the proceeds collected from Participants as outlined in Note 7.

See Note 12 for information related to any maintenance tax levy.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. INDENTURE OF TRUST

The Contract Revenue Bonds are secured by Indentures of Trust dated March 30, 2023 and August 14, 2023, respectively, from the Master District to The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as Trustee. The Master District has assigned to the Trustee all of the Master District's right, title and interest in and to the Water, Sewer, and Drainage and Road Contract Payments under the Master District Contract. Such Water, Sewer, and Drainage and Road Contract Payments, together with all amounts from time to time on deposit in the Water, Sewer, and Drainage Debt Service Fund, Water, Sewer, and Drainage Reserve Fund, Road Debt Service Fund and Road Reserve Fund maintained by the Trustee pursuant to the respective Indentures, together with any other property from time to time hereafter conveyed or granted to the Trustee shall constitute the "Water, Sewer, and Drainage Pledged Revenues" and "Road Pledged Revenues" held by the Trustee under the respective Indentures.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 4. INDENTURE OF TRUST (Continued)

Pursuant to the respective Indentures, the Trustee is to maintain the Water, Sewer, and Drainage Debt Service Fund, Water, Sewer, and Drainage Reserve Fund, Road Debt Service Fund and Road Reserve Fund as trust funds to be held in trust solely for the benefit of the Registered Owners of the Water, Sewer, and Drainage and Road Contract Revenue Bonds. The Master District has covenanted in the respective Indentures that it will cause to be charged to each Participant, for deposit into the Water, Sewer, and Drainage and Road Debt Service Funds by the Master District, Contract Payments in amounts sufficient, together with other Pledged Revenues, to provide for the timely payment of all principal and interest due on the Water, Sewer, and Drainage and Road Contract Revenue Bonds. Subject to the provisions of applicable law and the Master District Contract, the Master District has covenanted in the respective Indentures to use its best efforts to cause to be paid by each Participant all Water, Sewer, and Drainage and Road Contract Payments to the Master District, when due, for payment by the Master District to the Trustee. The Water, Sewer, and Drainage Debt Service Fund, the Water, Sewer, and Drainage Reserve Fund, the Road Debt Service Fund and the Road Reserve Fund are to be invested only in investments authorized by the laws of the State of Texas but must be invested in a manner such that the money required to be expended from any fund will be available at the proper time or times. Amounts in the Water, Sewer, and Drainage and Road Reserve Funds shall be used to pay interest on and principal of the Bonds when insufficient funds are available for such purpose in the Water, Sewer, and Drainage and Road Debt Service Funds or shall be applied toward the payment of principal of or interest on the Water, Sewer, and Drainage and Road Contract Revenue Bonds in connection with a refunding or redemption. The Water, Sewer, and Drainage Reserve Fund and Road Reserve Fund Requirement has been established in the Bond Resolution to be, with respect to the Water, Sewer, and Drainage and Road Contract Revenue Bonds, a sum of money equal to one-half of the maximum annual debt service requirements on the Water, Sewer, and Drainage and Road Contract Revenue Bonds then outstanding. Any funds in excess of the Water, Sewer, and Drainage and Road Reserve Fund Requirements held in the Water, Sewer, and Drainage or Road Reserve Funds may be deposited into the Water, Sewer, and Drainage Debt Service Funds, as directed by the Master District's Board of Directors.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$904,782 and the bank balance was \$4,016,111. The District was not exposed to custodial credit risk at year-end.

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Fidelity Investments Money Market Treasury Portfolio – Class III. The fund normally invests at least 99.5% of the fund's total assets in cash, U.S. Government securities and/or repurchase agreements that are fully collateralized. The fund invests in compliance with industry-standard regulatory requirements for money market funds for the quality, maturity, liquidity and diversification of investments. The fund seeks to maintain a net asset value (NAV) of \$1.00 per share. NAV is calculated daily.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2024, the District had the following investments and maturities:

Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>ENTERPRISE FUND</u>		
Fidelity Money Market Funds	<u>\$ 1,350,442</u>	<u>\$ 1,350,442</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2024, the District's investments in the money market funds were rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in the money market funds to have maturities of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there have been significant changes in values.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2024 is as follows:

