

Lazy River Improvement District

Information Required by Section 26.18, Texas Tax Code and
Section 2051.202, Texas Government Code

Date: June 4, 2024

(director terms after May 2024 election)

- (1) Name and term of office of each member of the governing body:
- | <u>Name:</u> | <u>Term of office:</u> |
|----------------------|------------------------|
| Michael D. Edwards | 5/2022 – 5/2026 |
| John Wells | 5/2024 – 5/2028 |
| Thomas McKnight, Jr. | 5/2022 – 5/2026 |
| Robert Henderson | 5/2024 – 5/2028 |
| Thad Davis | 8/2022 – 5/2026 |
- (2) Mailing address, physical address, e-mail address, and telephone number:
2727 Allen Parkway, Suite 1100
Houston, Texas 77019
713-652-6500
94022@smithmur.com
- (3) a. Official contact information for each member of the governing body: Same as Item (2) above.
- b. Name of General Manager or Executive Director: None
- c. Name, mailing address and telephone number of person representing District's utility operator:
David Rowe, Water District Management Co., Inc., P.O. Box 579 , Spring, TX 77383
281/376-8802
- d. Name, mailing address and telephone number of person representing District's tax assessor-collector: Tammy J. McRae, Montgomery County Tax Office, 400 N. San Jacinto, Conroe, TX 77301, 936/539-7897
- (4) District's budget for the preceding two years: See attached budgets.
- (5) Proposed or adopted budget for the current year: See attached.
- (6) Change in amount of District budget from the preceding year to current year, by dollar amount and percentage:
- | <u>2023 Budget Revenues</u> | <u>2024 Budget Revenues</u> | <u>Change in Amount</u> | <u>% of Change</u> |
|-----------------------------|-----------------------------|-------------------------|--------------------|
| \$473,200 | \$540,850 | +\$67,650 | 14.296% |
- (7) Amount of property tax revenue budgeted for maintenance and operations for the preceding two years and the current year: See attached budgets.

- (8) Amount of property tax revenue budgeted for debt service for the preceding two years and the current year: The District does not budget for debt service.
- (9) Tax rate for maintenance and operations adopted by the taxing unit for the current year and preceding two years:
- | | |
|------|----------|
| 2023 | \$0.1387 |
| 2022 | \$0.1424 |
| 2021 | \$0.1446 |
- (10) The tax rate for debt service adopted by the taxing unit for the current year and preceding 2 years:
- | | |
|------|----------|
| 2023 | \$0.0000 |
| 2022 | \$0.0000 |
| 2021 | \$0.3110 |
- (11) This information required by Section 26.18 is applicable only to school districts.
- (12) Tax rate for maintenance and operations proposed by the taxing unit for the current year:
As of the date of this report, no proposed tax rate has been established for the current year.
- (13) Tax rate for debt service proposed by the taxing unit for the current year:
As of the date of this report, no proposed tax rate has been established for the current year.
- (14) This information required by Section 26.18 is applicable only to school districts.
- (15) The most recent financial audit of the District. See attached.
- (16) Rate of District's sales and use tax, if any: None.
- (17) Rate of District's ad valorem tax, if any: The District's ad valorem tax rate for 2023 is \$0.1387 per \$100 assessed valuation.
- (18) Notice of tax rate hearing required under Chapter 26, Tax Code or Section 49.236, Water Code: Notice of Tax Rate Hearing will be posted on this website when available.
- (19) District's meeting schedule and location: The District does not have a regular meeting date and the meetings are held at 6:00 p.m. at 299 Hill Brook Conroe, Texas.
- (20) Residents of the District have the right to request the designation of a meeting location within the District under Section 49.062(g), Water Code. A description of this process can be found at <https://www.tceq.texas.gov/downloads/water-districts/forms/form-20863.pdf>.
- (21) Notices of meetings and approved minutes. Each notice of a meeting and approved minutes for meetings conducted in the current calendar year and the immediately preceding calendar year are posted on this website.

Cinco M.U.D. No. 2
 Operating Fund
 Adopted Budget
 FYE September 30, 2024

	Adopted
	Oct '23 - Sep 24
Ordinary Income/Expense	
Income	
1.5381 · LTB Rebates	27,000.00
1.4100 · Water-Customer Service Fee	300,000.00
1.4200 · Sewer-Customer Service Fees	230,256.00
1.4202 · Inspection Fees	0.00
1.4300 · Grease Trap Income	14,000.00
1.4330 · Penalty/Interest On Serv Accts	10,000.00
1.4600 · Tap Connection Fees	0.00
1.5380 · Miscellaneous Income	7,000.00
1.5388 · COH - SPA Collections	65,000.00
1.5391 · Interest on Temp Investment	100,000.00
1.5398 · Maintenance Tax Collections	1,157,975.00
Total Income	1,911,231.00
Expense	
1.6334 · Website	4,300.00
1.6161 · Garbage Collection	295,332.00
1.6201 · Master District Expense	782,709.00
1.6234 · Repair/Maint - Water	210,000.00
1.6235 · Repair/Maint - Sewer	70,000.00
1.6236 · Repair/ Maint - SS / TV	45,000.00
1.6275 · Inspection Expense	13,000.00
1.6310 · Director Fees	8,000.00
1.6320 · Legal Fees	
6320.11 · Legal - General	50,000.00
6320.12 · Legal - Records Mgmt	3,000.00
Total 1.6320 · Legal Fees	53,000.00
1.6321 · Auditing Fees	15,500.00
1.6322 · Engineering Fees	32,000.00
1.6323 · Sanitary Sewer TV Program	30,000.00
1.6324 · Laboratory Expense	6,000.00
1.6325 · Election Expense	4,000.00
1.6326 · Permit Fees	5,000.00
1.6330 · CAD Expense	18,500.00
1.6331 · Tax Collection Expense	1,000.00
1.6332 · Operations & Billing	135,000.00
1.6333 · Bookkeeping	23,000.00
1.6338 · Legal Notices/Oth Publications	1,000.00
1.6340 · Printing & Office Supplies	2,000.00
1.6348 · Bank Fees-Ttech	9,800.00
1.6350 · Postage	2,000.00
1.6353 · Insurance/Surety Bond Premiums	7,000.00

