
**EAST FORT BEND COUNTY
DEVELOPMENT AUTHORITY**

**ANNUAL FINANCIAL
REPORT**

For the Year Ended September 30, 2021



CPAs and Professional Consultants

**EAST FORT BEND COUNTY
DEVELOPMENT AUTHORITY**

**A COMPONENT UNIT OF
FORT BEND COUNTY, TEXAS**

ANNUAL FINANCIAL REPORT

September 30, 2021

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements:	
Balance Sheet - Governmental Funds	8
Reconciliation to the Statement of Net Position	8
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	10
Notes to the Financial Statements	11
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	23

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Fort Bend County Development Authority
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of East Fort Bend County Development Authority (the "Authority"), a component unit of Fort Bend County, Texas as of and for the year ended September 30, 2021, which collectively comprise the basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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 Authority as of September 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as listed in the table of contents, 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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
February 28, 2022

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the East Fort Bend County Development Authority, we offer readers of the Authority's financial statements this overview and analysis of the Authority's financial activities for the fiscal year ended September 30, 2021.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements.

Financial Highlights

The liabilities of the Authority exceeded assets at the close of the most recent fiscal year by \$5.5 million primarily due to bond issuance and advances from a developer for operations and infrastructure for which the authority has agreed to repay under certain development agreements.

- The Authority's total net position decreased by \$4.0 million during the current fiscal year.
- At the end of the current fiscal year, Developer Reimbursements were \$4.5 million or 84% of the total governmental funds' expenditures.
- The Authority's total revenues increased by \$0.4 million during the current fiscal year.
- The Authority's governmental funds reported combined ending fund balances of \$755,212 as of September 30, 2021. Restricted fund balances include \$453,755 for debt service and \$125,311 for capital improvements. The remaining amount in unassigned fund balance of \$176,146 is available for spending at the Authority's discretion.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the increases or decreases in net position and may serve as a useful indicator of whether the financial position of the Authority's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a district's near-term financing requirements.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 11 of this report.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Comparison in Government-wide Financial Statements

The following is a comparison of the Authority's Net Position as of September 30, 2021 and 2020:

	2021	2020
Cash and cash equivalents	\$ 1,498,712	\$ 337,624
Total Assets	1,498,712	337,624
Accounts payable and accrued expenses	743,500	31,383
Long-term liabilities	6,185,330	1,745,037
Total Liabilities	6,928,830	1,776,420
Net position (deficit):		
Restricted	569,522	239,553
Unrestricted	(5,999,640)	(1,678,349)
Total Net Position (Deficit)	\$ (5,430,118)	\$ (1,438,796)

The following is a comparison of the Authority's changes in Net Position for the years ended September 30, 2021 and 2020:

	2021	2020
Revenues		
Program revenue		
Operating grants	\$ 338,416	\$ 235,986
General revenues		
Property taxes	886,541	593,143
Unrestricted investment earnings	1,105	5,739
Total Revenues	1,226,062	834,868
Expenses		
General government	272,470	223,776
Capital outlay on behalf of other entities	4,513,257	1,640,658
Interest on long-term debt	431,657	54,379
Total Expenses	5,217,384	1,918,813
Increase (decrease) in net position	(3,991,322)	(1,083,945)
Net Position (Deficit) - Beginning	(1,438,796)	(354,851)
Net Position (Deficit) - Ending	\$ (5,430,118)	\$ (1,438,796)

Debt

At year-end, the Authority had \$4,416,168 in bonds outstanding including the discount on the bond issuance.