	July 1, 2023	Increases	Decreases	June 30, 2024
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 2,153,976	\$ -0-	\$ -0-	\$ 2,153,976
Capital Assets Subject to Depreciation				
Water System	\$ 1,226,439	\$ 439,440	\$	\$ 1,665,879
Wastewater System	1,608,203	440,489		2,048,692
Drainage System	9,515,747	4,779,112		14,294,859
Total Capital Assets Subject to Depreciation	\$ 12,350,389	\$ 5,659,041	\$ -0-	\$ 18,009,430
Accumulated Depreciation				
Water System	\$ 58,929	\$ 35,232	\$	\$ 94,161
Wastewater System	68,680	45,590		114,270
Drainage System	362,157	437,564		799,721
Total Accumulated Depreciation	\$ 489,766	\$ 518,386	\$ -0-	\$ 1,008,152
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 11,860,623	\$ 5,140,655	\$ -0-	\$ 17,001,278
Total Capital Assets, Net of Accumulated Depreciation	\$ 14,014,599	\$ 5,140,655	\$ -0-	\$ 19,155,254

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 7. REGIONAL FACILITIES

The District serves as the Master District (the “Master District”) of a regional system (the “Master District System”) in which the Master District provides, finances, constructs, owns, operates, and/or maintains certain public water, sewer, drainage, road and park facilities (“Master District Facilities”) to serve other municipal utility districts (each a “Participant”) that i) are located within the approximately 2,319,052 acre community known as The Highlands (the “Service Area”) and, ii) have entered into the Master District Contract (defined below) with the Master District. Use of this Master District System encourages regionalization and helps avoid duplication of facilities. Each Participant will finance, construct, own, operate and maintain its own internal water, sewer, drainage, road and park facilities.

Currently, only District No. 140 has entered into the Contract for Construction, Financing, Operation, and Maintenance of Regional Facilities (the “Master District Contract”) with the District. There are four additional municipal districts other than the Master District and District No. 140 within the Service Area. These are Montgomery County Municipal Utility District Nos. 187, 188, 189, and 190; however, these districts are not actively developing, have not entered into the Master District Contract, and therefore, and not considered Participants at this time.

Among other things, the Master District Contract provides that the District will issue bonds from time to time to finance Master District Facilities that serve the Participants (“Master District Bonds”). Such bonds will be issued as contract revenue bonds payable solely from the contract revenues collected by the District from the Participants for such purpose. The Participants are required to levy and collect a contract tax, without legal limit as to rate or amount, on all taxable property within their respective boundaries sufficient to pay their respective pro rata shares of the debt service payments on the Master District Bonds, including, if applicable, any charges and expenses of paying agents, registrars and trustees utilized in connection with the Master District Bonds, the principal, interest and redemption requirements of the Master District Bonds and all amounts required to establish and maintain funds established under the Master District Bond documents entered into by the District. Each Participant’s contract payments will be calculated annually by the District; however, the levy of a contract tax or the provisions of other lawfully available funds to make its contract payments is the sole responsibility of each Participant.

A Participant’s pro rata share of the debt service payments on Master District Bonds is calculated as the total assessed value of taxable property located in such district divided by the total assessed value of taxable property located within the boundaries of all Participants. At this time, as the only Participant, District No. 140’s share of debt service payments on any Master District Bonds is 100%. There is no limit in the Master District Contract on the total principal amount of Master District Bonds that may be issued by the District.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 7. REGIONAL FACILITIES (Continued)

As of June 30, 2024, the District has closed on the sale of bonds in the amount of \$26,000,000. District No. 140 is responsible for levying a contract tax on all taxable property within its boundaries sufficient to pay 100% of the debt service payments on such Master District Bonds until such time as other municipal utility districts within the Service Area have commenced development and approved the Master District Contract, at which time they will be deemed Participants and will fund their pro rata shares of the debt service payments along with District No. 140.

