

AUDITED FINANCIAL STATEMENTS

of the

Club Municipal Management District No. 1

**For the Year Ended
September 30, 2024**

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Club Municipal Management District

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September 30, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Club Municipal Management District No. 1:

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, including each major fund, of the Club Municipal Management District No. 1 (the "District"), a component unit of the City of Heath, Texas as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the Club Municipal Management District No. 1, as of September 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

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 "Brooks Watson & Co." in a cursive, flowing script.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas

November 14, 2025

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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Club Municipal Management District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2024

As management of the Club Municipal Management District No. 1 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2024.

Financial Highlights

- The District's total combined net position is \$1,783,833 at September 30, 2024.
- At the close of the current fiscal year, the District's combined governmental fund balance was \$2,151,503, a decrease of \$68,020, which is a result of expenditures exceeding revenues.
- The District had an overall increase in net position of \$88,898.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, such as the District's economic activity need to be considered in order to assess the overall health of the District.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Club Municipal Management District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the District. They are usually segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The District utilizes three governmental funds, the general fund, debt service fund, and capital improvements fund.

Governmental Funds

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 *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains three individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general, debt service, and capital improvements funds which are considered major funds.

The District adopts an annual budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Supplementary Information. This includes a budgetary comparison schedule for the general fund which can be found after the basic financial statements.

Club Municipal Management District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2024

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceeded liabilities (net position) by \$1,783,833 as of September 30, 2024.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

| | <u>2024</u> | <u>2023</u> | | |
|-----------------------------|---------------------|---------------------|------------------|-----------------|
| | <u>Governmental</u> | <u>Governmental</u> | | |
| | <u>Activities</u> | <u>Activities</u> | <u>\$ Change</u> | <u>% Change</u> |
| Current and other assets | \$ 22,016,523 | \$ 22,778,753 | \$ (762,230) | -3% |
| Total Assets | <u>22,016,523</u> | <u>22,778,753</u> | <u>(762,230)</u> | <u>-3%</u> |
| Other liabilities | 250,887 | 169,993 | 80,894 | 48% |
| Long-term liabilities | 19,981,803 | 20,913,825 | (932,022) | -4% |
| Total Liabilities | <u>20,232,690</u> | <u>21,083,818</u> | <u>(851,128)</u> | <u>-4%</u> |
| Net Position | 1,783,833 | 1,694,935 | 88,898 | 5% |
| Total Net Position | <u>\$ 1,783,833</u> | <u>\$ 1,694,935</u> | <u>\$ 88,898</u> | <u>5%</u> |

Club Municipal Management District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2024

Statement of Activities:

The following table provides a summary of the District's changes in net position:

| | <u>2024</u> | <u>2023</u> | | |
|--------------------------------------|---------------------|---------------------|------------------|-----------------|
| | <u>Governmental</u> | <u>Governmental</u> | | |
| | <u>Activities</u> | <u>Activities</u> | <u>\$ Change</u> | <u>% Change</u> |
| General revenues: | | | | |
| Property assessments | \$ 1,270,981 | \$ 881,402 | \$ 389,579 | 44% |
| Investment and other | 154,318 | 112,839 | 41,479 | 37% |
| Total Revenues | <u>1,425,299</u> | <u>994,241</u> | <u>431,058</u> | <u>43%</u> |
| Expenses: | | | | |
| Public works | 254,889 | 119,705 | 135,184 | 113% |
| Interest & fiscal charges | 1,081,512 | 1,039,549 | 41,963 | 4% |
| Total Expenses | <u>1,336,401</u> | <u>1,159,254</u> | <u>177,147</u> | <u>15%</u> |
| Change in Net Position | 88,898 | (165,013) | 253,911 | -154% |
| Beginning Net Position | 1,694,935 | 1,859,948 | (165,013) | -9% |
| Ending Net Position (Deficit) | <u>\$ 1,783,833</u> | <u>\$ 1,694,935</u> | <u>\$ 88,898</u> | <u>5%</u> |

For the year ended September 30, 2024, revenues totaled \$1,425,299. This represents an increase of \$431,058 when compared to the prior year primarily due to increases from additional properties paying assessments.

The expenses of all governmental activities for the current year was \$1,336,401. This represents an increase of \$177,147 when compared to the previous year. The increase is due primarily to an increase in legal fees.

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the District's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the year.

Club Municipal Management District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2024

At the close of the current fiscal year, the District's general fund reported a negative fund balance of \$506, a decrease of \$82,441, which is primarily due to legal expenditures exceeding budget.