Cinco M.U.D. No. 2
 Operating Fund
 Adopted Budget
 FYE September 30, 2024

	Adopted
	Oct '23 - Sep 24
1.6354 · Travel Expense	2,700.00
1.6359 · Other Expenses	2,000.00
1.6370 · TCEQ Reg Fees	3,100.00
1.6560 · Payroll Expenses	1,000.00
1.7306 · MS4 Permitting Cost	4,000.00
1.7395 · AWBD Expenses	2,500.00
Total Expense	1,788,441.00
Net Ordinary Income	122,790.00
Other Income/Expense	
Other Income	
1.5385 · NFBWA Conv Fees	1,377,358.00
Total Other Income	1,377,358.00
Other Expense	
1.6202 · Master District - NFBWA Fee	1,377,358.00
Total Other Expense	1,377,358.00
Net Other Income	0.00
Net Income	122,790.00

**Cinco M.U.D. No. 2
Operating Fund
Adopted Budget
FYE September 30, 2023**

	Adopted
	Oct '22 - Sep 23
Ordinary Income/Expense	
Income	
1.5381 · LTB Rebates	25,000.00
1.4100 · Water-Customer Service Fee	300,000.00
1.4200 · Sewer-Customer Service Fees	230,256.00
1.4202 · Inspection Fees	1,000.00
1.4300 · Grease Trap Income	14,000.00
1.4330 · Penalty/Interest On Serv Accts	10,000.00
1.4600 · Tap Connection Fees	0.00
1.5380 · Miscellaneous Income	10,000.00
1.5388 · COH - SPA Collections	65,000.00
1.5391 · Interest on Temp Investment	9,000.00
1.5398 · Maintenance Tax Collections	1,128,158.00
Total Income	1,792,414.00
Expense	
1.6334 · Website	4,300.00
1.6161 · Garbage Collection	290,557.00
1.6201 · Master District Expense	782,709.00
1.6234 · Repair/Maint - Water	200,000.00
1.6235 · Repair/Maint - Sewer	50,000.00
1.6236 · Repair/ Maint - SS / TV	45,000.00
1.6275 · Inspection Expense	13,000.00
1.6310 · Director Fees	6,000.00
1.6320 · Legal Fees	
6320.11 · Legal - General	60,000.00
6320.12 · Legal - Records Mgmt	3,000.00
Total 1.6320 · Legal Fees	63,000.00
1.6321 · Auditing Fees	14,000.00
1.6322 · Engineering Fees	25,000.00
1.6323 · Sanitary Sewer TV Program	30,000.00
1.6324 · Laboratory Expense	7,000.00
1.6325 · Election Expense	0.00
1.6326 · Permit Fees	5,000.00
1.6330 · CAD Expense	16,595.00
1.6331 · Tax Collection Expense	1,000.00
1.6332 · Operations & Billing	110,000.00
1.6333 · Bookkeeping	22,200.00
1.6338 · Legal Notices/Oth Publications	1,000.00
1.6340 · Printing & Office Supplies	5,000.00
1.6348 · Bank Fees-Ttech	7,200.00
1.6350 · Postage	0.00
1.6353 · Insurance/Surety Bond Premiums	8,000.00
1.6354 · Travel Expense	2,700.00
1.6359 · Other Expenses	2,000.00
1.6370 · TCEQ Reg Fees	3,000.00
1.6560 · Payroll Expenses	1,000.00

**Cinco M.U.D. No. 2
Operating Fund
Adopted Budget
FYE September 30, 2023**

	Adopted
	Oct '22 - Sep 23
1.7306 · MS4 Permitting Cost	1,000.00
1.7395 · AWBD Expenses	2,500.00
Total Expense	1,718,761.00
Net Ordinary Income	73,653.00
Other Income/Expense	
Other Income	
1.5385 · NFBWA Conv Fees	1,255,464.00
Total Other Income	1,255,464.00
Other Expense	
1.6202 · Master District - NFBWA Fee	1,255,464.00
Total Other Expense	1,255,464.00
Net Other Income	0.00
Net Income	73,653.00