The Master District Contract further requires that each Participant fund its pro-rata share of the District's operational expenses, with each Participants' share being calculated based upon its share of total share of water connections located within the boundaries of all Participants. Each Participant is obligated to establish and maintain rates, fees, and charges for its services which, together with tax revenues and funds received from any other lawful sources, are sufficient at all times to pay the operation and maintenance expenses of the District. If any Participant fails to pay its share of these costs in a timely manner, the District Contract provides that the District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District Facilities by such Participant in addition to the District's other remedies pursuant to the Master District Contract. As a practical matter, the Participants have no alternative provider of the water and wastewater services rendered by the District under the Master District Contract. Currently, as the only Participant, District No. 140 is responsible for paying all of the administrative expenses of the Master District, which it pays in the form of "Monthly Charges" invoiced monthly by the District.

Water Facilities: Pursuant to the Master District Contract, the District is responsible for planning and providing regional water facilities to the Participants within its Service Area. In order to provide potable water supply services to the Participants, the District has entered into a Wholesale Agreement for Water and Wastewater Service with West Fork Utility Company, LLC ("West Fork"), dated July 12, 2021, as amended by Amendment No. 1 to the Wholesale Agreement for Water and Wastewater Service dated February 13, 2023 (the "Wholesale Agreement"), pursuant to which West Fork agrees to provide sufficient water supply capacity to serve up to 4,000 equivalent single-family connections ("ESFC"). Currently, West Fork has constructed a water plant with two water wells, one 190 gallons per minute and one 730 gallons per minute. These water wells are permitted by the Lone Star Groundwater Conservation District. West Fork is currently constructing an expansion to the water plant and installed a hydropneumatic tank in July of 2024 and construction of a ground storage tank is expected to be completed in November of 2024. Upon completion of the expansion, the water plant will be capable of serving 1,533 ESFCs, which is sufficient to serve the existing 868 ESFCs within the District (680 completed homes and 188 homes under construction or in the name of a builder). West Fork is obligated to expand the water plant as necessary and within the timeframe required to meet the needs of continued development within the District and Master District Service Area. District No. 140 has one emergency water interconnect with Montgomery County Municipal Utility District No. 56.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 7. REGIONAL FACILITIES (Continued)

Wastewater Facilities: Pursuant to the Master District Contract, the District is responsible for planning and providing regional wastewater facilities to the Participants within its Service Area, including District No. 140. In order to provide wastewater treatment services to the Participants, the District has entered into the Wholesale Agreement. Pursuant to the Wholesale Agreement, West Fork agrees to provide sufficient wastewater treatment capacity to serve up to 4,000 equivalent single-family connections (“ESFC”). Currently, West Fork has permitted and constructed a wastewater treatment plant capable of serving up to 1,000 ESFC, which is sufficient to serve the existing 868 ESFCs within the District (680 completed homes and 188 homes under construction or in the name of a builder). West Fork is designing plans for the construction of a 250,000 gallon per day expansion to the wastewater treatment plant which is expected to be completed in June of 2025. Upon completion of the expansion, the wastewater treatment plant will be capable of serving 2,000 ESFCs. West Fork is obligated to expand the wastewater treatment plant as necessary and within the timeframe required to meet the needs of continued development within the Master District Service Area.