At the close of the current fiscal year, the District's debt service fund reported a fund balance of \$1,990,969, an increase of \$16,387, which is attributed to revenues exceeding expenditures.

At the close of the current fiscal year, the District's capital improvements fund reported a fund balance of \$161,040, a decrease to the fund balance of \$1,966, which is due to current year developer debt service payments exceeding revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a positive revenue variance of \$7,448 for general fund revenues. There was a negative expenditure variance of \$89,889 due to actual expenditures exceeding budgeted expenditures. This led to the negative overall budget variance of \$82,441 for the year.

LONG-TERM DEBT

The District's total outstanding bond obligations and note payable to developer totaled \$19,842,158 (excluding premiums) as of September 30, 2024. Long-term debt decreased by \$926,688 (excluding premiums) during the year as a result of principal payments during the year.

More detailed information about the District's long-term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors and management are committed to maintaining and improving the overall wellbeing of the District and increased development within the District. The District is budgeting to service their ongoing obligations in the upcoming year.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Heath Finance Department at 972-771-6228.

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FINANCIAL STATEMENTS

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Club Municipal Management District No. 1

STATEMENT OF NET POSITION

September 30, 2024

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 148,134 |
| Restricted cash | 2,157,513 |
| Prepaid expenses | 3,179 |
| Receivables, current | 449,799 |
| Total Current Assets | <u>2,758,625</u> |
| Noncurrent assets: | |
| Receivables, long-term | 19,257,898 |
| Total Assets | <u>22,016,523</u> |
| <u>Liabilities</u> | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 157,323 |
| Accrued interest | 93,564 |
| Long term debt due within one year | 467,799 |
| Total Current Liabilities | <u>718,686</u> |
| Noncurrent liabilities: | |
| Long term debt due in more than one year | 19,514,004 |
| Total Liabilities | <u>20,232,690</u> |
| <u>Net Position</u> | |
| Unrestricted | 1,783,833 |
| Total Net Position | <u>\$ 1,783,833</u> |

See Notes to Financial Statements.

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Club Municipal Management District No. 1

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2024

| | <u>Governmental Activities</u> |
|--------------------------------------|------------------------------------|
| <u>Expenses:</u> | |
| Public works expenses: | |
| Professional fees | \$ 89,999 |
| Director's fees | 778 |
| Legal fees | 158,412 |
| Insurance | 5,700 |
| Interest expense | 1,081,512 |
| Total Program Expenses | <u>1,336,401</u> |
| <u>General Revenues</u> | |
| Property assessments | 1,270,981 |
| Interest income | 154,318 |
| Total General Revenues | <u>1,425,299</u> |
| Change in Net Position | 88,898 |
| Beginning net position | 1,694,935 |
| Ending Net Position (Deficit) | <u><u>\$ 1,783,833</u></u> |

See Notes to Financial Statements.

Club Municipal Management District No. 1

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2024

| | General | Debt Service | Capital Improvements | Total Governmental Funds |
|---|-------------------|----------------------|-------------------------|--------------------------------|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 148,134 | \$ - | \$ - | \$ 148,134 |
| Prepaid expenses | 3,179 | - | - | 3,179 |
| Restricted cash | - | 1,990,969 | 166,544 | 2,157,513 |
| Receivables, net | - | 15,782,302 | 3,925,395 | 19,707,697 |
| Total Assets | \$ 151,313 | \$ 17,773,271 | \$ 4,091,939 | \$ 22,016,523 |
| <u>Liabilities</u> | | | | |
| Accounts payable and accrued liabilities | \$ 151,819 | \$ - | \$ 5,504 | \$ 157,323 |
| Total Liabilities | 151,819 | - | 5,504 | 157,323 |
| <u>Deferred Inflows of Resources</u> | | | | |
| Unavailable revenue - Property assessments | - | 15,782,302 | 3,925,395 | 19,707,697 |
| Total Deferred Inflows | - | 15,782,302 | 3,925,395 | 19,707,697 |
| <u>Fund Balances</u> | | | | |
| Restricted for debt service | - | 1,990,969 | 161,040 | 2,152,009 |
| Nonspendable | 3,179 | - | - | 3,179 |
| Unassigned | (3,685) | - | - | (3,685) |
| Total Fund Balances | (506) | 1,990,969 | 161,040 | 2,151,503 |
| Total Liabilities and Fund Balances | \$ 151,313 | \$ 17,773,271 | \$ 4,091,939 | \$ 22,016,523 |

See Notes to Financial Statements.

Club Municipal Management District No. 1

RECONCILIATION OF THE BALANCE SHEET

TO THE STATEMENT OF NET POSITION

GOVERNMENTAL FUNDS

September 30, 2024

Fund Balances - Total Governmental Funds \$ 2,151,503

Adjustments for the Statement of Net Position:

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property assessment receivable 19,707,697

Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.

