

LIBERTY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 1
LIBERTY COUNTY, TEXAS
ANNUAL AUDIT REPORT
JUNE 30, 2023

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November 13, 2023

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Liberty County Municipal
Utility District No. 1
Liberty County, Texas

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Liberty County Municipal Utility District No. 1 as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Liberty County Municipal Utility District No. 1's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Liberty County Municipal Utility District No. 1, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows there of for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Liberty County Municipal Utility District No. 1, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Liberty County Municipal Utility District No. 1'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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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. I 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 Liberty County Municipal Utility District No. 1's internal control. Accordingly, no such opinion is expressed. I 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. I conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Liberty County Municipal Utility District No. 1's ability to continue as a going concern for a reasonable period of time.

I am 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 I 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (Continued)**Supplementary Information**

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Liberty County Municipal Utility District No. 1's basic financial statements. The supplementary information on Pages 17 to 26 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. G. J.", is located in the lower right quadrant of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Liberty County Municipal Utility District No. 1 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2023.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. 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 or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Current and other assets	\$ 1,647,987	\$ 1,056,653	\$ 591,334
Capital assets	<u>0</u>	<u>0</u>	<u>0</u>
Total assets	<u>1,647,987</u>	<u>1,056,653</u>	<u>591,334</u>
Long-term liabilities	59,500	59,500	0
Other liabilities	<u>8,429</u>	<u>5,992</u>	<u>2,437</u>
Total liabilities	<u>67,929</u>	<u>65,492</u>	<u>2,437</u>
Net position:			
Unrestricted	<u>1,580,058</u>	<u>991,161</u>	<u>588,897</u>
Total net position	<u>\$ 1,580,058</u>	<u>\$ 991,161</u>	<u>\$ 588,897</u>

Summary of Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 635,002	\$ 495,989	\$ 139,013
Other revenues	<u>40,282</u>	<u>162</u>	<u>40,120</u>
Total revenues	<u>675,284</u>	<u>496,151</u>	<u>179,133</u>
Expenses:			
Service operations	86,387	50,223	36,164
Debt service	<u>0</u>	<u>0</u>	<u>0</u>
Total expenses	<u>86,387</u>	<u>50,223</u>	<u>36,164</u>
Change in net position	588,897	445,928	142,969
Net position, beginning of year	<u>991,161</u>	<u>545,233</u>	<u>445,928</u>
Net position, end of year	<u>\$ 1,580,058</u>	<u>\$ 991,161</u>	<u>\$ 588,897</u>

Financial Analysis of the District's Funds

The District's General Fund balance as of the end of the fiscal year ended June 30, 2023, was \$1,599,044. The General Fund balance increased by \$568,359, in accordance with the District's financial plan.

General Fund Budgetary Highlights

The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 16 of this report. The budgetary fund balance as of June 30, 2023 was expected to be \$1,434,785 and the actual end of year fund balance was \$1,599,044.

Capital Asset and Debt Administration

Capital Assets

The District had not constructed or acquired any capital assets at June 30, 2023.

Debt

The District has not issued bonds.

At June 30, 2023, the District had \$6,885,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving a water, sanitary sewer and drainage system within the District and \$14,345,000 for road purposes authorized but unissued

As further described in Note 5 of the notes to the financial statements, the developer within the District has advanced funds to the District to cover initial operating deficits. As of June 30, 2023, the cumulative amount of developer advances for this purpose was \$59,500.

RELEVANT FACTORS

Property Tax Base

The District's tax base increased approximately \$38,350,000 for the 2022 tax year (approximately 28%), due to the addition of new property to the tax base and the increase in the average assessed valuations on existing property.

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes.

Water Supply Issues

The District lies entirely within the area for which the Certificate of Convenience and Necessity for retail water service has been issued to Utilities Investment Company, Inc. As such, Utilities Investment Company, Inc. provides retail water service within the District in accordance with its rate order.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 100,707	\$	\$	\$ 100,707	\$	\$ 100,707
Temporary investments, at cost, Note 7	1,390,014					
Property taxes receivable	40,514			40,514		40,514
Due from tax collector	<u>116,752</u>			<u>116,752</u>		<u>116,752</u>
Total assets	<u>\$1,647,987</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,647,987</u>	<u>0</u>	<u>1,647,987</u>
LIABILITIES						
Accounts payable	\$ 8,429	\$	\$	\$ 8,429		8,429
Long-term liabilities, Note 5:						
Due in more than one year				<u>0</u>	<u>59,500</u>	<u>59,500</u>
Total liabilities	<u>8,429</u>	<u>0</u>	<u>0</u>	<u>8,429</u>	<u>59,500</u>	<u>67,929</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>40,514</u>	<u>0</u>	<u>0</u>	<u>40,514</u>	<u>(40,514)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Unassigned	<u>1,599,044</u>			<u>1,599,044</u>	<u>(1,599,044)</u>	<u>0</u>
Total fund balances	<u>1,599,044</u>	<u>0</u>	<u>0</u>	<u>1,599,044</u>	<u>(1,599,044)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$1,647,987</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,647,987</u>		
Net position:						
Unrestricted, Note 5					<u>1,580,058</u>	<u>1,580,058</u>
Total net position					<u>\$ 1,580,058</u>	<u>\$ 1,580,058</u>