Wholesale Agreement: Pursuant to the Wholesale Agreement, the District is obligated to pay West Fork a \$300,000 initial payment (the “Initial Payment”) and connection charges for capacity in the West Fork water plant and West Fork wastewater plant (collectively, the “West Fork System”). The connection charges are to be paid as follows: \$550 per platted water ESFC for the first 791 water ESFCs; and \$550 per platted sewer ESFC for the first 1,000 sewer ESFCs, with such connection charges being due on the earlier of 1) receipt by the District of bond proceeds issued for the purpose of purchasing capacity in the West Fork System, or 2) 36 months following the date of the recording of the respective final plat. The cost of ESFCs in excess of 791 ESFCs for water or 1,000 ESFCs for sewer shall be equal to 25% of the design, permitting, and construction costs of any expansion(s) to the West Fork water plant and/or wastewater plant necessary to serve such additional ESFCs divided by the total number of additional ESFCs that may be served by such expansion. The Initial Payment shall be credited against the final \$300,000 worth of connection charges due under the Wholesale Agreement. The Master District used a portion of proceeds from the outstanding Water, Sewer, and Drainage Contract Revenue Bonds to make the Initial Payment and to purchase a total of 710 ESFCs worth of capacity in the West Fork System. A portion of Bond proceeds will be used to purchase 212 ESFCs worth of capacity in the West Fork System. In addition to the Initial Payment and connection charges, the Wholesale Agreement provides that the District shall pay monthly usage charges to West Fork as follows: a volumetric rate of \$3.70 per 1,000 gallons of actual metered water flow and a flat fee for sanitary sewer services in the amount of \$37.00 per ESFC actually connected to the West Fork System.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 7. REGIONAL FACILITIES (Continued)

Regional Water Distribution and Wastewater Collection: Regional water distribution facilities consist of waterlines ranging from 6 inches to 16 inches. These potable water distribution facilities supply water received from the West Fork System to the internal water distribution facilities constructed by the Participants. The regional wastewater collection facilities include sanitary sewer lines ranging in size from 6 inches to 12 inches. These collection lines collect waste from the internal facilities constructed by or on behalf of each Participant, and transport it to the West Fork System.

Master Drainage: The District also provides the Service Area with drainage facilities, which include drainage channel facilities, detention pond facilities, and conveyance storm sewer lines (“Storm-Water Drainage Facilities”). The District is responsible for operation and maintenance of the Storm-Water Drainage Facilities.

Internal Water Distribution, Wastewater Collection, and Storm Drainage Facilities: Internal water distribution, wastewater collection and storm drainage facilities have been constructed by the Developer on behalf of District No. 140 to serve 1,155 single-family residential lots. There are 81 single-family residential lots under construction with an expected completion date in the fourth quarter of 2024 and 81 single-family residential lots under construction with an expected completion date in the first quarter of 2025 in District No. 140.

NOTE 8. UNREIMBURSED COSTS

The District has entered into certain financing and reimbursement agreements with a Developer within the District which provides for the Developer to make payments on behalf of the District for various projects and operating advances. The District has an obligation to reimburse the Developer for these costs from future bond issues to the extent approved by the Commission. The District has recorded a liability to the Developer of \$11,411,886 for completed projects as of June 30, 2024. The actual amounts owed, including developer interest, will be calculated at the time debt is issued to reimburse the Developer. The following table summarizes the current fiscal year activity related to unreimbursed Developer costs for operating advances:

Due to Developer, beginning of year	\$ 18,729,305
Current Year Additions	5,079,097
Current Year Reimburesments	<u>(12,396,516)</u>
Due to Developer, end of year	<u><u>\$ 11,411,886</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 10. SALE OF BOND ANTICIPATION NOTE

On June 29, 2023, the District closed on the sale of its \$4,080,000 Series 2023 Bond Anticipation Note ("BAN"). Proceeds from the BAN sale were used to reimburse the Developer for a portion of the engineering and construction costs for water, wastewater and drainage facilities to serve Highlands Pines Drive, Phase 1, Mirror Lake Circle, Phase 2; The Highlands Detention, Phase 1; various clearing and detention projects; and to reimburse operating advances. Additional proceeds were used to pay for issuance costs of the BAN. The BAN was redeemed with proceeds from the Series 2024 bonds. See Note 13.

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

The District has entered into a Strategic Partnership Agreement ("SPA") with the City of Conroe, Texas (the "City"), effective February 10, 2022, whereby the City may impose its sales and use tax within the District upon its limited purpose annexation of the District. To date, the City has not exercised its right to annex the District for limited purposes, but it may exercise this right at any time. After the date of the limited purpose annexation, the City shall pay to the District an amount equal to 50% of the sales and use tax revenues that are reported on the monthly sales tax report provided by the Comptroller and received by the City from the Comptroller.

