

**SUTTON FIELDS EAST
PUBLIC IMPROVEMENT DISTRICT
CITY OF CELINA, TEXAS**

**AUDITED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2024 AND 2023**

CUSIP NUMBERS:

Phase #1 Project

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SUTTON FIELDS EAST PUBLIC IMPROVEMENT DISTRICT

ANNUAL FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

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Independent Auditor's Report

The Honorable Mayor and Members of the City Council
Sutton Fields East Public Improvement District
Celina, Texas

Opinion

We have audited the financial statements of the Sutton Fields East Public Improvement District (PID) as of and for the years ended September 30, 2024 and 2023 and the related notes to the financial statements, which collectively comprise the PID's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the PID, as of September 30, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 PID and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 PID's ability to continue as a going concern for 12 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 opinion. 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 GAAS 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 GAAS, 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 PID'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 PID'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.

Forvis Mazars, LLP

**Dallas, Texas
November 4, 2025**

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the financial performance of the Sutton Fields East Public Improvement District (the "PID") provides an overall review of the PID's financial activities for the fiscal years ended September 30, 2024, and 2023. The intent of this discussion and analysis is to look at the PID's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the PID's financial performance.

Financial Highlights

1. The PID was formed on October 12, 2021, pursuant to Resolution No. 2021-96R adopted by the City Council of the City of Celina, Texas (the "City") for the purpose of financing the costs of certain public improvements for the benefit of the property in the PID.
2. The City issued long-term debt of \$8,060,000 in Series 2022 Special Assessment Revenue Bonds (the "Bonds") on February 9, 2022, in four terms bearing interest at interest rates from 3.250% to 4.125% per annum with a final maturity of September 1, 2051, to finance public improvements located within the PID. The PID's debt will be paid through the collection of annual installments on the benefitted properties and Tax Increment Reinvestment Zone ("TIRZ") revenues.
3. Net position at September 30, 2024, and 2023, totaled (\$8,232,034) and (\$768,268), respectively, due mainly to the acceptance and donation of the public improvements.
4. On January 11, 2022, the City entered into a reimbursement agreement with MM Sutton Fields East, LLC, (the "Developer") to finance a portion of the costs of the improvements not paid with the proceeds of the Bonds. As of September 30, 2024, \$1,100,000 in costs have been submitted against the reimbursement agreement note. The balance on the reimbursement agreement note was \$1,034,410 as of September 30, 2024.
5. Capital assets totaling \$7,864,155 representing road, water, sewer, and storm drainage improvements in the PID were completed during fiscal year 2024. In August 2024, the public improvements were accepted and donated to the City and the Mustang Special Utility District ("MSUD").
6. Annual installments of assessments totaling \$620,517 were billed to property owners for collection in fiscal year 2024. As of January 31, 2024, all assessments had been collected. There were no TIRZ revenues in fiscal year 2024.
7. Annual installments of assessments totaling \$153,710 were billed to the property owners for collection in fiscal year 2023. All assessments were collected during fiscal year 2023. There were no TIRZ revenues in fiscal year 2023.

8. Annual installments of assessments totaling \$617,988 were billed to the property owners for collection in fiscal year 2025. As of January 31, 2025, all assessments were collected. There were no TIRZ revenues for fiscal year 2025.
9. The City issued \$10,250,000 in Special Assessment Revenue Bonds, Series 2025 (Sutton Fields East Public Improvement District Phase #2 Project) on April 3, 2025, for the primary purpose of funding a portion of the costs of the Phase #2 improvements.