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

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

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

FOR THE YEAR ENDED JUNE 30, 2023

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 595,732	\$	\$	\$ 595,732	\$ 20,538	\$ 616,270
Penalty and interest	18,732			18,732		18,732
Interest on deposits	40,282			40,282		40,282
Total revenues	<u>654,746</u>	<u>0</u>	<u>0</u>	<u>654,746</u>	<u>20,538</u>	<u>675,284</u>
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	60,179			60,179		60,179
Contracted services	17,400			17,400		17,400
Administrative expenditures	8,808			8,808		8,808
Total expenditures / expenses	<u>86,387</u>	<u>0</u>	<u>0</u>	<u>86,387</u>	<u>0</u>	<u>86,387</u>
Excess (deficiency) of revenues over expenditures	<u>568,359</u>	<u>0</u>	<u>0</u>	<u>568,359</u>	<u>20,538</u>	<u>588,897</u>
Net change in fund balances / net position	568,359	0	0	568,359	20,538	588,897
Beginning of year	<u>1,030,685</u>	<u>0</u>	<u>0</u>	<u>1,030,685</u>	<u>(39,524)</u>	<u>991,161</u>
End of year	<u>\$ 1,599,044</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,599,044</u>	<u>\$ (18,986)</u>	<u>\$ 1,580,058</u>

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

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1NOTES TO THE FINANCIAL STATEMENTSJUNE 30, 2023

NOTE 1: REPORTING ENTITY

Liberty County Municipal Utility District No. 1 (the "District") was created pursuant to House Bill 4334, Acts of the 85th Legislature of the State of Texas, Regular Session, 2017, codified at Chapter 8010, Texas Special District Local Laws Code, as amended under the authority of Sections 52, Article III, and Section 59, Article XVI, of the Texas Constitution and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District is located within Liberty County, Texas. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on December 18, 2017. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. In addition, the District is authorized to construct, acquire, improve, maintain or operate roads located within its boundaries.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are either not spendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not spendable or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred revenues. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year	\$ 1,599,044
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Due to developer for advances	(59,500)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:	
Uncollected property taxes	<u>40,514</u>
 Net position, end of year	 <u><u>\$ 1,580,058</u></u>

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances	\$ 568,359
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:	
Uncollected property taxes	<u>20,538</u>
 Change in net position	 <u><u>\$ 588,897</u></u>

NOTE 4: CAPITAL ASSETS

The District had not constructed or acquired any capital assets at June 30, 2023.

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Due to developer for operating advances (see below)	\$ 59,500	\$ 0	\$ 0	\$ 59,500	-----
Total long-term liabilities	<u>\$ 59,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 59,500</u>	-----

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Developer Construction Commitments, Liabilities and Advances

The developer within the District has advanced funds to the District to cover initial operating deficits. At June 30, 2023, the cumulative amount of unreimbursed developer advances was \$59,500. These amounts have been recorded in the government-wide financial statements and in the schedules in Note 5. This amount has been recorded as a decrease in “Unrestricted net position” in the government-wide financial statements. Without this decrease, “Unrestricted net position” would have a balance of \$1,639,558.

Bonds voted	\$	6,885,000
Bonds voted and not issued		6,885,000
Road bonds voted	\$	14,345,000
Road bonds voted and not issued		14,345,000
Refunding bonds voted		One and one-half times the amount of unlimited tax bonds previously issued

NOTE 6: PROPERTY TAXES

The Liberty County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

At an election held May 5, 2018, the voters within the District authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District. The voters also authorized a road maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This road maintenance tax is to be used for the operation and maintenance of a road system and related storm drainage system within the District.

On September 12, 2022, the District levied the following ad valorem taxes for the 2022 tax year on the adjusted taxable valuation of \$175,908,052:

	<u>Rate</u>	<u>Amount</u>
Maintenance	\$ 0.3500	\$ 615,682

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2022 tax year total property tax levy	\$	615,682
Appraisal district adjustments to prior year taxes		<u>588</u>
Statement of Activities property tax revenues	\$	<u>616,270</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)Concentration of Tax Base

The District's tax base is concentrated in a small number of taxpayers. The District's developer own a substantial portion of land within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes.

NOTE 7: DEPOSITS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$1,390,014.

