

THE WOODLANDS ROAD
UTILITY DISTRICT NO. 1
MONTGOMERY COUNTY, TEXAS
FINANCIAL REPORT
September 30, 2021

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Certified Public Accountants

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Independent Auditors' Report

Board of Directors
The Woodlands Road Utility District No. 1
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of The Woodlands Road Utility District No. 1 (the "District") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 The Woodlands Road Utility District No. 1 as of September 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 on pages 3 through 7 and 28, respectively, be presented to supplement the basic financial statements. Such information, 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.

Handwritten signature in black ink that reads "Kamp Co. & Co. LLP". The signature is written in a cursive, flowing style.

Sugar Land, Texas
December 13, 2021

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

Management's Discussion and Analysis

September 30, 2021

Using this Annual Report

Within this section of the financial report of The Woodlands Road Utility District No. 1 (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, 2021. This analysis should be read in conjunction with the independent auditors' 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; and
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget.

Overview of the Financial Statements

The District is a special purpose government, which is a governmental entity that engages in a single governmental program, such as the construction of road and drainage facilities. The District prepares its financial statements using a format specifically designed for a special-purpose government. This format 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 assets and liabilities of the District, with the difference 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. 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, refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

In the government-wide statements, the difference between assets and liabilities is called Net Position. The District's Net Position at September 30, 2021, was negative \$18,459,364. This amount is negative because the District incurs debt to construct road and drainage facilities which it conveys to other governments.

Net Position is categorized based on their availability to provide financial resources for the District. "Restricted" net position represents amounts that are restricted for future debt service requirements. "Unrestricted" net position represents amounts available to meet the District's future obligations.

A comparative summary of the District's overall financial position, as of September 30, 2021 and 2020, is as follows:

	2021	2020
Current and other assets	<u>\$ 14,305,192</u>	<u>\$ 14,025,240</u>
Total Assets	<u>14,305,192</u>	<u>14,025,240</u>
Current Liabilities	9,806	51,534
Long-Term Liabilities	<u>32,754,750</u>	<u>37,235,232</u>
Total Liabilities	<u>32,764,556</u>	<u>37,286,766</u>
Net Position:		
Restricted	4,353,870	4,167,184
Unrestricted	<u>(22,813,234)</u>	<u>(27,428,710)</u>
Total Net Position	<u>\$ (18,459,364)</u>	<u>\$ (23,261,526)</u>

The total net position of the District increased by \$4,802,162. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2021</u>	<u>2020</u>
Revenues:		
Property taxes, penalties and interest	\$ 6,358,830	\$ 6,362,419
Investment earnings and other	14,441	367,221
Total Revenues	<u>6,373,271</u>	<u>6,729,640</u>
Expenses:		
Current service operations	359,793	316,169
Interest and fiscal charges	1,039,409	1,045,275
Amortization	(56,568)	(17,835)
Total Expenses	<u>1,342,634</u>	<u>1,343,609</u>
Change in net assets before other items	5,030,637	5,386,031
Other Items:		
Transfers to other governments	(228,475)	(46,219)
Change in Net Position	4,802,162	5,339,812
Net position, beginning of year	(23,261,526)	(28,601,338)
Net Position, End of Year	<u>\$ (18,459,364)</u>	<u>\$ (23,261,526)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of September 30, 2021, were \$14,225,714. The following is a summary of changes in fund balances for the prior two fiscal years:

	<u>2021</u>	<u>Increase (Decrease)</u>	<u>2020</u>	<u>Increase (Decrease)</u>	<u>2019</u>
General Fund	\$ 1,944,687	\$ 332,684	\$ 1,612,003	596,602	\$ 1,015,401
Debt Service Fund	4,284,198	194,856	4,089,342	(424,132)	4,513,474
Capital Projects Fund	7,996,829	(197,690)	8,194,519	26,379	8,168,140
	<u>\$ 14,225,714</u>	<u>\$ 329,850</u>	<u>\$ 13,895,864</u>	<u>\$ 198,849</u>	<u>\$ 13,697,015</u>

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District anticipated an increase in the fund balance of \$332,554, while the actual change was an increase of \$332,684.

The District's budget is primarily a planning tool and was not amended during the year. Accordingly, actual results varied from the budgeted amounts. The *Budgetary Comparison Schedule* in this report provides variance information per financial statement line item.