Overview of the Financial Statements

This annual report consists of two parts – (i) Management’s Discussion and Analysis and (ii) the basic financial statements consisting of a *Statement of Net Position*, *Statement of Revenues, Expenses, and Changes in Net Position*, *Statement of Cash Flows*, and related footnotes. The Statement of Net Position represents the financial position of the PID and provides information about the activities of the PID, including all short-term and long-term financial resources and obligations. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total financial position. The Statement of Cash Flows reflects how the PID finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Summary Statements of Net Position:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Assets:			
Current and other assets	\$ 740,113	\$ 4,736,217	\$ 7,510,349
Capital assets	-	4,304,578	972,863
Total assets	<u>740,113</u>	<u>9,040,795</u>	<u>8,483,212</u>
Liabilities:			
Current liabilities	262,487	878,152	142,053
Long-term debt	<u>8,709,660</u>	<u>8,930,911</u>	<u>9,184,024</u>
Total Liabilities	<u>8,972,147</u>	<u>9,809,063</u>	<u>9,326,077</u>
Net Position			
Net investment in capital assets	-	(847,264)	(833,185)
Restricted	733,290	92,440	4,759
Unrestricted	<u>(8,965,324)</u>	<u>(13,444)</u>	<u>(14,439)</u>
Total Net Position	<u><u>\$ (8,232,034)</u></u>	<u><u>\$ (768,268)</u></u>	<u><u>\$ (842,865)</u></u>

The increase in the net deficit from fiscal year 2023 to fiscal year 2024 is due primarily to the completion, acceptance, and donation of the public improvements to the City and MSUD during fiscal year 2024 partially offset by the increase in annual installments of revenues from 2023 to 2024.

Summary Statements of Revenues, Expenses, and Changes in Net Position:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Revenues	\$ 620,517	\$ 153,710	\$ -
Operating Expenses	<u>(64,881)</u>	<u>(37,929)</u>	<u>(11,605)</u>
Operating Income (Loss)	555,636	115,781	(11,605)
Non-operating Revenues/(Expenses)	<u>(182,977)</u>	<u>(41,184)</u>	<u>(831,260)</u>
Donated capital assets	(7,864,155)	-	-
Developer contribution	<u>27,730</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u><u>\$(7,463,766)</u></u>	<u><u>\$ 74,597</u></u>	<u><u>\$ (842,865)</u></u>

Change in net position decreased in fiscal year 2024 due primarily to the donation of the completed capital assets to the City and MSUD. Net position increased in fiscal year 2023 due primarily to the collection of assessments and investment income partially offset by debt service expenses.

Capital Assets

The PID's capital assets consisted of road improvements, water and sewer improvements, and storm drainage improvements for Phase #1 totaling \$7,864,155 completed in June 2024 and subsequently donated to the City and MSUD in August 2024.

Long-Term Debt

The City issued the Bonds totaling \$8,060,000 for the benefit of the PID on February 9, 2022, in four terms bearing interest from 3.250% to 4.125% per annum with a final maturity of September 1, 2051. The Bonds are subject to optional redemption, extraordinary optional redemption, and mandatory sinking fund redemption requirements as specified in the Indenture of Trust (the "Indenture") between the City and US Bank, N.A.

On January 11, 2022, the City entered into a reimbursement agreement (the "Reimbursement Agreement") with the Developer to finance a portion of the costs of the authorized improvements not paid with proceeds of the Bonds. The Developer agreed to contribute \$1,127,730 to the costs of the improvements being funded through an escrow deposit at the issuance of the Bonds. In return, as costs are spent, the Developer will be issued a note (the "RA Note") for up to \$1,100,000 bearing interest at 4.41% until maturity on September 1, 2052. Any balance remaining on the RA Note on September 1, 2052, will be canceled. Principal and interest on the RA Note will be paid from the pledged revenues each year in a pre-determined amount solely from assessments on property in the PID.

As of September 30, 2024, costs of improvements totaling \$1,100,000 had been submitted for payment from the Developer's escrow deposit, and repayment on the RA Note of \$65,591 was made in fiscal year 2023. The balance on the RA Note as of September 30, 2024, was \$1,034,410.

The proceeds from the Bonds, along with the Developer's escrow deposit, are being used to finance improvements within the PID consisting primarily of road, water, sewer, and storm drainage improvements, to fund a debt service reserve fund, to fund the payment of interest on the Bonds during the construction period, to pay costs of issuing the Bonds, and to pay the initial administrative expenses of the PID.