More detailed information about the Authority's long-term liabilities is presented in Note 4 to the financial statements.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors

The Authority receives annual payments from Fort Bend County Water Control and Improvement District No. 2 ("WCID2") and Fort Bend County ("the County"). Those payments are based upon property tax collections by WCID2 and the County. The payments received by the Authority result from the current market value of property used for commercial, retail, and industrial purposes. The market value of such properties is related to general economic conditions in the Fort Bend County area, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for property of this type and the construction of structures thereon can be significantly affected by factors such as interest rates, credit availability, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of commercial property is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the boundaries of the Authority or could adversely impact such values.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY**STATEMENT OF NET POSITION****September 30, 2021**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,498,712
Total Assets	<u>1,498,712</u>
Liabilities	
Accounts payable and accrued expenses	743,500
Noncurrent liabilities:	
Accrued interest	114,563
Due to developer	1,654,599
Due within one year	130,000
Due in more than one year	4,286,168
Total Liabilities	<u>6,928,830</u>
Net Position (Deficit)	
Restricted:	
Improvements / debt service	569,522
Unrestricted	(5,999,640)
Total Net Position (Deficit)	<u>\$ (5,430,118)</u>

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY**STATEMENT OF ACTIVITIES***For the Year Ended September 30, 2021*

	Governmental Activities
Program Revenue:	
Operating grants	\$ 338,416
General Revenues:	
Property taxes	886,541
Unrestricted investment earnings	1,105
Total General Revenues	<u>1,226,062</u>
 Expenses:	
General government	272,470
Capital outlay on behalf of other entities	4,513,257
Interest on long-term debt	431,657
Total Expenses	<u>5,217,384</u>
 Change in net position	(3,991,322)
 Net Position (Deficit) - Beginning	<u>(1,438,796)</u>
Net Position (Deficit) - Ending	<u>\$ (5,430,118)</u>

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2021

	General Fund	Defined Area Revenue Fund	381 Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,516	\$ 740,448	\$ 212,658	\$ 454,505	\$ 89,585	\$ 1,498,712
Due from other funds	15,472	-	-	-	-	15,472
Total Assets	<u>\$ 16,988</u>	<u>\$ 740,448</u>	<u>\$ 212,658</u>	<u>\$ 454,505</u>	<u>\$ 89,585</u>	<u>\$ 1,514,184</u>
Liabilities						
Accounts payable	\$ 43,500	\$ 700,000	\$ -	\$ -	\$ -	\$ 743,500
Due to other funds	-	4,722	10,000	750	-	15,472
Total Liabilities	<u>43,500</u>	<u>704,722</u>	<u>10,000</u>	<u>750</u>	<u>-</u>	<u>758,972</u>
Fund balances:						
Restricted for:						
Debt service	-	-	-	453,755	-	453,755
Improvements	-	35,726	-	-	89,585	125,311
Unassigned	(26,512)	-	202,658	-	-	176,146
Total Fund Balances	<u>(26,512)</u>	<u>35,726</u>	<u>202,658</u>	<u>453,755</u>	<u>89,585</u>	<u>755,212</u>
Total Liabilities and Fund Balances	<u>\$ 16,988</u>	<u>\$ 740,448</u>	<u>\$ 212,658</u>	<u>\$ 454,505</u>	<u>\$ 89,585</u>	<u>\$ 1,514,184</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance, governmental funds	<u>\$ 755,212</u>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the Statement of Net Position. These are as follows:

Amounts owed to developer	(1,654,599)
Bonds payable	(4,450,000)
Discount on bonds payable	33,832
Accrued interest	<u>(114,563)</u>

Net Position of Governmental Activities in the Statement of Net Position	<u>\$ (5,430,118)</u>
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EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2021