Capital Assets

The District has received approval of its Master Plan by Montgomery County and the City of Shenandoah, Texas, to which the facilities will be conveyed when completed. As part of such approval, each governmental entity agreed to accept conveyance of and maintenance responsibility for that portion of the facilities within its jurisdiction following the entity's approval of the construction of such facilities and the expiration of a one year maintenance period. For the year ended September 30, 2021, capital assets in the amount of \$228,475 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 6.

Long-Term Debt

At September 30, 2021 and 2020, the District had total bonded debt outstanding as shown below:

Series	2021	2020
2009 Refunding	\$	\$ 365,000
2009A		520,000
2011		805,000
2012 Refunding		5,075,000
2014 Refunding	3,855,000	4,895,000
2016 Refunding	11,515,000	12,060,000
2019 Refunding	13,525,000	14,080,000
2020 Refunding	4,210,000	
	<u>\$ 33,105,000</u>	<u>\$ 37,800,000</u>

There was one refunding issue during the year. At September 30, 2021, the District had no unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving roads, turnpikes and related drainage systems within the District.

Economic Factors

In March 2020, the Governor of the State of Texas declared a State of Disaster in Texas due to the outbreak of a novel coronavirus (COVID-19). The District is continuing to provide services to customers and residents of the District while addressing the impact of the outbreak. The District is continuously evaluating their budget and operations.

Property Taxes

The District's property tax base increased approximately \$42,875,112 for the 2020 tax year from \$3,195,163,630 to \$3,238,038,742. This increase was primarily due to new construction in the District and rising property values. The current year tax rate was \$0.19 per \$100 of assessed value, \$0.17 of which was allocated to debt service and \$0.02 allocated to maintenance and operations.

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FINANCIAL STATEMENTS

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 1,372	\$ 220,534	\$ 367	\$ 222,273
Investments	1,948,812	4,062,189	7,996,462	14,007,463
Receivables:				
Property taxes	4,478	65,194		69,672
Other	4,309	1,475		5,784
Total Assets	<u>\$ 1,958,971</u>	<u>\$ 4,349,392</u>	<u>\$ 7,996,829</u>	<u>\$ 14,305,192</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 9,806	\$	\$	\$ 9,806
Long-term liabilities:				
Unamortized bond premium or (discount)				
Due within one year				
Due after one year				
Total Liabilities	<u>9,806</u>	<u></u>	<u></u>	<u>9,806</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	<u>4,478</u>	<u>65,194</u>	<u></u>	<u>69,672</u>
Fund Balances/Net Position				
Fund Balances:				
Restricted:				
Debt Service		4,284,198		4,284,198
Capital Projects			7,996,829	7,996,829
Unrestricted:				
Unassigned	1,944,687			1,944,687
Total Fund Balances	<u>1,944,687</u>	<u>4,284,198</u>	<u>7,996,829</u>	<u>14,225,714</u>
Total Liabilities and Fund Balances	<u>\$ 1,958,971</u>	<u>\$ 4,349,392</u>	<u>\$ 7,996,829</u>	<u>\$ 14,305,192</u>
Net Position:				
Restricted				
Unrestricted				
Total Net Position				

Adjustments (Note 2)	Statement of Net Position
\$	\$ 222,273
	14,007,463
	69,672
	5,784
	<u>14,305,192</u>
\$	9,806
(350,250)	(350,250)
5,165,000	5,165,000
27,940,000	27,940,000
<u>32,754,750</u>	<u>32,764,556</u>
<u>(69,672)</u>	
(4,284,198)	
(7,996,829)	
<u>(1,944,687)</u>	
<u>(14,225,714)</u>	
4,353,870	4,353,870
(22,813,234)	(22,813,234)
<u>\$ (18,459,364)</u>	<u>\$ (18,459,364)</u>