The City may, but is not required to, annex the District for full purposes at such time as the City annexes one or more of the Participants. Upon such date, all taxable property within the territory of the District shall become subject to ad valorem taxation by the City.

If the debt of the District remains outstanding on the full purpose annexation conversion date, the City may require the District to continue to exist as a limited district for so long as necessary for the limited district to fully discharge all outstanding debt of the limited district and continue supplying services to the Participants. Furthermore, the City shall allow the District to continue as a limited district until all Participants have been annexed by the City.

If the City annexes all of the land within the Participants for full purposes, and determines not to continue the District as a limited district, the City shall dissolve the District and assume the debt of the District as provided in Texas Local Government Code, Section 43.075.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 12. MAINTENANCE TAX

On May 1, 2021, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax, if levied, is to be used to pay expenditures of operating the District's conservation and reclamation system. During the year ended June 30, 2024, the District did not levy a maintenance tax.

NOTE 13. BOND SALES

On October 17, 2023, the District closed on the sale of \$9,000,000 of Contract Revenue Bonds (Road Facilities), Series 2023. Proceeds from the bonds were used to reimburse the Developer for engineering and construction costs for paving improvements for Miracle Lake Circle, Phases 1 and 2, Highlands Parkway, Highlands Pine Drive, Phases 1 and 2, Mirror Lake Circle Bridge One and Cumberland Connection. Additional proceeds were used to fund capitalized interest and pay for issuance costs of the bonds.

On February 7, 2024, the District closed on the sale of \$6,000,000 of Contract Revenue Bonds (Water, Sewer, and Drainage Facilities), Series 2024. Proceeds from the bonds were used to reimburse the Developer for a portion of the engineering and construction costs for water, wastewater and drainage facilities to serve Highlands Pines Drive, Phase 1, Mirror Lake Circle, Phase 2; The Highlands Detention, Phase 1; and various clearing and detention projects. Additional proceeds were used to redeem the BAN, fund capitalized interest and pay for issuance costs of the BAN and bonds.

On June 27, 2024, the District closed on the sale of \$4,390,000 of Contract Revenue Bonds (Road Facilities), Series 2024. Proceeds from the bonds were used to reimburse the Developer for engineering and construction costs for paving improvements for The Highlands Cumberland Connection, Miracle Lake Circle, Bridge Two and Miracle Lake Circle, Phase Three. Additional proceeds were used to fund capitalized interest and pay for issuance costs of the bonds.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 14. WATER SUPPLY AND INTERCONNECT AGREEMENT

On October 15, 2020, District No. 140 entered into a Water Supply and Interconnect Contract with Montgomery County Municipal Utility District No. 56 ("MUD 56"). The agreement required District No. 140 to install a meter and construct a water line to a point of connection. Effective October 1, 2022, the MUD 56 Water Supply and Interconnect Contract was assigned to the District.

The Emergency Water Interconnect Agreement provides that during an emergency, the district experiencing the emergency shall be supplied water by the other district through the interconnect. The cost of water supplied to each district is \$1.50 per 1,000 gallons plus the then-current surface water charges from any governmental entity with authority to impose such charges, if any.

NOTE 15. SUBSEQUENT EVENT – PENDING BOND SALE

On December 12, 2024, subsequent to year end, the District anticipates closing on the sale of \$8,430,000 of Contract Revenue Bonds (Water, Sewer, and Drainage Facilities), Series 2024A. Proceeds from the bonds will be used to reimburse the Developer for engineering and construction costs and related costs of land acquisition for water, wastewater and drainage facilities to serve Highlands Cumberland Boulevard, Drainage Structure for Highlands Detention, Phase 1B-2 and Interim East Channel and TX DOT Crossing for Highlands Detention, Phase 1B-3. Additional proceeds will be used to fund capitalized interest and pay for issuance costs of the bonds.