Accrued interest (93,564)

Premium on debt (139,645)

Non-current liabilities due in one year (467,799)

Non-current liabilities due in more than one year (19,374,359)

Net Position of Governmental Activities \$ 1,783,833

See Notes to Financial Statements.

Club Municipal Management District No. 1

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

For the Year Ended September 30, 2024

| | General | Debt Service | Capital Improvements | Total Governmental Funds |
|---------------------------------------|------------|-----------------|-------------------------|--------------------------------|
| <u>Revenues</u> | | | | |
| Property assessments | \$ 165,000 | \$ 1,312,625 | \$ 613,972 | \$ 2,091,597 |
| Investment income | 7,448 | 130,878 | 15,992 | 154,318 |
| Total Revenues | 172,448 | 1,443,503 | 629,964 | 2,245,915 |
| <u>Expenditures</u> | | | | |
| Professional fees | 89,999 | - | - | 89,999 |
| Director's fees | 778 | - | - | 778 |
| Legal | 158,412 | - | - | 158,412 |
| Insurance | 5,700 | - | - | 5,700 |
| Debt Service: | | | | |
| Interest and fiscal charges | - | 800,116 | 336,242 | 1,136,358 |
| Principal | - | 627,000 | 295,688 | 922,688 |
| Total Expenditures | 254,889 | 1,427,116 | 631,930 | 2,313,935 |
| Excess of Revenue Over (Under) | | | | |
| Expenditures | (82,441) | 16,387 | (1,966) | (68,020) |
| Net Change in Fund Balances | (82,441) | 16,387 | (1,966) | (68,020) |
| Beginning fund balances | 81,935 | 1,974,582 | 163,006 | 2,219,523 |
| Ending Fund Balances | \$ (506) | \$ 1,990,969 | \$ 161,040 | \$ 2,151,503 |

See Notes to Financial Statements.

Club Municipal Management District No. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2024

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|-----------|---------------|
| Net changes in fund balances - total governmental funds | \$ | (68,020) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Accrued interest | | 49,512 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| | | (820,616) |
| <p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| Amortization of bond premium | | 5,334 |
| Principal payments expensed (\$8,506,834 paid in the current year; \$50,000 expensed in the prior year) | | 922,688 |
| | | 922,688 |
| Change in Net Position of Governmental Activities | \$ | 88,898 |

See Notes to Financial Statements.

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Club Municipal Management District No. 1

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organizational Structure

The Club Municipal Management District (the "Club MMD" or "District") is a special purpose district within the city limits of Heath, Texas. This district was created by an act of the 82nd Texas legislature in 2011. The primary purpose of the district is to facilitate the construction and continued maintenance of a quality mixed-use residential and commercial development to benefit city residents. The City of Heath Municipal Management District is governed by a board of directors appointed, at will, by the City Council.

The accompanying financial statements of the District are prepared in conformity with generally accepted accounting principles for governmental entities as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

The District has adopted GASB Statements No. 61, The Financial Reporting Entity and amendment of No. 14 The Financial Reporting Entity, and No. 39, Determining Whether Certain Organizations Are Component Units. In accordance with these statements, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the primary government which exercises significant influence over the District. Significant influence or accountability is based primarily on operational or financial relationships with the City. Due to the nature of the relationship between the City and the District, the District has been included as a component unit of the City for financial statement purposes.

Club Municipal Management District No. 1

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements for State and Local Governments*. Requirements of the statement include the following:

- Financial statements prepared using full accrual accounting for all of the District's activities;
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **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 improvement of those assets.
- **Restricted**—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, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information about the District as a whole. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Club Municipal Management District No. 1

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

Governmental funds are those funds through which most governmental functions are typically financed.

The government reports the following governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include property assessments. Expenditures include general government.

Debt Service Fund

The District accounts for the accumulation of financial resources for the payments of principle, interest, and related costs on general long-term debt paid primarily from special assessments levied by the District. The fund balance of the debt service fund is restricted exclusively for debt service expenditures.

Capital Improvements Fund

The fund accounts for the portion of the proceeds from the issuance of bonds and notes payable to be used for the purpose of repairing, improving, upgrading, and equipping the Heath Golf and Yacht Club, including engineering and other related costs. This fund is also used to repay the notes payable to developer.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net position and statements of activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The District utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current

Club Municipal Management District No. 1

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property assessments and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

E. Assets, Liabilities, and Fund Equity or Net Position

1. Cash and Cash Equivalents

The District considers short-term highly liquid investments to be cash equivalents, provided that they are both readily convertible to cash and had an original maturity of three months or less when purchased. The District held the majority of their cash within money market funds as of September 30, 2024, which is considered a cash equivalent.