Mandatory sinking fund payments will begin on September 1, 2024, from pledged revenues received by the PID.

The City issued \$10,250,000 in Special Assessment Revenue Bonds, Series 2025 (Sutton Fields East Public Improvement District Phase #2 Project) on April 3, 2025, for the primary purpose of funding a portion of the costs of the Phase #2 improvements. The Phase #2 bonds were issued in four terms bearing interest from 4.350% to 5.625% with a final maturity of September 1, 2055.

Pledged Revenues

Pledged revenues consist of assessments paid by the benefitted property owners deposited by the City with the Trustee, as well as a portion of the TIRZ contributions collected by the City from each parcel of assessed property that pays City taxes in a given year.

The annual installments of special assessments totaled \$620,517 for fiscal year 2024. As of January 31, 2024, all annual installments had been collected.

The annual installments of special assessments totaled \$153,710 for fiscal year 2023. All assessments for fiscal year 2023 have been collected.

The annual installments of special assessments totaled \$617,988 for fiscal year 2025. As of January 31, 2025, all annual installments had been collected.

There were no TIRZ contributions in fiscal years 2024 or 2023. No TIRZ contributions are anticipated for fiscal year 2025.

Economic Factors and Future Outlook

Presently, the PID is not aware of any significant changes in conditions that would have a significant effect on the administrative expenses in the near future.

Contacting Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the PID's finances, and to reflect its accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to the PID's administrator, MuniCap, Inc., at 600 E. John Carpenter Freeway, Suite 150, Irving, TX 75062.

III. FINANCIAL STATEMENTS

SUTTON FIELDS EAST PUBLIC IMPROVEMENT DISTRICT STATEMENTS OF NET POSITION

As of September 30,

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets		
Restricted cash and cash equivalents	\$ 733,290	\$ 4,714,786
Accrued interest receivable	5,906	20,514
Prepaid expenses	917	917
Total Current Assets	<u>740,113</u>	<u>4,736,217</u>
Noncurrent Assets		
Capital assets	-	4,304,578
Total Noncurrent Assets	<u>-</u>	<u>4,304,578</u>
Total Assets	<u>740,113</u>	<u>9,040,795</u>
Liabilities		
Current Liabilities		
Accounts payable	9,463	5,805
Accrued liabilities	-	655,277
Accrued interest payable	37,131	27,177
Other current payables	1,893	1,893
Current portion of long-term debt	214,000	188,000
Total Current Liabilities	<u>262,487</u>	<u>878,152</u>
Noncurrent Liabilities		
Long-term debt	8,712,410	8,934,139
Discount on long-term debt, net	(2,750)	(3,228)
Total Noncurrent Liabilities	<u>8,709,660</u>	<u>8,930,911</u>
Total Liabilities	<u>8,972,147</u>	<u>9,809,063</u>
Net Position		
Net investment in capital assets	-	(847,264)
Restricted	733,290	92,440
Unrestricted	(8,965,324)	(13,444)
Net Position	<u>\$ (8,232,034)</u>	<u>\$ (768,268)</u>

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

SUTTON FIELDS EAST PUBLIC IMPROVEMENT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ending September 30,

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Annual assessment revenues	\$ 620,517	\$ 153,710
Total Operating Revenues	<u>620,517</u>	<u>153,710</u>
Operating Expenses		
Administrative fees	62,693	35,955
Accounting and audit fees	2,188	1,974
Total Operating Expenses	<u>64,881</u>	<u>37,929</u>
Operating Income	<u>555,636</u>	<u>115,781</u>
Non-Operating Revenues/(Expenses)		
Interest and dividend income	144,829	279,316
Interest expense	<u>(327,806)</u>	<u>(320,500)</u>
Total Non-Operating Revenues/(Expenses)	<u>(182,977)</u>	<u>(41,184)</u>
Donated Capital Assets	(7,864,155)	-
Developer Contribution	<u>27,730</u>	<u>-</u>
Change in Net Position	(7,463,766)	74,597
Net Position, Beginning of Year	<u>(768,268)</u>	<u>(842,865)</u>
Net Position, End of Year	<u><u>\$ (8,232,034)</u></u>	<u><u>\$ (768,268)</u></u>