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years. On June 30, 2023, the District had consultant's crime coverage of \$10,000.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 474,575	\$ 474,575	\$ 595,732	\$ 121,157
Penalty and interest	0	0	18,732	18,732
Interest on deposits	0	0	40,282	40,282
TOTAL REVENUES	474,575	474,575	654,746	180,171
EXPENDITURES				
Service operations:				
Professional fees	45,000	45,000	60,179	15,179
Contracted services	12,100	12,100	17,400	5,300
Administrative expenditures	13,375	13,375	8,808	(4,567)
TOTAL EXPENDITURES	70,475	70,475	86,387	15,912
EXCESS REVENUES (EXPENDITURES)	404,100	404,100	568,359	164,259
FUND BALANCE, BEGINNING OF YEAR	1,030,685	1,030,685	1,030,685	0
FUND BALANCE, END OF YEAR	\$ 1,434,785	\$ 1,434,785	\$ 1,599,044	\$ 164,259

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

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
JUNE 30, 2023

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- TSI-1. Services and Rates
- TSI-2. General Fund Expenditures
- TSI-3. Temporary Investments
- TSI-4. Taxes Levied and Receivable
- TSI-5. Long-Term Debt Service Requirements by Years
Not Applicable. None at June 30, 2023.
- TSI-6. Changes in Long-Term Bonded Debt
Not Applicable. None at June 30, 2023.
- TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
Not Applicable for Debt Service Fund.
- TSI-8. Board Members, Key Personnel and Consultants

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES

JUNE 30, 2023

1. Services Provided by the District during the Fiscal Year:

- Retail Water
- Wholesale Water
- Drainage
- Retail Wastewater
- Wholesale Wastewater
- Irrigation
- Parks/Recreation
- Fire Protection
- Security
- Solid Waste/Garbage
- Flood Control
- Roads
- Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
- Other All services are provided by Utilities Investment Company, Inc.

2. Retail Service Providers

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

Contact Utilities Investment Company, Inc.

b. Water and Wastewater Retail Connections:

Contact Utilities Investment Company, Inc.

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Contact Utilities Investment Company, Inc.

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: _____

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1EXPENDITURESFOR THE YEAR ENDED JUNE 30, 2023

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 4,450	\$	\$	\$ 4,450
Legal	55,729			55,729
	<u>60,179</u>	<u>0</u>	<u>0</u>	<u>60,179</u>
Contracted services:				
Bookkeeping	12,402			12,402
Tax assessor-collector	673			673
Appraisal district	4,325			4,325
	<u>17,400</u>	<u>0</u>	<u>0</u>	<u>17,400</u>
Administrative expenditures:				
Director's fees	4,500			4,500
Insurance	1,795			1,795
Other	2,513			2,513
	<u>8,808</u>	<u>0</u>	<u>0</u>	<u>8,808</u>
TOTAL EXPENDITURES	<u>\$ 86,387</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 86,387</u>

See accompanying independent auditor's report.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1ANALYSIS OF CHANGES IN DEPOSITS
ALL GOVERNMENTAL FUND TYPESFOR THE YEAR ENDED JUNE 30, 2023

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS				
Cash receipts from revenues	\$ 537,994	\$ _____	\$ _____	\$ 537,994
TOTAL DEPOSITS	<u>537,994</u>	<u>0</u>	<u>0</u>	<u>537,994</u>
APPLICATIONS OF DEPOSITS				
Cash disbursements for:				
Current expenditures	<u>83,950</u>	_____	_____	<u>83,950</u>
TOTAL DEPOSITS APPLIED	<u>83,950</u>	<u>0</u>	<u>0</u>	<u>83,950</u>
INCREASE (DECREASE) IN DEPOSITS	454,044	0	0	454,044
DEPOSITS BALANCES, BEGINNING OF YEAR	<u>1,036,677</u>	<u>0</u>	<u>0</u>	<u>1,036,677</u>
DEPOSITS BALANCES, END OF YEAR	<u>\$ 1,490,721</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,490,721</u>

See accompanying independent auditor's report.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1SCHEDULE OF TEMPORARY INVESTMENTSJUNE 30, 2023

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
TexPool				
No. 7981600001	Market	On demand	\$ <u>1,390,014</u>	\$ <u>0</u>

See accompanying independent auditor's report.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED JUNE 30, 2023

	<u>Maintenance Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 19,976
Additions and corrections to prior year taxes	<u>588</u>
Adjusted receivable, beginning of year	20,564
2022 ADJUSTED TAX ROLL	<u>615,682</u>
Total to be accounted for	636,246
Tax collections: Current tax year	(581,881)
Prior tax years	<u>(13,851)</u>
RECEIVABLE, END OF YEAR	<u>\$ 40,514</u>
RECEIVABLE, BY TAX YEAR	
2019	\$ 129
2020	1,578
2021	5,005
2022	<u>33,802</u>
RECEIVABLE, END OF YEAR	<u>\$ 40,514</u>