	General Fund	Defined Area Revenue Fund	381 Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues						
Property taxes	\$ -	\$ 886,541	\$ -	\$ -	\$ -	\$ 886,541
Intergovernmental	-	-	338,416	-	-	338,416
Investment earnings	14	241	42	781	27	1,105
Total Revenues	<u>14</u>	<u>886,782</u>	<u>338,458</u>	<u>781</u>	<u>27</u>	<u>1,226,062</u>
Expenditures						
Current:						
General government	229,014	35,033	-	-	2,847	266,894
Capital outlay - payments to developer	-	705,576	-	-	3,798,676	4,504,252
Debt Service:						
Principal	-	-	-	170,000	-	170,000
Interest and other charges	-	-	-	91,264	-	91,264
Bond issuance costs and fees	-	-	-	1,500	327,811	329,311
Total Expenditures	<u>229,014</u>	<u>740,609</u>	<u>-</u>	<u>262,764</u>	<u>4,129,334</u>	<u>5,361,721</u>
Excess (deficiency) of Revenues over Expenditures	<u>(229,000)</u>	<u>146,173</u>	<u>338,458</u>	<u>(261,983)</u>	<u>(4,129,307)</u>	<u>(4,135,659)</u>
Other Financing Sources/(Uses):						
Proceeds from long-term debt	-	-	-	365,738	4,254,262	4,620,000
Bond discount	-	-	-	-	(35,370)	(35,370)
Transfers in	227,000	-	-	350,000	-	577,000
Transfers out	-	(350,000)	(227,000)	-	-	(577,000)
Total Other Financing Sources/(Uses)	<u>227,000</u>	<u>(350,000)</u>	<u>(227,000)</u>	<u>715,738</u>	<u>4,218,892</u>	<u>4,584,630</u>
Net change in Fund Balances	(2,000)	(203,827)	111,458	453,755	89,585	448,971
Fund Balances - Beginning of Year	<u>(24,512)</u>	<u>239,553</u>	<u>91,200</u>	<u>-</u>	<u>-</u>	<u>306,241</u>
Fund Balances - End of Year	<u>\$ (26,512)</u>	<u>\$ 35,726</u>	<u>\$ 202,658</u>	<u>\$ 453,755</u>	<u>\$ 89,585</u>	<u>\$ 755,212</u>

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021

Reconciliation to the Statement of Activities:

Net change in fund balances - total governmental funds:	\$ 448,971
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, at the government-wide level these transactions have the effect of increasing or decreasing long-term liabilities.

Principal payment of debt	170,000
Proceeds from issuance of debt	(4,620,000)
Discount is amortized over the life of the bond	35,370
	<u>(4,414,630)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These are as follows:

Capital outlay on behalf of other entities	(14,581)
Change in interest payable	(11,082)
	<u>(25,663)</u>

Change in net position of governmental activities	<u>\$ (3,991,322)</u>
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EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

Note 1 - Creation and Nature of Activities

The Authority is a non-profit local government corporation acting on behalf Fort Bend County, Texas (the "County"). The Authority was created by the County on August 29, 2015, pursuant to Subchapter D of Chapter 431, Texas Transportation Code, and Article 1396-1.01 of the Texas Non-Profit Corporation Act, to aid and assist the County in the administration, financing, and implementation of the development and construction of the Project (defined herein). On behalf of the County, and in accordance with the Defined Area Financing Agreement (defined below), the Authority is implementing on behalf of the County an economic development program pursuant to Article XVI, Section 52 of the Texas Constitution and is implementing on behalf of WCID2 (defined below) projects within a defined area pursuant to chapters 49 and 51 of the Texas Water Code, each in support of the "Project".

The "Project" consists of approximately 192 acres of land (the "Land") being developed as the GRID, a commercial, multi-family, and retail development on the site of the former campus of Texas Instruments. It is located approximately 15 miles southwest of the central business district of the City of Houston, east of State Highway 59 between Kirkwood Road and West Airport Boulevard. The Project lies wholly within the corporate limits of the City and the boundaries of Fort Bend Independent School District.

The Commission exercises continuing supervisory jurisdiction over the Fort Bend Water Control and Improvement District No.2 ("WCID 2") and the Authority, with regard to issuance of certain debt. The Authority is required to observe certain requirements of the County which limit the purposes for which the Authority may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, roads, parks and recreational facilities, and firefighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the County of Authority construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City of Stafford, Texas (the "City"). Construction and operation of the Authority's system are subject to the regulatory jurisdiction of additional government agencies.