**Cinco M.U.D. No. 2
Operating Fund
Adopted Budget
FYE September 30, 2022**

	Adopted
	Oct '21 - Sep 22
Ordinary Income/Expense	
Income	
1.4100 · Water-Customer Service Fee	300,000.00
1.4200 · Sewer-Customer Service Fees	230,256.00
1.4202 · Inspection Fees	1,000.00
1.4300 · Grease Trap Income	14,000.00
1.4330 · Penalty/Interest On Serv Accts	10,000.00
1.4600 · Tap Connection Fees	0.00
1.5380 · Miscellaneous Income	10,000.00
1.5381 · LTB Rebates	25,000.00
1.5388 · COH - SPA Collections	65,000.00
1.5391 · Interest on Temp Investment	1,500.00
1.5398 · Maintenance Tax Collections	1,108,178.00
Total Income	1,764,934.00
Expense	
1.6161 · Garbage Collection	276,271.00
1.6201 · Master District Expense	715,137.00
1.6234 · Repair/Maint - Water	200,000.00
1.6235 · Repair/Maint - Sewer	70,000.00
1.6236 · Repair/ Maint - SS / TV	5,000.00
1.6275 · Inspection Expense	11,000.00
1.6310 · Director Fees	6,000.00
1.6320 · Legal Fees	
6320.11 · Legal - General	60,000.00
6320.12 · Legal - Records Mgmt	3,000.00
Total 1.6320 · Legal Fees	63,000.00
1.6321 · Auditing Fees	13,000.00
1.6322 · Engineering Fees	48,000.00
1.6323 · Sanitary Sewer TV Program	30,000.00
1.6324 · Laboratory Expense	12,000.00
1.6325 · Election Expense	5,000.00
1.6326 · Permit Fees	5,000.00
1.6327 · Website	3,600.00
1.6330 · CAD Expense	16,595.00
1.6331 · Tax Collection Expense	1,000.00
1.6332 · Operations & Billing	110,000.00
1.6333 · Bookkeeping	22,200.00
1.6338 · Legal Notices/Oth Publications	1,000.00
1.6340 · Printing & Office Supplies	5,000.00
1.6348 · Bank Fees-Ttech	7,200.00
1.6350 · Postage	2,000.00
1.6353 · Insurance/Surety Bond Premiums	6,300.00
1.6354 · Travel Expense	2,700.00
1.6359 · Other Expenses	2,000.00
1.6370 · TCEQ Reg Fees	3,000.00
1.6560 · Payroll Expenses	1,000.00

**Cinco M.U.D. No. 2
 Operating Fund
 Adopted Budget
 FYE September 30, 2022**

	Adopted
	Oct '21 - Sep 22
1.7306 · MS4 Permitting Cost	6,000.00
1.7395 · AWBD Expenses	2,500.00
Total Expense	1,651,503.00
Net Ordinary Income	113,431.00
Other Income/Expense	
Other Income	
1.5385 · NFBWA Conv Fees	843,682.00
Total Other Income	843,682.00
Other Expense	
1.6202 · Master District - NFBWA Fee	843,682.00
Total Other Expense	843,682.00
Net Other Income	0.00
Net Income	113,431.00

**CINCO MUNICIPAL
UTILITY DISTRICT NO. 2
FORT BEND COUNTY, TEXAS
FINANCIAL REPORT
September 30, 2023**

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McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

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

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Cinco Municipal Utility District No. 2 (the "District"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Cinco Municipal Utility District No. 2, as of September 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied

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

certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

WCG & Co, PA

Houston, Texas
January 9, 2024

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Management's Discussion and Analysis

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***Cinco Municipal Utility District No. 2
Management's Discussion and Analysis
September 30, 2023***

Using this Annual Report

Within this section of the financial report of Cinco Municipal Utility District No. 2 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2023. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

***Cinco Municipal Utility District No. 2
Management’s Discussion and Analysis
September 30, 2023***

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

Fund Financial Statements

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

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

Financial Analysis of the District as a Whole

The District’s net position at September 30, 2023, was \$5,228,418. A comparative summary of the District’s overall financial position, as of September 30, 2023 and 2022, is as follows:

	2023	2022
Current and other assets	\$ 3,357,676	\$ 3,419,032
Capital assets	2,127,214	2,284,966
Total assets	5,484,890	5,703,998
Current liabilities	256,472	809,636
Net position		
Net investment in capital assets	2,127,214	2,284,966
Unrestricted	3,101,204	2,609,396
Total net position	\$ 5,228,418	\$ 4,894,362

***Cinco Municipal Utility District No. 2
Management’s Discussion and Analysis
September 30, 2023***

The total net position of the District increased during the current fiscal year by \$334,056. A comparative summary of the District’s *Statement of Activities* for the past two years is as follows:

	<u>2023</u>	<u>2022</u>
Revenues		
Property taxes, penalties and interest	\$ 2,128,453	\$ 2,104,860
Water and sewer service	602,469	608,338
Regional water authority fees	1,326,108	1,343,112
Other	258,247	284,598
Total revenues	<u>4,315,277</u>	<u>4,340,908</u>
Expenses		
Current service operations	2,965,730	2,858,906
Contractual obligation	857,739	862,221
Depreciation	157,752	157,752
Total expenses	<u>3,981,221</u>	<u>3,878,879</u>
Change in net position	334,056	462,029
Net position, beginning of year	4,894,362	4,432,333
Net position, end of year	<u>\$ 5,228,418</u>	<u>\$ 4,894,362</u>

Financial Analysis of the District’s Funds

The District’s combined fund balances, as of September 30, 2023, were \$3,071,244, which consists of \$2,462,241 in the General Fund and \$609,003 in the Contract Tax Fund.