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended September 30, 2021

	General	Debt Service	Capital Projects	Total
Revenues				
Property taxes	\$ 663,559	\$ 5,687,498	\$	\$ 6,351,057
Penalties and interest	1,586	14,357		15,943
Investment earnings and other	984	9,416	4,041	14,441
Total Revenues	666,129	5,711,271	4,041	6,381,441
Expenditures/Expenses				
Current:				
Professional fees	214,907			214,907
Contracted services	15,202	52,998	20	68,220
Administrative	76,572	94		76,666
Capital Outlay	26,764		201,711	228,475
Debt Service:				
Principal retirement		4,620,000		4,620,000
Interest and fiscal charges		848,150		848,150
Bond issuance costs		175,117		175,117
Transfers to other Governments				
Amortization				
Total Expenditures/Expenses	333,445	5,696,359	201,731	6,231,535
Excess (Deficiency) of Revenues Over (Under) Expenditures	332,684	14,912	(197,690)	149,906
Other Financing Sources (Uses)				
Proceeds from the sale of refunding bonds		5,386,086		5,386,086
Payment to refunding bond escrow agent		(5,206,142)		(5,206,142)
Total Other Financing Sources (Uses)		179,944		179,944
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	332,684	194,856	(197,690)	329,850
Change in Net Position				
Fund Balances/Net Position - Beginning	1,612,003	4,089,342	8,194,519	13,895,864
Fund Balances/Net Position - Ending	\$ 1,944,687	\$ 4,284,198	\$ 7,996,829	\$ 14,225,714

Adjustments (Note 2)	Statement of Activities
\$ (8,170)	\$ 6,342,887
	15,943
	14,441
<u>(8,170)</u>	<u>6,373,271</u>
	214,907
	68,220
	76,666
(228,475)	
(4,620,000)	
	848,150
16,142	191,259
228,475	228,475
(56,568)	(56,568)
<u>(4,660,426)</u>	<u>1,571,109</u>
(149,906)	
(5,386,086)	
5,206,142	
<u>(179,944)</u>	
(329,850)	
4,802,162	4,802,162
(37,157,390)	(23,261,526)
<u>\$ (32,685,078)</u>	<u>\$ (18,459,364)</u>

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THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Woodlands Road Utility District No. 1 (the "District"), located in Harris and Montgomery Counties, conform with accounting principles generally accepted in the United States of America. The following is a summary of the most significant policies:

Creation

The District is a political subdivision of the State of Texas, created by an Act of the 72nd Legislature Regular Session, 1991, Chapter 816 effective June 16, 1991, and operates pursuant to Article III, Section 52 of the Texas Constitution as amended, and Chapter 441 of the Texas Transportation Code, formerly Article 6674r-1, Vernon's Texas City Statutes. The Board of Directors held its first meeting on November 18, 1991 and the first bonds were sold on December 1, 1992.

The District's primary functions are to acquire, construct and improve roads and related drainage works inside or outside of its boundaries, and to convey such completed projects (free and clear of the District's indebtedness) to appropriate governmental entities (Montgomery County and the City of Shenandoah, Texas), who then own and maintain such facilities in accordance with the District's plan of improvement (Master Plan). 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 Governmental Accounting Standards Board has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial 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*.

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

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

entity. The District has three governmental funds types, which are all reported as major funds.

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.

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 and all other financial transactions not properly includable in other funds. The principal source of revenue is bond proceeds. Expenditures include costs associated with the daily operations of the District.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.

The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's road and drainage facilities.

Measurement Focus and Basis of Accounting

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

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

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

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable:

To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:

To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed:

To indicate fund balance that can be used only for the specific purposes determined by a formal action of the Board of Directors (the District's highest level of decision-making authority).

Assigned:

To indicate fund balance to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned:

To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The District does not currently have any such policies.

Fund Equity/ Restricted Assets

In the fund financial statements, reserved or designated equity balances represent those portions of fund balance not appropriable for expenditures or legally segregated for a specific future use. Undesignated fund balances represent available balances for the District's future use. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Receivables

All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At September 30, 2021, an allowance for uncollectible accounts was not considered necessary.

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

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.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unearned tax revenues.

Unamortized Bond Premium or (Discount)

Included within long term liabilities are the unamortized bond premium or (discount). They are being amortized over the life of the related obligation on the straight-line method. Results obtained are not materially different from the interest method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Subsequent events have been evaluated through December 13, 2021, which is the date the financial statements were available to be issued.