2. Concentrations of Credit Risk

The District maintains its cash balances at 2 financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). As of year-end, no additional collateral was pledged for the funds held with the financial institutions.

3. Fair Value

The District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

4. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components

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NOTES TO FINANCIAL STATEMENTS

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of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

5. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the corporation's highest level of decision-making authority. The governing body is the highest level of decision-making authority for the corporation that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the corporation for specific purposes but do not meet the criteria to be classified as committed. The governing body (Board of Directors) has by resolution authorized the executive director to assign fund balance. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Long-term debt is not reported as liabilities in the fund financial statements until due. Debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

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Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

F. Use of Estimates

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

G. Revenue Recognition

Annual special property assessments are levied by October 1 on the assessed property value listed. Assessments are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items

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September 30, 2024

when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the board of directors prior to the beginning of the year. The legal level of control is the fund level. Current year general fund expenditures did not exceed appropriations at the legal level of control.

A. Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control and as follows:

General Fund:

| | |
|--------------------|-----------|
| Total expenditures | \$ 89,889 |
|--------------------|-----------|

B. Deficit Fund Balances

As of September 30, 2024, the General Fund had a deficit fund balance of \$506. The deficit should be reduced or eliminated in the future with assessment revenue and reducing expenditures.

IV. DETAILED NOTES ON ALL FUNDS

A. Restricted Cash

Restricted cash is restricted for the repayment of long-term debt obligations.

B. Deposits

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2024, the District’s deposits were fully insured by the FDIC.

C. Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair

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NOTES TO FINANCIAL STATEMENTS

September 30, 2024

value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuation is based upon unadjusted quoted market prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 -Valuation is based upon quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable in the market.

Level 3 - Valuation is based on models where significant inputs are not observable. The unobservable inputs reflect the Corporation's own assumptions about the inputs that market participants would use.

The District's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and long-term debt. Their estimated fair value approximates their carrying amounts due to the short-term or interest-bearing nature of these instruments.

D. Receivables

Receivables for the District consist of property assessments levied on the District's residents. These assessments can be paid in full upon purchase of the underlying property or in annual installments. The assessments accrued for represent those assessments for principal repayments of the District's bond payable and notes payable. Assessments for ongoing expenses of the District are recognized when assessed and in the year the of the related expense. Below is the estimated timing of collection based on the property assessment schedule as of September 30, 2024:

| Year ending September 30, | Assessment Receivable for debt principal repayments | | |
|------------------------------|---|---------------------|----------------------|
| | Bond Principal | Developer Principal | Total |
| 2025 | \$ 360,000 | \$ 89,799 | \$ 449,799 |
| 2026 - 2030 | 2,164,000 | 537,013 | 2,701,013 |
| 2031 - 2035 | 2,742,000 | 704,262 | 3,446,262 |
| 2036 - 2040 | 3,434,000 | 906,692 | 4,340,692 |
| 2041 - 2045 | 4,373,000 | 1,187,720 | 5,560,720 |
| 2046 - 2050 | 2,709,302 | 499,909 | 3,209,211 |
| Total | \$ 15,782,302 | \$ 3,925,395 | \$ 19,707,697 |

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NOTES TO FINANCIAL STATEMENTS

September 30, 2024

E. Long-term Debt Obligations

The following is a summary of changes in the District's total long-term liabilities for the year ended September 30, 2024.

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|--|----------------------|-------------|---------------------|----------------------|------------------------|
| Club Municipal Mangement District | | | | | |
| Special Assessment Bonds: | | | | | |
| Revenue Bonds, Series 2016 | \$ 7,875,000 | \$ - | \$ (415,000) | \$ 7,460,000 | \$ 150,000 |
| Revenue Bonds, Series 2021 | 8,677,000 | - | (216,000) | 8,461,000 | 225,000 |
| Deferred amounts: | | | | | |
| Premium | 144,979 | - | (5,334) | 139,645 | - |
| Notes payable | 4,216,846 | - | (295,688) | 3,921,158 | 92,799 |
| Total Club MMD | \$ 20,913,825 | \$ - | \$ (932,022) | \$ 19,981,803 | \$ 467,799 |
| Long-term liabilities due in more than one year | | | | | \$ 19,514,004 |

In May 24, 2016, the District approved a bond issuance for a residential development being constructed by the Heath Golf and Yacht Club ("HGYC, LLC"). The bond funds are to be paid for fees associated with the bond and to reimburse HGYC, LLC for utilities and street infrastructure that will be owned and maintained by the City of Heath. The 2016 Special Assessment Revenue Bonds have a face value of \$9,255,000 and an interest rate of 5.75% to 6.5%, which are to fully mature on September 1, 2046.