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MONTGOMERY COUNTY MUNICIPAL UTILITY

DISTRICT NO. 186

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGMENT GUIDE**

JUNE 30, 2024

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2024

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> </u>	Retail Water	<u> X </u>	Wholesale Water	<u> X </u>	Drainage
<u> </u>	Retail Wastewater	<u> X </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> X </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> X </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> X </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify):				
<u> X </u>	Provides Master District services to Participants				

2. RETAIL SERVICE PROVIDERS

The District provides wholesale water and wastewater services to participating districts (see Note 7)

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

Water Accountability Ratio: 96.7%
(Gallons billed /Gallons pumped)

Gallons purchased:	82,968,000	From: West Fork
Gallons Sold:	80,226,000	To: Montgomery County MUD No. 140

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2024

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located.

Montgomery County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located.

City of Conroe, Texas

Is the general membership of the Board appointed by an office outside the district?

Yes ☐ No ☒

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
ENTERPRISE FUND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

PROFESSIONAL FEES:	
Auditing	\$ 15,750
Engineering	49,343
Legal	117,177
TOTAL PROFESSIONAL FEES	<u>\$ 182,270</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 606,456</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 15,591
Operations and Billing	70,882
Security	134,189
Tax Collector	6,454
TOTAL CONTRACTED SERVICES	<u>\$ 227,116</u>
UTILITIES	<u>\$ 12,774</u>
REPAIRS AND MAINTENANCE	<u>\$ 241,847</u>
ADMINISTRATIVE EXPENSES:	
Director Fees	\$ 11,279
Insurance	5,789
Office Supplies and Postage	15,195
Payroll Taxes	1,201
Travel and Meetings	1,791
Other	14,238
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 49,493</u>
TAP CONNECTIONS	<u>\$ 563,795</u>
OTHER EXPENSES:	
Depreciation	\$ 518,386
Conveyance of Assets	1,706,837
Developer Interest	1,337,586
Bond Issuance Costs	1,803,668
Bond Interest	728,197
Bond Anticipation Note Interest	120,842
TOTAL OTHER EXPENSES	<u>\$ 6,215,516</u>
TOTAL EXPENSES	<u><u>\$ 8,099,267</u></u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
INVESTMENTS
JUNE 30, 2024

<u>Investment Type</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>RESTRICTED INVESTMENTS</u>					
Fidelity Money Market Fund	XXXX3125	Varies	Daily	\$ 339,511	\$ -0-
Fidelity Money Market Fund	XXXX3126	Varies	Daily	479,914	
Fidelity Money Market Fund	XXXX3224	Varies	Daily	65,251	
Fidelity Money Market Fund	XXXX3225	Varies	Daily	465,766	
TOTAL RESTRICTED INVESTMENTS				<u>\$ 1,350,442</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2024

S E R I E S - 2 0 2 3 C O N T R A C T
(WATER, SEWER AND DRAINAGE)

Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2025	\$ 140,000	\$ 296,394	\$ 436,394
2026	145,000	287,131	432,131
2027	155,000	277,381	432,381
2028	165,000	266,981	431,981
2029	175,000	255,931	430,931
2030	180,000	244,394	424,394
2031	190,000	232,369	422,369
2032	200,000	219,694	419,694
2033	215,000	208,894	423,894
2034	225,000	200,094	425,094
2035	240,000	190,794	430,794
2036	250,000	180,994	430,994
2037	265,000	170,694	435,694
2038	280,000	159,794	439,794
2039	295,000	148,294	443,294
2040	310,000	136,194	446,194
2041	325,000	123,494	448,494
2042	345,000	110,094	455,094
2043	365,000	95,894	460,894
2044	385,000	80,894	465,894
2045	405,000	64,841	469,841
2046	430,000	47,619	477,619
2047	450,000	29,469	479,469
2048	475,000	10,090	485,090
2049			
2050			
	<u>\$ 6,610,000</u>	<u>\$ 4,038,422</u>	<u>\$ 10,648,422</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2024

S E R I E S - 2 0 2 3 C O N T R A C T
(R O A D)

Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2025	\$	\$ 452,594	\$ 452,594
2026	205,000	445,419	650,419
2027	210,000	430,894	640,894
2028	225,000	415,669	640,669
2029	235,000	399,569	634,569
2030	245,000	382,769	627,769
2031	260,000	365,094	625,094
2032	270,000	346,881	616,881
2033	285,000	331,356	616,356
2034	300,000	318,194	618,194
2035	315,000	304,356	619,356
2036	330,000	289,844	619,844
2037	345,000	274,656	619,656
2038	365,000	258,682	623,682
2039	380,000	241,919	621,919
2040	400,000	224,369	624,369
2041	420,000	205,919	625,919
2042	440,000	186,569	626,569
2043	465,000	166,206	631,206
2044	485,000	144,528	629,528
2045	510,000	121,519	631,519
2046	535,000	97,019	632,019
2047	565,000	70,894	635,894
2048	590,000	43,463	633,463
2049	620,000	14,725	634,725
2050			
	\$ 9,000,000	\$ 6,533,107	\$ 15,533,107

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2024

S E R I E S - 2 0 2 4 C O N T R A C T
(WATER, SEWER AND DRAINAGE)

Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2025	\$	\$ 244,688	\$ 244,688
2026	250,000	238,125	488,125
2027	250,000	224,688	474,688
2028	250,000	210,938	460,938
2029	250,000	197,188	447,188
2030	250,000	183,750	433,750
2031	250,000	170,938	420,938
2032	250,000	160,938	410,938
2033	250,000	153,438	403,438
2034	250,000	145,938	395,938
2035	250,000	138,281	388,281
2036	250,000	130,313	380,313
2037	250,000	121,875	371,875
2038	250,000	113,125	363,125
2039	250,000	104,063	354,063
2040	250,000	94,688	344,688
2041	250,000	85,000	335,000
2042	250,000	75,000	325,000
2043	250,000	65,000	315,000
2044	250,000	55,000	305,000
2045	250,000	45,000	295,000
2046	250,000	35,000	285,000
2047	250,000	25,000	275,000
2048	250,000	15,000	265,000
2049	250,000	5,000	255,000
2050			
	<u>\$ 6,000,000</u>	<u>\$ 3,037,974</u>	<u>\$ 9,037,974</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2024

S E R I E S - 2 0 2 4 C O N T R A C T (ROAD)			
Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2025	\$	\$ 186,518	\$ 186,518
2026		201,038	201,038
2027	100,000	197,788	297,788
2028	105,000	191,125	296,125
2029	110,000	184,138	294,138
2030	115,000	176,825	291,825
2031	125,000	169,025	294,025
2032	130,000	160,738	290,738
2033	135,000	153,138	288,138
2034	140,000	146,963	286,963
2035	150,000	141,163	291,163
2036	155,000	135,063	290,063
2037	160,000	128,763	288,763
2038	170,000	122,163	292,163
2039	180,000	115,163	295,163
2040	185,000	107,863	292,863
2041	195,000	100,141	295,141
2042	205,000	91,891	296,891
2043	215,000	83,094	298,094
2044	225,000	73,744	298,744
2045	235,000	63,969	298,969
2046	245,000	53,769	298,769
2047	260,000	42,875	302,875
2048	270,000	31,281	301,281
2049	285,000	19,141	304,141
2050	295,000	6,453	301,453
	<u>\$ 4,390,000</u>	<u>\$ 3,083,832</u>	<u>\$ 7,473,832</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2024

ANNUAL REQUIREMENTS FOR ALL SERIES			
Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2025	\$ 140,000	\$ 1,180,194	\$ 1,320,194
2026	600,000	1,171,713	1,771,713
2027	715,000	1,130,751	1,845,751
2028	745,000	1,084,713	1,829,713
2029	770,000	1,036,826	1,806,826
2030	790,000	987,738	1,777,738
2031	825,000	937,426	1,762,426
2032	850,000	888,251	1,738,251
2033	885,000	846,826	1,731,826
2034	915,000	811,189	1,726,189
2035	955,000	774,594	1,729,594
2036	985,000	736,214	1,721,214
2037	1,020,000	695,988	1,715,988
2038	1,065,000	653,764	1,718,764
2039	1,105,000	609,439	1,714,439
2040	1,145,000	563,114	1,708,114
2041	1,190,000	514,554	1,704,554
2042	1,240,000	463,554	1,703,554
2043	1,295,000	410,194	1,705,194
2044	1,345,000	354,166	1,699,166
2045	1,400,000	295,329	1,695,329
2046	1,460,000	233,407	1,693,407
2047	1,525,000	168,238	1,693,238
2048	1,585,000	99,834	1,684,834
2049	1,155,000	38,866	1,193,866
2050	295,000	6,453	301,453
	\$ 26,000,000	\$ 16,693,335	\$ 42,693,335