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – ADJUSTMENT FROM GOVERNMENTAL TO GOVERNMENT-WIDE BASIS

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

Total fund balance, governmental funds	\$	14,225,714
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		69,672
Bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(32,754,750)
Total Net Position - Governmental Activities	\$	<u>(18,459,364)</u>

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

Net change in fund balances - total governmental funds	\$	329,850
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. The difference is for property taxes and related penalties and interest.		(8,170)
The District conveys its infrastructure to the City of Shenandoah or Montgomery County upon completion of construction. Capital outlays are reported as expenditures in these funds. However, in the Statement of Activities, these amounts are reported as transfers to other governments.		
Capital outlay expenditures		228,475
Transfers to other governments		(228,475)
Principal payments on long-term debt use current financial resources in the funds, but have no effect on government wide net assets. Also governmental funds report issuance costs and discounts on issuance when the related debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Principal payments		4,620,000
Bond issuance costs		(196,086)
Amortization of bond premium		56,568
Total Net Position - Governmental Activities	\$	<u>4,802,162</u>

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) 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 of the United States or its agencies and instrumentalities, (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, (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) insured or collateralized certificates of deposit, (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.

In December 2015, GASB issued Statement No. 79 titled "Certain External Investment Pools and Pool Participants" in response to the Securities and Exchange Commission's amendments in 2014 to regulations that apply to money market funds. Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. If the external investment pool meets the criteria in Statement No. 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes.

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.

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

As of September 30, 2021, the District's investments consist of the following:

	Checking	CD's	Texpool	Total
General	\$ 1,372	\$ 240,000	\$ 1,708,812	\$ 1,950,184
Debt Service	220,534	2,400,000	1,662,189	4,282,723
Capital Projects	367		7,996,462	7,996,829
	<u>\$ 222,273</u>	<u>\$ 2,640,000</u>	<u>\$ 11,367,463</u>	<u>\$ 14,229,736</u>

Investment Pools

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. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price. Accordingly, the fair value of the District's position in TexPool is the same as the value of TexPool shares.

Investment Credit and Interest Rate Risk

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

NOTE 4 – CONVEYANCE OF CAPITAL ASSETS

The District has received approval of its Master Plan by Montgomery County and the City of Shenandoah, Texas, to which the facilities will be conveyed. As part of such approval, each governmental entity agreed to accept conveyance of and maintenance responsibility for that portion of the facilities within its jurisdiction following the entity's approval of the construction of such facilities and the expiration of a one year maintenance period. Accordingly, the District does not record completed capital assets in the government wide financial statements, but instead reports completed projects as transfers to other governments. For the year ended September 30, 2021, the total amount of projects completed and transferred to other governments was \$228,475.

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – UNAMORTIZED BOND PREMIUM OR (DISCOUNT)

A summary of changes in the unamortized bond premium or (discount) follows:

	Original Premium (Discount)	Balance at Begin of Year	Current Year Amortization	Balance at End of Year
Unlimited Tax Bonds				
Series 2009	\$ 173,205	\$ 13,329	\$ 13,329	\$
Series 2009A	67,938	8,021	8,021	
Series 2011	50,848	11,298	11,298	
Series 2012	159,229	69,661	9,952	59,709
Series 2014R	291,309	87,392	29,131	58,261
Series 2016R	(1,012,451)	(729,561)	(52,111)	(677,450)
Series 2019R	(28,466)	(24,908)	(1,779)	(23,129)
Series 2020R	271,086		38,727	232,359
Total	\$ (27,302)	\$ (564,768)	\$ 56,568	\$ (350,250)

NOTE 6 – DUE TO DEVELOPER

The District has entered into financing agreements with its developer for the financing of the construction of roads and drainage facilities. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. The District does not record the capital asset and related liability on the Statement of Net Position until construction of the facilities is complete.

The District's developer has also advanced funds to enable the District to provide funding for operating expenses. At September 30, 2021, no amounts were due to the developer.

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – LONG-TERM DEBT

The District's bonds payable at September 30, 2021, consists of unlimited tax bonds as follows:

	Amounts Outstanding	Interest Rate	Date Serially Begin/End	Maturity Interest Dates	Callable Date
2014 R	\$ 3,855,000	2.0 – 3.00%	April 1, 2014/2023	October 1/ April 1	None
2016 R	\$11,515,000	2.0 – 2.625%	October 1, 2017/2032	October 1/ April 1	Oct. 1, 2025*
2019 R	\$13,525,000	2.0 – 3.0%	October 1, 2020/2034	October 1/ April 1	Oct. 1, 2025*
2020 R	\$ 4,210,000	2.0%	October 1, 2021/2027	October 1/ April 1	

* Or any interest payment date thereafter in accordance with redemption provisions of the bond resolution.