General Fund

A comparative summary of the General Fund’s financial position as of September 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 2,741,201</u>	<u>\$ 2,941,340</u>
Total liabilities	\$ 256,472	\$ 809,636
Total deferred inflows	22,488	25,075
Total fund balance	<u>2,462,241</u>	<u>2,106,629</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,741,201</u>	<u>\$ 2,941,340</u>

***Cinco Municipal Utility District No. 2
Management’s Discussion and Analysis
September 30, 2023***

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

	<u>2023</u>	<u>2022</u>
Total revenues	\$ 3,321,342	\$ 3,378,226
Total expenditures	(2,965,730)	(2,858,721)
Revenues over expenditures	<u>\$ 355,612</u>	<u>\$ 519,505</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District’s primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District, and sales tax rebates from the City of Houston. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior year.
- Water, sewer and regional water authority fees are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District’s control.
- Sales tax rebates received from the City of Houston under a Strategic Partnership Agreement are dependent on consumer spending at retail stores located within the District’s boundaries and will fluctuate from year to year.

Contract Tax Fund

A comparative summary of the Contract Tax Fund’s financial position as of September 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 616,475</u>	<u>\$ 477,692</u>
Total liabilities	\$ -	\$ -
Total deferred inflows	7,472	9,300
Total fund balance	609,003	468,392
Total liabilities, deferred inflows and fund balance	<u>\$ 616,475</u>	<u>\$ 477,692</u>

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

	<u>2023</u>	<u>2022</u>
Total revenues	\$ 998,350	\$ 963,322
Total expenditures	(857,739)	(862,406)
Revenues over expenditures	<u>\$ 140,611</u>	<u>\$ 100,916</u>

***Cinco Municipal Utility District No. 2
Management’s Discussion and Analysis
September 30, 2023***

The District’s financial resources in the Contract Tax Fund are from property tax revenues, which are dependent upon assessed values in the District and the contract tax rate. While the District decreased its contract tax levy, property tax revenues increased because assessed values increased.

General Fund Budgetary Highlights

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

Since the District’s budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$281,959 greater than budgeted. The *Budgetary Comparison Schedule* on page 30 of this report provides variance information per financial statement line item.

Capital Assets

Capital assets held by the District at September 30, 2023 and 2022 are summarized as follows:

	2023	2022
Capital assets being depreciated		
Infrastructure	\$ 7,098,688	\$ 7,098,688
Less accumulated depreciation	(4,971,474)	(4,813,722)
Capital assets, net	\$ 2,127,214	\$ 2,284,966

There were no capital asset additions during the current year.

Long-Term Debt Authorization

At September 30, 2023, the District had \$8,330,000 unlimited tax bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$9,920,000 for refunding purposes.

Next Year’s Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers.

***Cinco Municipal Utility District No. 2
 Management’s Discussion and Analysis
 September 30, 2023***

A comparison of next year’s budget to current year actual amounts for the General Fund is as follows:

	<u>2023 Actual</u>	<u>2024 Budget</u>
Total revenues	\$ 3,321,342	\$ 3,288,589
Total expenditures	<u>(2,965,730)</u>	<u>(3,165,799)</u>
Revenues over expenditures	355,612	122,790
Beginning fund balance	<u>2,106,629</u>	<u>2,462,241</u>
Ending fund balance	<u><u>\$ 2,462,241</u></u>	<u><u>\$ 2,585,031</u></u>

Property Taxes

The District’s property tax base increased approximately \$84,224,000 for the 2023 tax year from \$660,233,178 to \$744,457,072. This increase was primarily due to increased property values, as there is no ongoing property development within the District. For the 2023 tax year, the District has levied a maintenance tax rate of \$0.16 per \$100 of assessed value and a contract tax rate of \$0.11 per \$100 of assessed value, for a total combined tax rate of \$0.27 per \$100 of assessed value. Tax rates for the 2022 tax year were \$0.175 per \$100 for maintenance and operations and \$0.145 per \$100 for a contract tax rate for a combined total of \$0.32 per \$100 of assessed value.