See accompanying independent auditor's report.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED JUNE 30, 2023

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2022</u>	<u>2022</u>	<u>2020</u>	<u>2019**</u>
Land	\$ 113,145,920	\$ 94,706,680	\$ 91,034,440	\$65,234,570
Improvements	63,240,180	42,517,070	24,329,520	2,995,160
Personal property	1,006,250	1,000,000	1,000,000	0
Less exemptions	<u>(1,484,298)</u>	<u>(663,315)</u>	<u>(281,386)</u>	<u>(37,151)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 175,908,052</u>	<u>\$ 137,560,435</u>	<u>\$ 116,082,574</u>	<u>\$ 68,192,579</u>
TAX RATES PER \$100 VALUATION*	<u>\$ 0.35000</u>	<u>\$ 0.35000</u>	<u>\$ 0.35000</u>	<u>\$ 0.35000</u>
TAX ROLLS	<u>\$ 615,682</u>	<u>\$ 481,819</u>	<u>\$ 406,029</u>	<u>\$ 238,674</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>94.5 %</u>	<u>99.0 %</u>	<u>99.6 %</u>	<u>99.9 %</u>

*Maximum tax rate approved by voters on May 5, 2018: \$1.00

**The District first levied taxes for tax year 2019.

See accompanying independent auditor's report.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND
FOR YEARS ENDED JUNE 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2023	2022	2021	2020	2019*	2023	2022	2021	2020	2019
REVENUES										
Property taxes	\$ 595,732	\$ 472,446	\$ 399,377	\$ 234,695	\$	97.1 %	97.1 %	97.1 %	97.2 %	%
Penalty and interest	18,732	14,197	12,033	6,822		2.9	2.9	2.9	2.8	
Interest on deposits	40,282	162	19	27		0.0	0.0	0.0	0.0	
TOTAL REVENUES	654,746	486,805	411,429	241,544	0	100.0	100.0	100.0	100.0	N/A
EXPENDITURES										
Service operations:										
Professional fees	60,179	26,392	26,320	12,677	4,160	5.4	5.4	6.3	5.2	
Contracted services	17,400	14,051	10,596	14,310	2,774	2.9	2.9	2.6	6.0	
Administrative expenditures	8,808	9,780	8,128	6,959	5,078	2.0	2.0	2.0	2.9	
TOTAL EXPENDITURES	86,387	50,223	45,044	33,946	12,012	10.3	10.3	10.9	14.1	N/A
EXCESS REVENUES (EXPENDITURES)	\$ 568,359	\$ 436,582	\$ 366,385	\$ 207,598	\$ (12,012)	89.7 %	89.7 %	89.1 %	85.9 %	N/A %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	N/A	N/A	N/A	N/A	N/A					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	N/A	N/A	N/A	N/A	N/A					

*District was funded primarily by developer advances for fiscal years 2019 and prior.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

JUNE 30, 2023

Complete District Mailing Address: Liberty County Municipal Utility District No. 1
 c/o Coats Rose, P.C.
 9 Greenway Plaza, Suite 1000
 Houston, Texas 77046

District Business Telephone No.: 713-651-0111

Submission date of the most recent District Registration Form: April 13, 2023

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Ryan Crihfield c/o Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	Elected 5/07/22- 5/02/26	\$ 750	\$ 129	President
Patrick Thiel c/o Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	Elected 5/07/22- 5/02/26	900	0	Vice President
Donald Burton c/o Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	Appointed 11/09/20- 5/04/24	900	0	Secretary
Cory Anderson c/o Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	Appointed 7/25/22- 5/02/26	1,050	0	Assistant Secretary
Ernesto Garcia c/o Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	Appointed 3/27/23- 5/04/24	300	0	Assistant Secretary

See accompanying independent auditor's report.

LIBERTY COUNTY MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)JUNE 30, 2023CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	12/18/17	\$ 53,325	Attorney
Linebarger, Heard, Goggan, Blair, Graham, Pena & Sampson, L.L.P. P.O. Box 3064 Houston, Texas 77002	5/10/18	2,404	Delinquent Tax Attorney
L & S District Services, LLC P.O. Box 170 Tomball, Texas 77377	12/18/17	4,325	Bookkeeper
Debra Loggins P.O. Box 170 Tomball, Texas 77377	12/18/17	0	Investment Officer
Liberty County Tax Assessor Collector P.O. Box 10288 Liberty, Texas 77575	5/10/18	673	Tax Assessor- Collector
Liberty County Central Appraisal District P.O. Box 10016 Liberty, Texas 77575	Legislative Action	12,402	Central Appraisal District
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	5/28/20	4,450	Independent Auditor

See accompanying independent auditor's report.