Chapter 381 Agreement Between the County and the Authority

The County and the Authority entered into an economic development agreement approved by the County on August 25, 2015, pursuant to Chapter 381 Texas Local Government Code (the "381 Agreement"). Pursuant to the 381 Agreement, the County established a program for the public purposes of promoting economic development and commercial activity within the Project. The Authority is implementing the economic development program on behalf of the County. The Authority is authorized to provide economic assistance from revenues paid to the Authority from County property taxes collected within the Project through tax year 2042. The annual payment to the Authority from the County equals 70% of the County's incremental increase in property taxes collected by the County within the boundaries of the "Project". The tax increment is an amount equal to the current year's property taxes collected by the County within the "Project", less the property taxes collected from the "Project" for tax year 2015.

The Defined Area Tax Revenue

WCID 2 is a conservation and reclamation district created under Article XVI, Section 59 of the Texas Constitution by Chapter 312, Acts of the 57th Legislature, Regular Session, 1961. The 84th Texas Legislature enacted House Bill 4174 (together with Chapter 312, Acts of the 57th Legislature, Regular Session, 1961, the "WCID 2 Enabling Act"), which created a defined area within WCID 2 consisting of approximately 192 acres (the "Defined Area"). The Defined Area was created for the purpose of financing water, sewer, and drainage facilities, road facilities, and recreational facilities that primarily benefit the Defined Area and do not generally benefit the District as a whole.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Creation and Nature of Activities (continued)

The Defined Area Tax Revenue (continued)

At an election held within WCID 2, voters (i) approved the amended Defined Area Financing Agreement and authorized WCID 2 to levy, assess, and collect unlimited ad valorem taxes on all taxable property within the Defined Area sufficient to make timely payment of all obligations to the Authority under the Defined Area Financing Agreement (the "Defined Area Tax") and (ii) authorized WCID 2 to levy and collect an operations and maintenance tax, not to exceed \$1.50 per \$100 assessed value, on all taxable property within the Defined Area. The Defined Area Tax is in addition to, and exclusive of, WCID 2's ad valorem debt service tax levied on all taxable property within WCID 2 (including the Defined Area). The Defined Area Tax may be levied for the purpose of financing public improvements consisting of certain water, sewer, and drainage facilities, road facilities, and recreational facilities to serve the Defined Area (the "Public Improvements"). WCID 2 has entered into an interlocal agreement with Fort Bend County, Texas (the "County") for the collection of the Defined Area Tax and remittance of same to the Authority.

The Defined Area Financing Agreement between the Authority and WCID 2

Under the Defined Area Financing Agreement, WCID 2 is required to remit to the Authority annually an amount equal to the property taxes actually collected and received by WCID 2 from the Defined Area Tax (the "Defined Area Tax Revenue" or the "Contract Payment"). The Defined Area Tax collection and the payment of the Defined Area Tax Revenue to the Authority will continue until such agreement terminates on December 31, 2043, unless otherwise terminated in accordance with the terms of the Defined Area Financing Agreement. The payment to the Authority is absolute and unconditional until such time as the Defined Area Financing Agreement has been terminated.

Pursuant to the Defined Area Financing Agreement, the Defined Area Tax is \$0.515 per \$100 of assessed valuation, which rate may be adjusted higher for the purposes set forth therein, including to prevent a default on the payment of the Bonds. The Defined Area Tax rate may not be decreased below \$0.515 per \$100 of assessed valuation unless a specific lower rate is approved by the Authority.

The Authority will deposit the payment into the Defined Area Revenue Fund, which must be accounted for independently from other funds of the Authority. The payment and the special revenue fund may only be used to fund certain eligible costs of the Public Improvements to serve the Defined Area (the "Public Improvement Costs"). Certain public improvements constructed by the Authority are not eligible to be financed by the Defined Area Tax and the Authority agrees that it will not pledge or apply WCID 2's annual payments for any such purpose. The estimated preliminary cost of the Public Improvement Costs, payable from WCID 2's payment and the Defined Area Revenue Fund, is \$31,289,281, exclusive of debt service, cost of issuance, and interest.