Basic Financial Statements

Cinco Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2023

	General Fund	Contract Tax Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 307,164	\$ 55	\$ 307,219	\$ -	\$ 307,219
Investments	2,045,400	615,954	2,661,354		2,661,354
Taxes receivable	16,230	7,472	23,702		23,702
Customer service receivables, net	352,007		352,007		352,007
Internal balances	7,006	(7,006)			
Due from City of Houston	13,211		13,211		13,211
Other receivables	183		183		183
Capital assets, net				2,127,214	2,127,214
Total Assets	<u>\$ 2,741,201</u>	<u>\$ 616,475</u>	<u>\$ 3,357,676</u>	<u>2,127,214</u>	<u>5,484,890</u>
Liabilities					
Accounts payable	\$ 246,080	\$ -	\$ 246,080		246,080
Other payables	357		357		357
Customer deposits	10,035		10,035		10,035
Total Liabilities	<u>256,472</u>		<u>256,472</u>		<u>256,472</u>
Deferred Inflows of Resources					
Deferred property taxes	16,230	7,472	23,702	(23,702)	
Deferred sales tax rebates	6,258		6,258	(6,258)	
	<u>22,488</u>	<u>7,472</u>	<u>29,960</u>	<u>(29,960)</u>	
Fund Balances/Net Position					
Fund Balances					
Committed		609,003	609,003	(609,003)	
Unassigned	2,462,241		2,462,241	(2,462,241)	
Total Fund Balances	<u>2,462,241</u>	<u>609,003</u>	<u>3,071,244</u>	<u>(3,071,244)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,741,201</u>	<u>\$ 616,475</u>	<u>\$ 3,357,676</u>		
Net Position					
Net investment in capital assets				2,127,214	2,127,214
Unrestricted				3,101,204	3,101,204
Total Net Position				<u>\$ 5,228,418</u>	<u>\$ 5,228,418</u>

See notes to basic financial statements.

***Cinco Municipal Utility District No. 2
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2023***

	General Fund	Contract Tax Fund	Total	Adjustments	Statement of Activities
Revenues					
Water service	\$ 374,838	\$ -	\$ 374,838	\$ -	\$ 374,838
Sewer service	227,631		227,631		227,631
Property taxes	1,155,000	957,098	2,112,098	(2,960)	2,109,138
Penalties and interest	17,857	1,949	19,806	(491)	19,315
Tap connection and inspection	14,130		14,130		14,130
Regional water authority fees	1,326,108		1,326,108		1,326,108
Sales tax rebates from City of Houston	60,731		60,731	(964)	59,767
Miscellaneous	34,289		34,289		34,289
Investment earnings	110,758	39,303	150,061		150,061
Total Revenues	3,321,342	998,350	4,319,692	(4,415)	4,315,277
Expenditures/Expenses					
Current service operations					
Master District fees	777,078		777,078		777,078
Professional fees	87,774		87,774		87,774
Contracted services	445,129		445,129		445,129
Repairs and maintenance	263,353		263,353		263,353
Regional water authority fees	1,350,091		1,350,091		1,350,091
Administrative	18,452		18,452		18,452
Other	23,853		23,853		23,853
Intergovernmental					
Contractual obligation		857,739	857,739		857,739
Depreciation				157,752	157,752
Total Expenditures/Expenses	2,965,730	857,739	3,823,469	157,752	3,981,221
Revenues Over Expenditures	355,612	140,611	496,223	(496,223)	
Change in Net Position				334,056	334,056
Fund Balance/Net Position					
Beginning of the year	2,106,629	468,392	2,575,021	2,319,341	4,894,362
End of the year	\$ 2,462,241	\$ 609,003	\$ 3,071,244	\$ 2,157,174	\$ 5,228,418

See notes to basic financial statements.

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Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 1 – Summary of Significant Accounting Policies

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

Creation

The District was organized, created and established pursuant to an order of the Texas Water Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated May 24, 1985, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on February 4, 1988 and the first bonds were issued on December 1, 1992.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

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

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

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

- The General Fund is used to account for the operations of the District’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Contract Tax Fund is a special revenue fund used to account for the District’s collection of contract taxes and the payment of its contractual obligation to Cinco Municipal Utility District No. 1. The primary source of revenue is property taxes.

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

Measurement Focus and Basis of Accounting

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At September 30, 2023, allowances of \$3,000 was provided for possible uncollectible water/sewer accounts. An allowance for uncollectible property taxes was not considered necessary.

Interfund Activity

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

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciable capital assets, which primarily consist of water, wastewater and storm drainage facilities, are depreciated over a useful life of 45 years using the straight-line method.

Deferred Inflows and Outflows of Financial Resources

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

At the fund level, property taxes receivable and City of Houston sales tax rebates receivable (see Note 10) that are not collected from taxpayers or not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Note 1 – Summary of Significant Accounting Policies (continued)

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District does not have any restricted fund balances.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District’s committed fund consist of property taxes levied for the District’s contractual obligations to Cinco Municipal Utility District No. 1.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

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

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables and the useful lives and impairment of capital. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds		\$ 3,071,244
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 7,098,688	
Less accumulated depreciation	<u>(4,971,474)</u>	
Change due to capital assets		2,127,214
Receivables that are not collected within sixty days of fiscal year end are not considered available to pay current period expenditures and are deferred in the funds.		
Property taxes and penalties and interest	23,702	
City of Houston sales tax rebates	<u>6,258</u>	
		29,960
Total net position - governmental activities		<u><u>\$ 5,228,418</u></u>

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

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

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

Net change in fund balances - total governmental funds	\$ 496,223
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes, related penalties and interest, and City of Houston sales tax rebates.	(4,415)
In the <i>Statement of Activities</i> , the cost of capital assets is charged to depreciation expense over the estimated useful life of the assets.	(157,752)
Change in net position of governmental activities	<u>\$ 334,056</u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 3 – Deposits and Investments (continued)

Investments (continued)

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

As of September 30, 2023, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 2,045,400		
	Contract Tax	615,954		
Total		<u>\$ 2,661,354</u>	AAAm	28 days

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

Investment Credit and Interest Rate Risk

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

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at September 30, 2023, consist of the following:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Contract Tax Fund	\$ 7,006	Contract tax collections not yet remitted to Contract Tax Fund

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

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended September 30, 2023, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets being depreciated			
Infrastructure	\$ 7,098,688	\$ -	\$ 7,098,688
Less accumulated depreciation	(4,813,722)	(157,752)	(4,971,474)
Capital assets, net	<u>\$ 2,284,966</u>	<u>\$ (157,752)</u>	<u>\$ 2,127,214</u>

Depreciation expense for the current year was \$157,752.