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
CHANGES IN LONG-TERM BOND DEBT
JUNE 30, 2024

Description	Original Bonds Issued	Bonds Outstanding July 1, 2023
Montgomery County Municipal Utility District No. 186 Contract Revenue Bonds (Water, Sewer and Drainage) - Series 2023	\$ 6,610,000	\$ 6,610,000
Montgomery County Municipal Utility District No. 186 Contract Revenue Bonds (Road) - Series 2023	9,000,000	
Montgomery County Municipal Utility District No. 186 Contract Revenue Bonds (Water, Sewer and Drainage) - Series 2024	6,000,000	
Montgomery County Municipal Utility District No. 186 Contract Revenue Bonds (Road) - Series 2024	<u>4,390,000</u>	
TOTAL	<u>\$ 26,000,000</u>	<u>\$ 6,610,000</u>

Debt Service Fund cash, investments and cash with paying agent as of
June 30, 2024: \$ 1,497,811

Average annual debt service payment (principal and interest) for remaining
term of all debt: \$ 1,642,051

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

See accompanying independent auditor's report.

Current Year Transactions				Paying Agent
Bonds Sold	Retirements		Bonds Outstanding June 30, 2024	
	Principal	Interest		
\$	\$	\$ 336,890	\$ 6,610,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
9,000,000		281,614	9,000,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
6,000,000		77,484	6,000,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>4,390,000</u>			<u>4,390,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 19,390,000</u>	<u>\$ - 0 -</u>	<u>\$ 695,988</u>	<u>\$ 26,000,000</u>	

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2024

District Mailing Address - Montgomery County Municipal Utility
 District No. 186
 c/o The Muller Law Group, PLLC
 202 Century Square Blvd
 Sugar Land, Texas 77478

District Telephone Number - (281) 500-6050

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>June 30, 2024</u>	Expense Reimbursements for the year ended <u>June 30, 2024</u>	<u>Title</u>
Emily Cordero	05/22 – 05/26 (Elected)	\$ 3,244	\$ 701	President
June Deleon	05/24 – 05/28 (Elected)	\$ 3,244	\$ 472	Vice President
Sharla Fredricksen	05/22 – 05/26 (Elected)	\$ 1,918	\$ 92	Secretary
Chris Poole	05/24 – 05/28 (Elected)	\$ 1,326	\$ 232	Assistant Vice President
Hailey Orsak	05/24 – 05/28 (Elected)	\$ 1,105	\$ 215	Assistant Secretary

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

The submission date of the most recent District Registration Form: May 31, 2024

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

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 186
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2024

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended June 30, 2024</u>	<u>Title</u>
The Muller Law Group, PLLC	01/19/21	\$ 117,177 \$ 477,800	General Counsel Bond Related
McCall Gibson Swedlund Barfoot PLLC	04/11/22	\$ 15,750 \$ 53,400	Auditor Bond Related
District Data Services	08/31/22	\$ 15,591 \$ 3,000	Bookkeeper Bond Related
Stephanie Viator Lynnette Tujague	08/31/22	\$ -0-	Investment Officers
Pape-Dawson Engineers, Inc.	01/19/21	\$ 48,220 \$ 55,466	Engineer Bond Related
Masterson Advisors LLC	02/13/23	\$ 304,005	Financial Advisor
Inframark, LLC	01/19/21	\$ 880,822	Operator
BLICO, INC., (dba Bob Leared Interests)	01/19/21	\$ 9,454	Tax Assessor

See accompanying independent auditor's report.