A developer advanced the District \$3,245,000 in fiscal year 2016. The note payable bears interest ranging from 1.70% to 6.50%. The District will repay the developer in annual installments through September 1, 2046. This note was assigned by the developer to an investor in 2020.

On November 30, 2021, the District issued \$9,230,000 2021 Special Assessment Revenue Bonds. The bonds issued bear interest at 2.5% - 4.0% and mature on September 1, 2050. The bond proceeds are to be used for the cost of improvements for Area #2.

A developer advanced the District \$9,752,698 in fiscal year 2022. The note payable bears interest at 3.68%. The District is required to pay off the note as assessments are collected. The District anticipates annual installment repayments through 2050. During the year ended September 30, 2022, \$7,843,000 of the proceeds from the 2021 bond issuance were used to pay down this developer debt. An additional \$458,012 was forgiven by the developer due to restrictions on the amount of developer debt to be repaid by bond proceeds.

Club Municipal Management District No. 1

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

The annual requirements to amortize governmental activities debt issues outstanding at year end were as follows:

| Year ending September 30, | Revenue Bonds | |
|------------------------------|----------------------|----------------------|
| | Principal | Interest |
| 2025 | \$ 375,000 | \$ 1,020,730 |
| 2026 | 372,000 | 1,011,768 |
| 2027 | 435,000 | 1,002,105 |
| 2028 | 401,000 | 989,843 |
| 2029 | 478,000 | 977,825 |
| 2030-2034 | 2,695,000 | 3,302,788 |
| 2035-2039 | 3,303,000 | 2,591,105 |
| 2040-2044 | 4,272,000 | 1,646,873 |
| 2045-2049 | 3,164,000 | 489,385 |
| 2050 | 426,000 | 19,800 |
| Total | \$ 15,921,000 | \$ 13,052,222 |

| Year ending September 30, | Note Payable to Developer | |
|------------------------------|---------------------------|---------------------|
| | Principal | Interest |
| 2025 | \$ 92,799 | \$ 236,091 |
| 2026 | 94,006 | 231,410 |
| 2027 | 105,257 | 226,705 |
| 2028 | 116,555 | 221,532 |
| 2029 | 127,900 | 215,464 |
| 2030-2034 | 721,479 | 966,631 |
| 2035-2039 | 933,367 | 743,333 |
| 2040-2044 | 1,223,549 | 445,181 |
| 2045-2049 | 466,370 | 78,813 |
| 2050 | 39,876 | 1,620 |
| Total | \$ 3,921,158 | \$ 3,366,780 |

F. Restricted Fund Balances

Fund balances are restricted for the purpose of future payments or projects. The debt service fund and capital projects fund have a total restricted fund balance of \$2,152,009 as of September 30, 2024 for repayment of debt.

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NOTES TO FINANCIAL STATEMENTS

September 30, 2024

G. Subsequent Events

On November 26, 2024, the District issued a \$17,270,000 special assessment revenue bond, Series 2024 for Improvement Area #3. The bond proceeds will be use to cover: cost of issuance, major road improvements, and major utility improvements. The bonds bear interest at 4.375% to 5.375% and mature through September 1, 2055.

Subsequent events were evaluated through November 14, 2025, the date these financial statements were available for issuance.

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REQUIRED SUPPLEMENTARY INFORMATION

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SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2024

| | Original and Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------------|------------------------------|------------|---|
| Revenues | | | |
| Property assessments | \$ 165,000 | \$ 165,000 | \$ - |
| Investment income | - | 7,448 | 7,448 |
| Total Revenues | 165,000 | 172,448 | 7,448 |
| Expenditures | | | |
| Professional fees | 88,000 | 89,999 | (1,999) |
| Director's fees | 2,000 | 778 | 1,222 |
| Legal | 55,000 | 158,412 | (103,412) |
| Insurance | 6,000 | 5,700 | 300 |
| Contingency | 14,000 | - | 14,000 |
| Total Expenditures | 165,000 | 254,889 | (89,889) * |
| Excess of Revenue Over (Under) | | | |
| Expenditures | - | (82,441) | (82,441) |
| Net Change in Fund Balance | \$ - | (82,441) | \$ (82,441) |
| Beginning fund balance | | 81,935 | |
| Ending Fund Balance | | \$ (506) | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.