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

SUTTON FIELDS EAST PUBLIC IMPROVEMENT DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ending September 30,

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities		
Cash receipts from property owners	\$ 620,517	\$ 155,601
Cash payments for administrative fees	(59,035)	(33,393)
Cash payments for accounting and audit fees	(2,188)	(1,974)
Net Cash Provided by Operating Activities	<u>559,294</u>	<u>120,234</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	<u>159,437</u>	<u>273,138</u>
Net Cash Provided by Investing Activities	<u>159,437</u>	<u>273,138</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(4,214,854)	(2,788,800)
Principal paid on debt	(168,000)	(65,590)
Interest paid on bonds	(317,373)	(319,293)
Net Cash Used in Capital and Related Financing Activities	<u>(4,700,227)</u>	<u>(3,173,683)</u>
Change in Cash and Cash Equivalents	(3,981,496)	(2,780,311)
Cash and Cash Equivalents, Beginning of Year	<u>4,714,786</u>	<u>7,495,097</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 733,290</u></u>	<u><u>\$ 4,714,786</u></u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 555,636	\$ 115,781
Adjustments		
Increase in accounts payable	3,658	2,560
Increase in other payables	-	1,893
Net Cash Provided by Operating Activities	<u><u>\$ 559,294</u></u>	<u><u>\$ 120,234</u></u>
Supplemental Information		
Donated capital assets	<u>\$ 7,864,155</u>	<u>\$ -</u>
Developer contribution	<u>\$ 27,730</u>	<u>\$ -</u>
Construction in progress in accrued liabilities	<u>\$ -</u>	<u>\$ 655,277</u>

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

IV. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—FINANCIAL REPORTING ENTITY

On October 12, 2021, the City Council (the "City Council") of the City of Celina, Texas (the "City") passed and approved Resolution No. 2021-96R approving and authorizing the creation of the Sutton Fields East Public Improvement District (the "PID") to finance the costs of certain public improvements (the "Authorized Improvements") for the benefit of property in the PID, all of which is located within the City.

The \$8,060,000 Series 2022 Special Assessment Revenue Bonds, (the "Series 2022 Bonds" or "Bonds") were issued on February 9, 2022, pursuant to Chapter 372 of the Texas Local Government Code, the "Public Improvement District Assessment Act" (as amended, the "PID Act") and an ordinance adopted by the City Council on January 11, 2022 and an Indenture of Trust (the "Indenture"), dated as of February 1, 2022, between the City and U.S. Bank, National Association (the "Trustee"). The Bonds were issued to finance a portion of the Authorized Improvements for the development, a portion of the interest on the Bonds during and after the period of acquisition and construction of the Authorized Improvements, to fund a reserve fund, to pay a portion of the costs incidental to the organization of the PID, and to pay costs of issuing the Bonds.

The City and MM Sutton Fields East, LLC, (the "Developer"), entered into a reimbursement agreement on January 11, 2022, to finance, refinance, provide, or otherwise assist in the acquisition, construction, and maintenance of the public improvements provided for the benefit of the property in the PID not financed with proceeds from the Bonds.

The City is located in north central Collin and Denton Counties, forty miles north of Dallas and fifteen miles northwest of the City of McKinney. The PID consists of approximately 110 acres and is projected to consist of 450 single-family residential units at completion, including landscaping and the infrastructure necessary to provide roadways, drainage, and utilities to the PID.

The PID Bonds are intended to be paid primarily from special assessments imposed and collected by the City against the properties benefiting from the public improvements of the PID. If a special assessment is not paid in full, the PID Act authorizes the City to collect interest and collection costs on the outstanding special assessment. The City covenanted in the Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced.

In addition, tax increment reinvestment zone (the "TIRZ") contributions will be collected by the Denton County Tax Office (the "DCTO") from each parcel of assessed property that pays City taxes, which will be used to pay the Bonds.