Note 6 – Long-Term Debt

At September 30, 2023, the District had authorized but unissued bonds in the amount of \$8,330,000 for water, sewer and drainage facilities and \$9,920,000 for refunding purposes.

Note 7 – Property Taxes

On January 20, 1990, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$0.25 per \$100 of assessed value.

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2023 fiscal year was financed through the 2022 tax levy, pursuant to which the District levied property taxes of \$0.32 per \$100 of assessed value, of which \$0.175 was allocated to maintenance and operations and \$0.145 was allocated to contract taxes. The resulting tax levy was \$2,113,534 on the adjusted taxable value of \$660,233,178.

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 7 – Property Taxes (continued)

Property taxes receivable, at September 30, 2023, consisted of the following:

Current year taxes receivable	\$ 1,631
Prior years taxes receivable	12,252
	<u>13,883</u>
Penalty and interest receivable	9,819
Property taxes receivable	<u><u>\$ 23,702</u></u>

Note 8 – Master District

On February 20, 1990, the District entered into a contract (the “Contract”) with Cinco Municipal Utility District No. 1 (the “Master District”), as amended on March 11, 2008 and October 1, 2019, whereby the Master District agrees to provide or cause to be provided the regional water supply and distribution facilities and the wastewater collection, treatment and disposal facilities necessary to serve all districts located within the Master District’s service area. Under the terms of the Contract, which is in effect for forty years, the Master District charges the participants a monthly fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each participant. For the year ended September 30, 2023, the unit cost per connection was \$34.75. The District incurred total costs of \$777,078 for the monthly fees.

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing facilities needed to provide services to all participating districts. The District shall contribute to the payment of contract debt service requirements based on its pro rata share of the total certified assessed valuation of all participating districts. For the 2023 tax year, the District’s pro rata share was 14.14%. The District levied a 2022 contract tax rate of \$0.145 per \$100 of assessed valuation and paid \$857,739 to the Master District for its pro-rata share of the Master District’s 2023 debt service requirements.

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 8 – Master District (continued)

As of September 30, 2023, the Master District has \$69,155,000 bonded indebtedness outstanding. The Master District’s debt service requirements on the contract revenue and refunding bonds outstanding are as follows:

Year	Principal	Interest	Total
2024	\$ 4,960,000	\$ 2,004,107	\$ 6,964,107
2025	3,365,000	1,877,288	5,242,288
2026	3,050,000	1,791,600	4,841,600
2027	3,045,000	1,714,125	4,759,125
2028	3,035,000	1,641,825	4,676,825
2029-2033	16,215,000	7,173,887	23,388,887
2034-2038	18,150,000	4,606,925	22,756,925
2039-2043	13,035,000	1,417,000	14,452,000
2044-2047	4,300,000	227,550	4,527,550
	<u>\$ 69,155,000</u>	<u>\$ 22,454,307</u>	<u>\$ 91,609,307</u>

Note 9 – Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the “Authority”), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal.

The Authority’s current rate is \$4.55 per 1,000 gallons of water for groundwater pumped by the Master District. In prior fiscal years, the District purchased water from the Master District at a 5% markup of the Authority’s rate. Beginning in the 2023 fiscal year, the District purchases groundwater from the Master District at a cost that varies each month based on the District’s monthly consumption percentage of the total water supplied that month by the Master District to all purchasing districts. The District passes these costs on to its customers. During the current year, the District recorded \$1,350,091 in expenditures for regional water authority fees.

Note 10 – Strategic Partnership Agreement

The District and the City of Houston (the “City”) entered into a Strategic Partnership Agreement (the “Agreement”) dated December 12, 2008 under which the City annexed a tract of land within the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district. The City imposed a one percent sales and use tax on all retailers within the tract and agreed to remit one half of the amount collected to the District on a monthly basis. The City agrees that it will not annex all or part of the District during the thirty-year term of this Agreement. During the current year, the District recorded \$60,731 in sales tax rebates from the City pursuant to this Agreement.