The Authority may issue bonds, secured by WCID 2's annual payment of the Defined Area Tax Revenue and the special revenue fund, and may pledge and assign all or part of the annual payment and the special revenue fund, pursuant to a developer financing agreement between Stafford 59 and Airport LP, successor to 3 MEBS Property Company, LLC (the "Developer") and the Authority. Subsequent to this audit the Authority sold its first series of bonds secured by the Defined Area Tax Revenue in the amount of \$4,620,000. See Note 4 for more information.

Public Improvements to serve the Defined Area include public water and sanitary sewer improvements constructed by the Developer and generally accepted for ownership by WCID 2. WCID 2 will not accept any internal private water and sewer improvements (as determined by WCID 2). The Developer will convey the Public Improvements to WCID 2 and may be reimbursed by WCID 2 from the proceeds of a future development.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Creation and Nature of Activities (continued)

Dependence on Principal Taxpayers and the Developer

Properties whose taxable values total approximately \$162,033,899 or 94.62% of the 2020 Certified Taxable Assessed Valuation of the Defined Area are owned by ten taxpayers. The Developer represents \$35,111,128 or 20.50% of the 2020 Certified Taxable Assessed Valuation of the Defined Area. JLB Stafford Phase I LP represents \$62,620,040 or 36.57% of the 2020 Certified Taxable Assessed Valuation of the Defined Area. The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by WCID 2 will directly affect WCID 2's ability to make Contract Payments to the Authority under the Defined Financing Agreement, and hence for the Authority to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, WCID 2 may need to levy additional taxes for purposes of making Contract Payments. The Authority has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Funds or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis could have a material adverse effect upon the Authority's ability to pay debt service on the Bonds on a current basis.

The Developer has informed the Board that its current plans are to develop the remaining undeveloped Land. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The Authority makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the Defined Area to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The Authority can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner.

Dependence on Personal Property Tax Collections

Because a majority of the Defined Area's 2020 tax base is comprised of commercial and distribution/warehouse/office facilities, approximately \$39,409,453 or 23.01% of the 2020 Certified Taxable Assessed Valuation of the Defined Area is personal property.

Unlike real property, there is no certainty that personal property will remain in the Defined Area from year to year. Business inventories are portable and could be removed from the Defined Area at any time. Personal property removed from the Defined Area as of January 1 of any year is not subject to taxation by WCID 2 for that year.

If personal property is subject to a lien for unpaid Defined Area Taxes for any year, WCID 2's lien is lost if the property is sold in the ordinary course of business. A lien in the amount of the personal property taxes owed by a taxpayer attaches not only to personal property owned by the taxpayer as of January 1 with a tax situs in WCID 2, but to any personal property then or thereafter owned by the taxpayer. However, WCID 2 may not be able to foreclose on personal property located outside the State of Texas and locating and foreclosing on property held outside WCID 2 may be costly, inefficient and difficult.

The statute of limitations for collection of personal property taxes is four years from the date of delinquency, which is shorter than the 20-year statute of limitations for real property. Personal property may not be seized, and a suit may not be filed to collect delinquent personal property taxes if the tax has been delinquent for more than four years.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Creation and Nature of Activities (continued)

Utility Agreement with WCID 2

Pursuant to its agreement with WCID2 (the "Utility Agreement"), the Developer is responsible for acquiring and constructing the water distribution, wastewater collection, and drainage facilities and park and recreation facilities to serve development occurring within the Defined Area (the "Defined Area Facilities"), and WCID 2 agrees to provide water supply services and wastewater treatment services to the Authority in consideration of the Authority's financing, acquisition, and construction of the Defined Area Facilities. Under the terms of the Utility Agreement, the Authority is deemed to be the alter ego of WCID 2, and as such, the Authority agrees to act as the alter ego of WCID 2 for purposes of financing, constructing, and acquiring the Facilities, and WCID 2 agrees to perform the duties and functions necessary to provide services to the landowners and customers of the Authority.