The PID's management believes these financial statements present all activities for which the PID is financially accountable.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

A. Basis of Presentation

The PID's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. The PID uses enterprise fund accounting to maintain its financial records during the fiscal year. Enterprise fund accounting focuses on the determination of operating income, financial position and changes in net position, and cash flows.

B. Measurement Focus and Basis of Accounting

The PID's financial activity is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the PID are included within the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The Statements of Cash Flows reflects how the PID finances and meets its cash flow needs.

Net Position is segregated into Net Investment in Capital Assets, Restricted, and Unrestricted components, if applicable.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, and measurement focus relates to the timing of the measurements made. The PID uses the accrual basis of accounting and the flow of economic resources measurement focus for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Cash and Cash Equivalents

Cash received by the PID is deposited with a financial institution or invested. Deposits and investments having an original maturity of three months or less at the time they are purchased are presented in the financial statements as Cash and Cash Equivalents.

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their acquisition value on the date that they will be donated. All infrastructure assets are capitalized. The PID does not depreciate capital assets as all assets will be donated to the City and/or the Mustang Special Utility District ("MSUD") upon completion/acquisition.

E. Net Position

Net position represents the difference between assets and liabilities. Net Position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the PID, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The PID first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the PID. For the PID, these revenues are special assessments and TIRZ contributions. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the PID. All revenues and expenses not meeting this definition are reported as non-operating.

G. 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Income Taxes

The PID is a governmental entity, and therefore, is exempt from all federal and state income taxes.

I. New Accounting Standards

GASB Statement No. 100, *Accounting Changes and Error Corrections*, became effective in fiscal year 2024 and had no impact on the PID.

J. Future Accounting Standards

GASB has issued new standards that will become effective in future fiscal years. The PID will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE 3—CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of September 30, 2024, and 2023:

	<u>2024</u>	<u>2023</u>
Money market funds	\$ 733,290	\$ 4,714,786
Total	<u>\$ 733,290</u>	<u>\$ 4,714,786</u>

A. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the PID's deposits may not be returned. There is no custodial credit risk to these accounts as the entire bank balance is required to be invested in accordance with the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "Investment Act") and as authorized by the City's official investment policy.

B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. As a means of limiting exposure to fair value losses arising from rising interest rates, the Indenture requires the investment of moneys in all funds in accordance with the Investment Act and the City's official investment policy.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indenture specifies that investments in time deposits or certificates of deposit must be secured in the manner required by law for public funds, or be invested in direct obligations of the United States of America, in obligations of any agencies or instrumentalities thereof, or in such other investments as are permitted under the Investment Act, provided that all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time. For purposes of maximizing investment returns, to the extent permitted by law, money in such funds may be invested in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository bank. Investments at September 30, 2024, and 2023 were in compliance with the Indenture.

All funds held in the accounts created by the Indenture which are on deposit with any bank will be continuously secured in the manner required by the Indenture and the Investment Act.

D. Concentration of Credit Risk

Concentration of credit risk can arise by failing to adequately diversify investments. The Investment Act establishes limitations on portfolio composition to control concentration of credit risk.

E. Recurring Measurements

The PID's investments in money market accounts are measured at the net asset value per share (or its equivalent) practical expedient. Accordingly, these investments have not been classified in the fair value hierarchy.

NOTE 4—CAPITAL ASSETS

The capital asset activity for the years ended September 30, 2024, and 2023 was as follows:

2024	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Construction in progress	\$ 4,304,578	\$ 3,559,577	\$ (7,864,155)	\$ -
Total Capital Assets	<u>\$ 4,304,578</u>	<u>\$ 3,559,577</u>	<u>\$ (7,864,155)</u>	<u>\$ -</u>

2023	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Construction in progress	\$ 972,863	\$ 3,331,715	\$ -	\$ 4,304,578
Total Capital Assets	<u>\$ 972,863</u>	<u>\$ 3,331,715</u>	<u>\$ -</u>	<u>\$ 4,304,578</u>

Capital assets financed with the proceeds of the Bonds consist of roadway, water distribution, sanitary sewer, and storm drainage improvements that benefit the PID. The Phase #1 infrastructure with a total cost of \$7,864,155 was completed and accepted by the City and MSUD in fiscal year 2024. The costs of the completed and accepted public improvements are reported as “donated capital assets” in the financial statements. In addition, the Developer funded \$27,730 in additional costs of the public improvements, which are reported in the financial statements as “developer contribution”.