Cinco Municipal Utility District No. 2
Notes to Financial Statements
September 30, 2023

Note 11 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

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Required Supplementary Information

Cinco Municipal Utility District No. 2

**Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2023**

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 300,000	\$ 374,838	\$ 74,838
Sewer service	230,256	227,631	(2,625)
Property taxes	1,128,158	1,155,000	26,842
Penalties and interest	10,000	17,857	7,857
Tap connection and inspection	15,000	14,130	(870)
Regional water authority fees	1,255,464	1,326,108	70,644
Sales tax rebates from City of Houston	65,000	60,731	(4,269)
Miscellaneous	35,000	34,289	(711)
Investment earnings	9,000	110,758	101,758
Total Revenues	<u>3,047,878</u>	<u>3,321,342</u>	<u>273,464</u>
Expenditures			
Current service operations			
Master District fees	782,709	777,078	5,631
Professional fees	102,000	87,774	14,226
Contracted services	453,352	445,129	8,223
Repairs and maintenance	332,000	263,353	68,647
Regional water authority fees	1,255,464	1,350,091	(94,627)
Administrative	30,500	18,452	12,048
Other	18,200	23,853	(5,653)
Total Expenditures	<u>2,974,225</u>	<u>2,965,730</u>	<u>8,495</u>
Revenues Over Expenditures	73,653	355,612	281,959
Fund Balance			
Beginning of the year	2,106,629	2,106,629	
End of the year	<u>\$ 2,180,282</u>	<u>\$ 2,462,241</u>	<u>\$ 281,959</u>

Cinco Municipal Utility District No. 2
Notes to Required Supplementary Information
September 30, 2023

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Cinco Municipal Utility District No. 2
TSI-1. Services and Rates
September 30, 2023

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

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water (curbside garbage):	\$ 8.50	10,000	N	\$ 1.00	10,001 to 20,000
Water (backdoor garbage):	\$ 14.25	10,000	N	\$ 1.50	20,001 to 30,000
				\$ 3.00	30,001 to 40,000
				\$ 4.50	40,001 to no limit
Wastewater:	\$ 12.00	N/A	Y		to _____

Pass Through of NFBWA fee charged by Master District:

\$ 4.85	1,000	N	\$ 4.85	per	1,000
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District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage (curbside garbage):	Water \$ 57.00	Wastewater \$ 12.00
Total charges per 10,000 gallons usage (backdoor garbage):	Water \$ 62.75	Wastewater \$ 12.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	639	639	x 1.0	639
1"	753	751	x 2.5	1,878
1.5"	36	32	x 5.0	160
2"	29	29	x 8.0	232
3"	2	2	x 15.0	30
4"	3	2	x 25.0	50
6"			x 50.0	
Total Water	1,462	1,455		2,989
Total Wastewater	1,353	1,351	x 1.0	1,351

See accompanying auditor's report.

Cinco Municipal Utility District No. 2
TSI-1. Services and Rates
September 30, 2023

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

*Gallons purchased into system:	<u>274,630,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>274,630,000</u>	(Gallons billed / Gallons pumped)
		<u>100.00%</u>

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

Does the District have Debt Service standby fees? Yes No

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

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

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

5. Location of District

Is the District located entirely within one county? Yes No

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

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

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: City of Houston

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

If Yes, by whom? _____

* Purchased from Cinco Municipal Utility District No. 1

See accompanying auditor's report.

Cinco Municipal Utility District No. 2
TSI-2 General Fund Expenditures
For the Year Ended September 30, 2023

Master District fees	<u>\$ 777,078</u>
Professional fees	
Legal	43,739
Audit	15,000
Engineering	29,035
	<u>87,774</u>
Contracted services	
Bookkeeping	22,641
Operator	131,129
Garbage collection	256,745
Tap connection and inspection	15,305
Appraisal district fees	18,567
Tax assessor/collector	742
	<u>445,129</u>
Repairs and maintenance	<u>263,353</u>
Regional water authority fees	<u>1,350,091</u>
Administrative	
Directors fees	5,250
Printing and office supplies	1,651
Insurance	6,193
Other	5,358
	<u>18,452</u>
Other	<u>23,853</u>
Total expenditures	<u><u>\$ 2,965,730</u></u>

See accompanying auditor's report.

Cinco Municipal Utility District No. 2
TSI-3. Investments
September 30, 2023

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexPool	Variable	N/A	\$ 2,029,233
TexPool	Variable	N/A	16,167
			<u>2,045,400</u>
Contract Tax			
TexPool	Variable	N/A	<u>615,954</u>
Total - All Funds			<u><u>\$ 2,661,354</u></u>

See accompanying auditor's report.

Cinco Municipal Utility District No. 2
TSI-4. Taxes Levied and Receivable
September 30, 2023

	Maintenance Taxes	Contract Taxes	Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 7,545	\$ 7,830	\$ 1,469	\$ 16,844
Adjustments	(1,972)	(2,060)	(365)	(4,397)
Adjusted Receivable	5,573	5,770	1,104	12,447
2022 Original Tax Levy	1,159,905	961,064		2,120,969
Adjustments	(4,066)	(3,369)		(7,435)
Adjusted Tax Levy	1,155,839	957,695		2,113,534
Total to be accounted for	1,161,412	963,465	1,104	2,125,981
Tax collections:				
Current year	1,154,947	956,956		2,111,903
Prior years	53	142		195
Total Collections	1,155,000	957,098		2,112,098
Taxes Receivable, End of Year	\$ 6,412	\$ 6,367	\$ 1,104	\$ 13,883
Taxes Receivable, By Years				
2022	\$ 892	\$ 739	\$ -	\$ 1,631
2021	357	300		657
2020	1,054	943		1,997
2019 and prior	4,109	4,385	1,104	9,598
Taxes Receivable, End of Year	\$ 6,412	\$ 6,367	\$ 1,104	\$ 13,883
	2022	2021	2020	2019
Property Valuations:				
Land	\$ 130,446,754	\$ 130,779,944	\$ 123,055,382	\$ 123,168,222
Improvements	678,395,684	510,048,957	498,585,155	488,556,371
Personal Property	11,148,636	10,610,930	9,897,080	9,511,525
Exemptions	(159,757,896)	(55,404,549)	(42,436,453)	(41,154,332)
Total Property Valuations	\$ 660,233,178	\$ 596,035,282	\$ 589,101,164	\$ 580,081,786
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.175	\$ 0.19	\$ 0.19	\$ 0.20
Contract tax rates	0.145	0.16	0.17	0.17
Total Tax Rates per \$100 Valuation	\$ 0.32	\$ 0.35	\$ 0.36	\$ 0.37
Adjusted Tax Levy:	\$ 2,113,534	\$ 2,086,123	\$ 2,120,764	\$ 2,146,303
Percentage of Taxes Collected to Taxes Levied **	99.92%	99.97%	99.91%	99.91%