The change in the District's long term debt is as follows:

Bonds payable, beginning of year	\$	37,800,000
Bonds sold		5,115,000
Bonds refunded		(5,190,000)
Bonds retired		(4,620,000)
Bonds payable, end of year	\$	<u>33,105,000</u>

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

The debt service payment due October 1 was made during the current fiscal year. The following schedule of debt service requirements as of September 30, 2021, has been prepared assuming this practice will continue in future years:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 5,165,000	\$ 726,282	\$ 5,891,282
2023	5,110,000	603,657	5,713,657
2024	3,115,000	511,107	3,626,107
2025	3,050,000	448,807	3,498,807
2026	2,985,000	387,807	3,372,807
2027	2,915,000	328,107	3,243,107
2028	1,750,000	269,807	2,019,807
2029	1,715,000	233,625	1,948,625
2030	1,680,000	195,038	1,875,038
2031	1,650,000	153,038	1,803,038
2032	1,615,000	109,888	1,724,888
2033	1,190,000	66,562	1,256,562
2034	1,165,000	33,832	1,198,832
	<u>\$ 33,105,000</u>	<u>\$ 4,067,557</u>	<u>\$ 37,172,557</u>

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

At September 30, 2021, the District had no unlimited tax bonds authorized but unissued for the purposes of acquiring, constructing and improving roads, turnpikes and related drainage systems within the District.

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – PROPERTY TAXES

On January 18, 1992, 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. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Montgomery County Appraisal District. Taxes are levied after receipt of the certified tax roll, are due upon receipt and are delinquent the following February 1, at which time a tax lien attaches to the related property. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District's 2021 fiscal year was financed through the 2020 tax levy. The District levied property taxes of \$0.19 per \$100 of assessed value, all of which \$0.02 was allocated to maintenance and operations and \$0.17 was allocated to debt service. The resulting tax levy was \$6,152,274 on the adjusted taxable value of \$3,238,038,742.

Net property taxes receivable, at September 30, 2021, consisted of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Current year taxes receivable \$	1,691	\$ 14,371	\$ 16,062
Prior year taxes receivable	2,787	50,823	53,610
Net property taxes receivable \$	<u>4,478</u>	<u>\$ 65,194</u>	<u>\$ 69,672</u>

The District provides property tax abatements to encourage economic development activity within the District. Tax abatement agreements are authorized by general laws of the State of Texas and by resolutions adopted by the Board of Directors of the District. The District's tax agreements expire at various dates through 2023.

NOTE 9 – TRANSFERS TO OTHER GOVERNMENTS

In accordance with an agreement between the District and the City of Shenandoah (the "City") and Montgomery County (the "County"), the District transfers all of its capital assets to the City or County (see Note 4). Accordingly, the District does not record capital assets in the *Statement of Net Position*, but instead reports completed projects as transfers to other governments on the *Statement of Activities*. For the year ended September 30, 2021, the total amount of projects completed and transferred to the City and County was \$228,475.

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – 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.

NOTE 11 – UNCERTAINTIES

In 2020, the World Health Organization declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. Federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by the Governor of Texas. Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally, and is expected to continue negatively affecting economic growth and financial markets within Texas. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have a negative impact on the District's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

Year Ended September 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property taxes	\$ 646,319	\$ 646,319	\$ 665,145	\$ 18,826
Investment earnings	7,100	7,100	984	(6,116)
Total Revenues	<u>653,419</u>	<u>653,419</u>	<u>666,129</u>	<u>12,710</u>
<u>Expenditures</u>				
Current:				
Professional fees	279,000	279,000	214,907	64,093
Contracted services	18,500	18,500	15,202	3,298
Administrative	23,365	23,365	76,572	(53,207)
Other			26,764	(26,764)
Total Expenditures	<u>320,865</u>	<u>320,865</u>	<u>333,445</u>	<u>(12,580)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	332,554	332,554	332,684	130
Fund Balances - Beginning	1,612,003	1,612,003	1,612,003	
Fund Balances - Ending	<u>\$ 1,944,557</u>	<u>\$ 1,944,557</u>	<u>\$ 1,944,687</u>	<u>\$ 130</u>

THE WOODLANDS ROAD UTILITY DISTRICT NO. 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 and serves as a planning tool. Encumbrance accounting is not utilized.

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