NOTE 5—LONG-TERM OBLIGATIONS

The PID's long-term debt activity for the years ending September 30, 2024, and 2023, was as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Due in</u>
2024	<u>October 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>September 30, 2024</u>	<u>one year</u>
Series 2022 Bonds, Term 2027	\$ 704,000	\$ -	\$ (168,000)	\$ 536,000	\$ 173,000
Series 2022 Bonds, Term 2032	1,021,000	-	-	1,021,000	-
Series 2022 Bonds, Term 2043	3,069,000	-	-	3,069,000	-
Series 2022 Bonds, Term 2051	3,266,000	-	-	3,266,000	-
Total Series 2022 Bonds	8,060,000	-	(168,000)	7,892,000	173,000
Bond Discount	(3,228)	-	478	(2,750)	-
Developer escrow deposit	912,685	-	(912,685)	-	-
RA Note	149,454	884,956	-	1,034,410	41,000
Total Long-term Debt	<u>\$ 9,118,911</u>	<u>\$ 884,956</u>	<u>\$ (1,080,207)</u>	<u>\$ 8,923,660</u>	<u>\$ 214,000</u>

	Balance			Balance	Due in
2023	October 1, 2022	Increase	Decrease	September 30, 2023	one year
Series 2022 Bonds, Term 2027	\$ 704,000	\$ -	\$ -	\$ 704,000	\$ 168,000
Series 2022 Bonds, Term 2032	1,021,000	-	-	1,021,000	-
Series 2022 Bonds, Term 2043	3,069,000	-	-	3,069,000	-
Series 2022 Bonds, Term 2051	3,266,000	-	-	3,266,000	-
Total Series 2022 Bonds	8,060,000	-	-	8,060,000	168,000
Bond Discount	(3,706)	-	478	(3,228)	-
Developer escrow deposit	1,127,730	-	(215,045)	912,685	-
RA Note	-	215,045	(65,591)	149,454	20,000
Total Long-term Debt	\$ 9,184,024	\$ 215,523	\$ (280,636)	\$ 9,118,911	\$ 188,000

A. Special Assessment Revenue Bonds, Series 2022

On February 9, 2022, the City issued \$8,060,000 in Special Assessment Revenue Bonds, Series 2022, to finance certain public infrastructure improvements in connection with the proposed development within the PID, to fund a debt service reserve fund, to fund the payment of interest on the Bonds prior to and during construction, to pay a portion of the costs incidental to the organization of the PID, and to pay costs of issuing the Bonds.

The Bonds are intended to be paid primarily from assessments imposed by the City and collected by the Denton County Tax Office (the “DCTO”) against the properties benefiting from the public improvements. If an assessment is not paid in full, the PID Act authorizes the City to collect interest and collections costs on the outstanding assessment. The City covenanted in the Indenture that it will take and pursue all actions permissible under applicable laws to cause the assessments to be collected and any resulting liens enforced. The Bonds are limited obligations of the City payable solely from and secured by a pledge of assessments and certain funds held by the Trustee.

The Bonds were issued in four series as follows:

	<u>Par Value</u>	<u>Rate</u>	<u>Final Maturity</u>	<u>Discount</u>
Term 2027	\$ 704,000	3.250%	September 1, 2027	\$ -
Term 2032	\$ 1,021,000	3.625%	September 1, 2032	\$ (4,013)
Term 2043	\$ 3,069,000	4.000%	September 1, 2043	\$ -
Term 2051	\$ 3,266,000	4.125%	September 1, 2051	\$ -

The discount on the Bonds, as listed above, is being amortized over the life of the term using the effective interest method. Amortization of the bond discount totaled \$478 for each of the years ended September 30, 2024, and 2023, respectively.