* Maximum Maintenance Tax Rate Approved by Voters: \$0.25 on January 20, 1990

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

See accompanying auditor's report.

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

	Amounts				
	2023	2022	2021	2020	2019
Revenues					
Water service	\$ 374,838	\$ 377,478	\$ 323,820	\$ 349,763	\$ 335,011
Sewer service	227,631	230,860	229,181	229,915	236,108
Property taxes	1,155,000	1,133,550	1,120,601	1,154,807	704,110
Penalties and interest	17,857	12,522	12,192	5,303	10,863
Tap connection and inspection	14,130	13,042	15,559	14,275	29,950
Regional water authority fees	1,326,108	1,343,112	1,053,997	1,087,095	960,501
Sales tax rebates from City of Houston	60,731	79,293	67,122	66,608	74,140
Grant reimbursements		131,012			
Miscellaneous	34,289	40,809	32,200	32,960	29,455
Investment earnings	110,758	16,548	1,016	8,944	21,732
Total Revenues	<u>3,321,342</u>	<u>3,378,226</u>	<u>2,855,688</u>	<u>2,949,670</u>	<u>2,401,870</u>
Expenditures					
Current service operations					
Master District fees	777,078	715,140	686,982	641,934	632,184
Professional fees	87,774	83,341	94,037	98,644	138,795
Contracted services	445,129	422,034	448,251	429,133	455,845
Repairs and maintenance	263,353	270,841	288,183	247,499	395,751
Regional water authority fees	1,350,091	1,324,356	1,062,329	1,084,566	931,907
Administrative	18,452	22,298	16,614	22,754	19,208
Other	23,853	20,711	28,410	23,226	19,536
Total Expenditures	<u>2,965,730</u>	<u>2,858,721</u>	<u>2,624,806</u>	<u>2,547,756</u>	<u>2,593,226</u>
Revenues Over/(Under) Expenditures	<u>\$ 355,612</u>	<u>\$ 519,505</u>	<u>\$ 230,882</u>	<u>\$ 401,914</u>	<u>\$ (191,356)</u>
Total Active Retail Water Connections	<u>1,455</u>	<u>1,458</u>	<u>1,458</u>	<u>1,461</u>	<u>1,461</u>
Total Active Retail Wastewater Connections	<u>1,351</u>	<u>1,350</u>	<u>1,349</u>	<u>1,352</u>	<u>1,352</u>

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues

2023	2022	2021	2020	2019
11%	11%	11%	12%	15%
7%	7%	8%	8%	10%
35%	35%	39%	39%	29%
1%	*	*	*	*
*	*	1%	*	1%
40%	40%	38%	38%	40%
2%	2%	2%	2%	3%
	4%			
1%	1%	1%	1%	1%
3%	*	*	*	1%
100%	100%	100%	100%	100%

23%	21%	24%	22%	26%
3%	2%	3%	3%	6%
13%	12%	16%	15%	19%
8%	8%	10%	8%	16%
41%	39%	37%	37%	39%
1%	1%	1%	1%	1%
1%	1%	1%	1%	1%
90%	84%	92%	87%	108%

10%	16%	8%	13%	(8%)
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***Cinco Municipal Utility District No. 2
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2023***

Complete District Mailing Address: 2727 Allen Parkway, Suite 1100, Houston, TX 77019
 District Business Telephone Number: (713) 652-6500
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): November 18, 2022
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Bruce Thomas	05/20 - 05/24	\$ 1,050	\$ -	President
Rebecca Butler	05/20 - 05/24	900		Vice President/ Treasurer
Gary Winkler	05/22 - 05/26	1,200		Secretary
Julie Haddix	05/22 - 05/26	750		Assistant Secretary
Daniel Barth	05/22 - 05/26	1,350		Assistant Secretary
Amounts Paid				
Consultants				
Smith, Murdaugh, Little & Bonham, LLP		\$ 54,249		Attorney
Inframark		458,363		Operator
District Data Services, Inc.		24,470		Bookkeeper
Fort Bend County Tax Assessor Collector		4,160		Tax Collector
Fort Bend Central Appraisal District		18,567		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP				Delinquent Tax Attorney
AECOM Technical Services, Inc.		16,749		Engineer
McGrath & Co., PLLC		15,000		Auditor
RBC Capital Markets		625		Financial Advisor

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

See accompanying auditor's report.