The Defined Area Facilities: The Utility Agreement provides that the Facilities will be designed and constructed in accordance with WCID 2's requirements and criteria. WCID 2 agrees to provide the Authority with its ultimate requirements for water supply capacity and major offsite water distribution lines to the water source and wastewater treatment capacity and major offsite wastewater trunk collection line capacity to the wastewater treatment plant.

Authority to Issue Bonds: The Authority has the authority to issue, sell, and deliver bonds as permitted by law. Bonds issued by the Authority are obligations solely of the Authority and shall not be construed to be obligations or indebtedness of WCID 2.

Ownership, Operation, and Maintenance of the Facilities: Upon completion of construction of the Defined Area Facilities, the Authority agrees to convey the Defined Area Facilities (other than park and recreation facilities and storm water detention ponds and related appurtenances as discussed below) to WCID 2, reserving for itself a security interest in the Defined Area Facilities for the purpose of securing the performance of WCID 2 under the Utility Agreement. Pursuant to the terms of the Utility Agreement, storm water detention ponds and related appurtenances are to be operated and maintained by the Authority or the property owners' associations(s) within the Authority, although the Authority retains title to same. When all bonds issued by the Authority to acquire and construct the Defined Area Facilities have been issued and subsequently paid or redeemed and discharged in full, the Authority agrees to execute a release of the security interest retained by the Authority, and WCID 2 shall own the Defined Area Facilities without encumbrance. As each phase of the Defined Area Facilities is completed, WCID 2 agrees to inspect the same, and upon approval, to accept the Defined Area Facilities for operation and maintenance. The Defined Area Facilities (other than park and recreation facilities and storm water detention ponds and related appurtenances) will be operated and maintained by WCID 2 at its sole cost and expense. If WCID 2 determines that the Defined Area Facilities or any portion thereof have not been constructed in accordance with approved plans and specifications, prior to accepting such Defined Area Facilities, WCID 2 agrees to notify the Authority, and the Authority shall immediately correct any deficiency noted by WCID 2.

Note 2 - Significant Accounting Policies

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

The Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The Authority does meet criteria for inclusion as a component of the County.

Financial Statement Presentation

In accordance with Governmental Accounting Standards Board, the Authority presents the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2 - Significant Accounting Policies (continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- Restricted Assets – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net position that do not meet the definition of one of the other classifications of net position.

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

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the Authority as a whole. These statements include activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using 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 related cash flows. Property tax increments are recognized as revenues in the year for which they are levied.

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* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Property taxes, interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period.

Governmental Funds

The Authority has 5 major governmental funds.

General Fund

The Authority uses the General Fund to record operating and other expenditures and activities not reported in other funds.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2 - Significant Accounting Policies (continued)

Defined Area Revenue Fund

The fund is used to account for transactions and activities relating to Defined Area Tax Agreement.

381 Revenue Fund

The fund is used to account for the revenues and expenditures related to the Chapter 381 Agreement.

Debt Service Fund

The fund is used primarily to account for the payment of interest and principal on the Authority's Contract Revenue Road Bonds.

Capital Projects Fund

The fund is used to account for the expenditure of Contract Revenue Road Bonds proceeds to the developers.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Normally, capital assets are reported as assets in the government-wide Statement of Net Position. Capital assets are recorded at historical cost and depreciated over their estimated useful lives unless they are inexhaustible, such as land. Depreciation is not recorded on items classified as construction in progress. Depreciation expense is reported in the government-wide Statement of Activities. As of September 30, 2021, the Authority has no capital assets, as capital assets are transferred to the County, the City of Stafford or Fort Bend Water Control & Improvement District No. 2.

Budgeting

The Authority's board members annually adopt a spending plan for the Authority's general fund and each individual funds. These spending plans are not considered to be appropriation style budgets.

Fund Balances

The Authority reports the fund balance of various funds in a hierarchy of classifications based on the constraints imposed on the uses of those resources. The fund balances for governmental funds consist of the following:

Restricted fund balance includes amounts that are restricted for specific purposes stipulated by external resource providers and creditors, constitutionally or through enabling legislation. All of the fund balance in the funds are restricted for debt service and for capital projects. Portions of the amounts restricted for the latter have been identified by the Authority for improvements and debt service.