Interest on the Bonds is payable according to the terms specified by the Indenture semiannually on March 1 and September 1 of each year beginning on September 1, 2022. Interest on the Bonds is calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest payments totaled \$317,373 for each of the years ended September 30, 2024, and 2023.

The Bonds represent 88% of the PID's long-term debt balance as of September 30, 2024, and are subject to optional redemption, extraordinary optional redemption, and mandatory sinking fund redemption. Principal payments on the Series 2022 Bonds are due each September 1 beginning September 1, 2024, according to the mandatory sinking fund redemption schedule.

1. Optional Redemption

The Bonds maturing on or after September 1, 2032, may be redeemed at the option of the City, on any date on or after September 1, 2031, in whole or in part at 100% of the principal amount plus accrued interest to the redemption date.

2. Extraordinary Optional Redemption

The Bonds are subject to extraordinary optional redemption in whole or in part on the first of any month from any prepayments of special assessments or from any funds remaining in the project fund after completion of the improvements. There were no extraordinary optional redemptions in fiscal year 2024 or 2023.

3. Mandatory Sinking Fund Redemption

The Bonds are required to be redeemed prior to maturity in part at a price of 100% of the principal amount thereof plus accrued interest to the redemption date, on each September 1, beginning on September 1, 2024. Mandatory debt service requirements consist of the following:

For the year ending September 30:	Series 2022 Bonds Term 2027		Series 2022 Bonds Term 2032	
	Principal	Interest	Principal	Interest
2025	\$ 173,000	\$ 17,420	\$ -	\$ 37,011
2026	179,000	11,798	-	37,011
2027	184,000	5,980	-	37,011
2028	-	-	190,000	37,011
2029	-	-	197,000	30,124
2030-2034	-	-	634,000	46,509
Total	<u>\$ 536,000</u>	<u>\$ 35,198</u>	<u>\$ 1,021,000</u>	<u>\$ 224,677</u>

For the year ending September 30:	Series 2022 Bonds Term 2043		Series 2022 Bonds Term 2051	
	Principal	Interest	Principal	Interest
2025	\$ -	\$ 122,760	\$ -	\$ 134,723
2026	-	122,760	-	134,723
2027	-	122,760	-	134,723
2028	-	122,760	-	134,723
2029	-	122,760	-	134,723
2030-2034	463,000	604,720	-	673,613
2035-2039	1,333,000	418,760	-	673,613
2040-2044	1,273,000	129,880	351,000	673,613
2045-2049	-	-	1,994,000	673,613
2050-2051	-	-	921,000	57,379
Total	<u>\$ 3,069,000</u>	<u>\$ 1,767,160</u>	<u>\$ 3,266,000</u>	<u>\$ 3,425,446</u>

For the year ending September 30:	Series 2022 Bonds Total	
	Principal	Interest
2025	\$ 173,000	\$ 311,914
2026	179,000	306,292
2027	184,000	300,474
2028	190,000	294,494
2029	197,000	287,607
2030-2034	1,097,000	1,324,842
2035-2039	1,333,000	1,092,373
2040-2044	1,624,000	803,493
2045-2049	1,994,000	673,613
2050-2051	921,000	57,379
Total	<u>\$ 7,892,000</u>	<u>\$ 5,452,481</u>

B. Reimbursement Agreement

On January 11, 2022, the City entered into a reimbursement agreement (the “Reimbursement Agreement”) with the Developer to finance a portion of the costs of the Authorized Improvements not paid with proceeds of the Bonds. The Developer agreed to contribute \$1,127,730 to the costs of the improvements being funded through a contribution at the issuance of the Bonds. In return, as costs are spent, the Developer will be issued a note (the “RA Note”) for up to \$1,100,000 bearing interest at 4.41% until maturity on September 1, 2052. Any balance remaining on the RA Note on September 1, 2052, will be canceled. Principal and interest on the RA Note will be paid from the pledged revenues each year in a pre-determined amount from assessments only on property in the PID.