Accounting Estimates

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

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3 - Deposits and Investments

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

Texas requires that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of the Authority, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At September 30, 2021, none of the Authority's bank balances were exposed to custodial credit risk.

Local government investment pools in Texas are required to be rated AAAQ, or equivalent, by at least one nationally recognized rating agency. The Authority's policy further restricts investments to AAA-rated, "2a-7 like" (constant dollar) local government investment pools.

The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position at September 30, 2021, as listed below:

	Amounts	Weighted Average Maturity (Days)
Cash in checking account	\$ 1,516	N/A
Cash in Local Government Investment Pool:		
TexPool	1,497,196	34
Total Cash and cash equivalents	<u><u>\$ 1,498,712</u></u>	

Note 4 - Bonded Debt

In December 2020, The Authority's Board of Directors issued \$4,620,000 Contract Revenue Road Bonds, Series 2020 (the "Bonds"). The Bonds issued, are fully registered bonds maturing in the years and in the amounts shown on the cover page hereof. Interest on the Bonds accrues from December 1, 2020 and is payable on March 1, 2021 (three months of interest), and on each March 1 and September 1 thereafter until the earlier of maturity or prior redemption. Proceeds from the sale of the Bonds will be used to pay for infrastructure including (i) to pay interest on funds advanced by the Developer related to Public Improvement Costs under the Defined Area Financing Agreement; (ii) to capitalize six months of interest on the Bonds; (iii) to fund the Reserve Requirement; and (iv) to pay certain other costs and fees related to the issuance of the Bonds.

The Bonds are the first series of bonds issued by the Authority pursuant to the Defined Area Financing Agreement. The Authority is authorized by the Defined Area Financing Agreement to issue bonds for the purpose of paying for Public Improvements to serve the Defined Area, including water, sewer, drainage, park and recreational facilities, and road improvements, and to refund such bonds.

The following is a summary of long-term debt transactions for the Authority for the year ended September 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Contract Revenue Road Bonds, Series 2020	\$ -	\$ 4,620,000	\$ (170,000)	\$ 4,450,000	\$ 130,000
Discount	-	(35,370)	1,538	(33,832)	-
Total	<u><u>\$ -</u></u>	<u><u>\$ 4,584,630</u></u>	<u><u>\$ (168,462)</u></u>	<u><u>\$ 4,416,168</u></u>	<u><u>\$ 130,000</u></u>

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY**NOTES TO FINANCIAL STATEMENTS (CONTINUED)****Note 4 - Bonded Debt (continued)**

The debt service requirements on bonds outstanding at September 30, 2021 are as follows:

Year Ending September 30,	Principal	Interest	Total
2022	\$ 130,000	\$ 119,135	\$ 249,135
2023	135,000	117,023	252,023
2024	140,000	114,660	254,660
2025	145,000	112,035	257,035
2026	150,000	109,135	259,135
2027 - 2031	860,000	494,205	1,354,205
2032 - 2036	1,040,000	377,280	1,417,280
2037 - 2041	1,270,000	210,230	1,480,230
2042 - 2046	580,000	27,125	607,125
	<u>\$ 4,450,000</u>	<u>\$ 1,680,828</u>	<u>\$ 6,130,828</u>

Note 5 - Interfund Receivables, Payables and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from accounts payable and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more governmental funds. Amounts due to/from other funds at September 30, 2021, consisted of the following:

	Interfund Receivables	Interfund Payables
Governmental Funds		
General fund	\$ 15,472	\$ -
Defined area revenue fund	-	4,722
Debt service fund	-	750
381 revenue fund	-	10,000
Total Governmental Funds	<u>15,472</u>	<u>15,472</u>
Total - All Funds	<u>\$ 15,472</u>	<u>\$ 15,472</u>

During the year, the Authority made transfers from the Defined Area Tax Fund of \$350,000 to the Debt Service Fund and the 381 Agreement Fund of \$227,000 to the General Fund to cover operating expenditures.

Note 6 - Paid to Developers

Construction of the Authority's capital assets is financed through prefunding agreements with the Authority's developers. The Authority will reimburse its developers through the issuance of bonds or other resources. The Authority recognizes the liability associated with developer construction at such time as developer costs have been submitted for reimbursement and verified.

At year end, the Authority has recorded a total of \$1.76 million due to developers. One portion of this balance is comprised of \$904,599 for advances to construct improvements along with \$105,019 in accrued interest associated with amounts to be paid back from future collections of Defined Area Taxes and funds received through the Chapter 381 agreement with Fort Bend County. The other portion of the liability relates to \$725,000 in advances for operations made to the authority since inception.

During the 2021 fiscal year, the Authority reimbursed the developer a total of \$4.5 million, including interest.

EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7 - Deficit Fund Balance

As of September 30, 2021, the General Fund had a deficit fund balance of \$26,512 which is expected to be reimbursed through transfers from the 381 Agreement Fund.

Note 8 - Project and Financing Plan

The Defined Area is being developed as the GRID, a commercial and multi-family residential development (the "Project") on the site of the former Texas Instruments campus located approximately 15 miles southwest of the central business district of the City of Houston, east of U.S. Highway 59 between Kirkwood Road and West Airport Boulevard. The Project lies wholly within the corporate limits of the City of Stafford, Texas and the boundaries of Fort Bend Independent School District. The Authority and WCID 2 approved the Amended and Restated Defined Area Financing Agreement, effective as of October 19, 2016 which sets forth the Public Improvements required to serve the Project within the Defined Area. The costs associated with the Public Improvements are expected to be financed through the issuance by the Authority of Contract Revenue Bonds, including the Bonds.

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REQUIRED SUPPLEMENTARY INFORMATION

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EAST FORT BEND COUNTY DEVELOPMENT AUTHORITY
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended September 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues				
Investment earnings	\$ -	\$ -	\$ 14	\$ 14
Total Revenues	<u>-</u>	<u>-</u>	<u>14</u>	<u>14</u>
Expenditures				
Current:				
General government				
Director fees	9,000	9,000	10,650	(1,650)
Legal fees - construction	5,000	5,000	11,376	(6,376)
Legal fees - general	60,500	60,500	42,511	17,989
Auditing fees	18,500	18,500	19,001	(501)
Engineering fees - general	20,000	20,000	31,734	(11,734)
Engineering fees - construction	80,000	80,000	56,216	23,784
Payroll taxes payable	700	700	815	(115)
Bookkeeping fees	12,000	12,000	12,270	(270)
Printing & office supplies	550	550	1,464	(914)
Insurance	7,200	7,200	6,957	243
Travel & expenses	500	500	4,379	(3,879)
Other office expenses	-	-	10,058	(10,058)
Dues	-	-	675	(675)
Detention pond maint	16,900	16,900	18,308	(1,408)
Phase 1 Environmental	-	-	2,600	(2,600)
Total Expenditures	<u>230,850</u>	<u>230,850</u>	<u>229,014</u>	<u>1,836</u>
Excess (deficiency) of revenues over expenditures	<u>(230,850)</u>	<u>(230,850)</u>	<u>(229,000)</u>	<u>(1,850)</u>
Other Financing Sources (Uses)				
Transfers in	200,850	200,850	227,000	26,150
Total Other Financing Sources (Uses)	<u>200,850</u>	<u>200,850</u>	<u>227,000</u>	<u>26,150</u>
Net change in fund balance	(30,000)	(30,000)	(2,000)	28,000
Fund Balances - Beginning of Year	<u>(16,718)</u>	<u>(24,512)</u>	<u>(24,512)</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ (46,718)</u>	<u>\$ (54,512)</u>	<u>\$ (26,512)</u>	<u>\$ 28,000</u>

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