As of September 30, 2024, total costs of improvements totaling \$1,100,000 had been drawn against the RA Note, and total repayment on the RA Note of \$65,591 was made in fiscal year 2023. The balance on the RA Note as of September 30, 2024, was \$1,034,410. The principal payment due on the RA Note on September 1, 2024, was paid in January 2025.

The expected future debt service payments on the RA Note are as follows:

For the year ending September 30:	RA Note	
	Principal	Interest
2025	\$ 41,000	\$ 41,803
2026	22,000	43,809
2027	23,000	42,839
2028	24,000	41,825
2029	25,000	40,766
2030-2034	144,000	186,148
2035-2039	179,000	151,441
2040-2044	221,000	108,400
2045-2049	274,000	55,303
2050-2051	81,410	4,446
Total	<u>\$ 1,034,410</u>	<u>\$ 716,780</u>

C. Developer's Escrow Deposit

At Bond issuance, the Developer deposited \$1,127,730 with the trustee to be held in escrow and used to fund costs of the public improvements in excess of the funds available from the proceeds of the Bonds. Any funds remaining at the completion of the construction of the public improvements will be returned to the Developer. As of September 30, 2024, the entire remaining balance had been drawn on the Developer's escrow deposit and charged to the RA Note. Draws on the Developer's escrow deposit totaling \$215,045 were made in fiscal year 2023.

NOTE 6—REVENUES

The assessments levied to pay debt service on the Bonds and amounts owed under the Reimbursement Agreement, together with interest thereon, are payable annually (the "Annual Installments") established by the Assessment Ordinance and the Service and Assessment Plan to correspond, as nearly as practicable, to the debt service requirements for the Bonds and amounts owed under the Reimbursement Agreement, if any. Annual Installments are to be imposed and collected on all the real property within the PID (excepting those for which the special assessment lien has been prepaid) except for non-benefited property and public property. The annual revenue requirement, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. Annual Installments, unless prepaid, will be billed on or about October 1 of each year and shall be delinquent if not paid prior to February 1 of the following year. The assessments may be enforced by the City in the same manner that an ad valorem tax lien against real property is enforced. Delinquent Annual Installments of the assessments incur interest, penalties, and attorney's fees in the same manner as delinquent ad valorem taxes. The City may bring foreclosure proceedings for any delinquent Annual Installment amounts.

Annual Installments of \$620,517 and \$153,710 were billed for the assessment years ending September 30, 2024, and 2023, respectively. All Annual Installments for fiscal years 2024 and 2023 have been collected and remitted to the PID.

Tax Increment Reinvestment Zones (“TIRZ”) contributions are collected by the City from each parcel of assessed property that pays City taxes. A portion of the taxes paid on each individual parcel (TIRZ contribution percentage) is used to calculate that parcel’s TIRZ annual credit for the following year. The TIRZ contribution reduces the amount of annual installments and assists in the repayment of the Bonds. There were no TIRZ contributions in fiscal years 2024 or 2023.

NOTE 7—ARBITRAGE

When applicable, arbitrage calculations are performed on the PID’s funds to determine any arbitrage rebate or yield restriction liability. No liabilities for arbitrage rebate or yield restrictions were identified in the fiscal years ending September 30, 2024, and 2023.

NOTE 8—SUBSEQUENT EVENTS

A. Annual Assessments

Annual Installments of assessments of \$617,988 were imposed on the property owners for collection in fiscal year 2025. As of January 31, 2025, all annual installments had been remitted to the PID. No TIRZ contributions are expected for fiscal year 2025.

B. Series 2025 Bonds

The City issued \$10,250,000 in Special Assessment Revenue Bonds, Series 2025 (Sutton Fields East Public Improvement District Phase #2 Project) on April 3, 2025, for the primary purpose of funding a portion of the costs of the Phase #2 improvements. The Phase #2 bonds were issued in four terms bearing interest from 4.350% to 5.625% with a final maturity of September 1, 2055.