

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
MARCH 31, 2023

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1-3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4-8 |
| BASIC FINANCIAL STATEMENTS | |
| STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET | 9-10 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION | 11 |
| STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES | 12-13 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES | 14 |
| NOTES TO THE FINANCIAL STATEMENTS | 15-26 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND | 28 |
| SUPPLEMENTARY INFORMATION - REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE | |
| NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements) | |
| SERVICES AND RATES | 30-32 |
| GENERAL FUND EXPENDITURES | 33 |
| INVESTMENTS | 34 |
| TAXES LEVIED AND RECEIVABLE | 35-36 |
| COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - TWO YEARS | 37-38 |
| BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS | 39-40 |

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 503
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 503 (the "District") as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2023, 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 Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund 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.

Board of Directors
Harris County Municipal Utility District No. 503

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide an assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "McCall Gibson Swedlund Barfoot PLLC". The signature is written in a cursive, flowing style.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 28, 2023

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2023**

Management’s discussion and analysis of the financial performance of Harris County Municipal Utility District No. 503 (the “District”) provides an overview of the District’s financial activities for the year ended March 31, 2023. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District’s annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective, similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes the District’s assets, liabilities and, if applicable, deferred inflows and outflows of resources 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. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District’s net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing contractual debt and the cost of assessing and collecting taxes.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2023**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

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. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$115,580 as of March 31, 2023. A portion of the District's net position reflects its net investment in capital assets which consists of water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2023**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table is a comparative analysis of government-wide changes in the Statement of Net Position as of March 31, 2023, and March 31, 2022:

| | <u>Summary of Changes in the Statement of Net Position</u> | | |
|---|--|-----------------------------|----------------------------------|
| | 2023 | 2022 | Change Positive (Negative) |
| Current and Other Assets | \$ 461,716 | \$ 252,591 | \$ 209,125 |
| Capital Assets (Net of Accumulated Depreciation) | <u>5,774,702</u> | <u> </u> | <u>5,774,702</u> |
| Total Assets | <u>\$ 6,236,418</u> | <u>\$ 252,591</u> | <u>\$ 5,983,827</u> |
| Due to Developer | \$ 6,167,044 | \$ 350,500 | \$ (5,816,544) |
| Other Liabilities | <u>184,954</u> | <u>10,554</u> | <u>(174,400)</u> |
| Total Liabilities | <u>\$ 6,351,998</u> | <u>\$ 361,054</u> | <u>\$ (5,990,944)</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ (41,842) | \$ | \$ (41,842) |
| Restricted | 195,943 | 160,487 | 35,456 |
| Unrestricted | <u>(269,681)</u> | <u>(268,950)</u> | <u>(731)</u> |
| Total Net Position | <u>\$ (115,580)</u> | <u>\$ (108,463)</u> | <u>\$ (7,117)</u> |

The following table provides a summary of the District's operations for the years ended March 31, 2023, and March 31, 2022.

| | <u>Summary of Changes in the Statement of Activities</u> | | |
|---------------------------------|--|---------------------|----------------------------------|
| | 2023 | 2022 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 260,771 | \$ 179,919 | \$ 80,852 |
| Charges for Services | 116,393 | | 116,393 |
| Other Revenues | <u>19,541</u> | <u>467</u> | <u>19,074</u> |
| Total Revenues | <u>\$ 396,705</u> | <u>\$ 180,386</u> | <u>\$ 216,319</u> |
| Total Expenses | <u>403,822</u> | <u>165,421</u> | <u>(238,401)</u> |
| Change in Net Position | \$ (7,117) | \$ 14,965 | \$ (22,082) |
| Net Position, Beginning of Year | <u>(108,463)</u> | <u>(123,428)</u> | <u>14,965</u> |
| Net Position, End of Year | <u>\$ (115,580)</u> | <u>\$ (108,463)</u> | <u>\$ (7,117)</u> |

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2023, were \$211,939, a decrease of \$30,098 from the prior year.

The General Fund fund balance decreased by \$32,656, primarily due to professional, operating, and administrative costs exceeding property tax revenues and service revenues.

The Debt Service Fund fund balance increased by \$2,558, primarily due to current year property tax revenues exceeding its obligation related to the Master District contract debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget during the fiscal year. Actual revenues were \$65,346 less than budgeted revenues and actual expenditures were \$71,455 less than budgeted expenditures which resulted in a positive variance of \$6,109. See the budget to actual comparison for more information.

CAPITAL ASSETS

Capital assets as of March 31, 2023, total \$5,774,702 (net of accumulated depreciation) and include the water, wastewater and drainage systems. Current year additions to capital assets included utilities serving Towne Lake North Collector Road and Towne Lake Section 64 and Section 65.

| Capital Assets At Year-End | | | |
|---|--------------|--------|----------------------------------|
| | 2023 | 2022 | Change Positive (Negative) |
| Capital Assets Subject to Depreciation: | | | |
| Water System | \$ 1,066,883 | \$ | \$ 1,066,883 |
| Wastewater System | 1,297,368 | | 1,297,368 |
| Drainage System | 3,452,293 | | 3,452,293 |
| Less Accumulated Depreciation | (41,842) | | (41,842) |
| Total Net Capital Assets | \$ 5,774,702 | \$ -0- | \$ 5,774,702 |

LONG-TERM DEBT

The District's long-term debt as of March 31, 2023, consists of amounts owed to the Developer for operating advances and utility infrastructure totaling \$6,167,044. It is anticipated that operating advances and construction costs will be reimbursed from proceeds of future bond sales.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2023**

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 503, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2023

| | General Fund | Debt Service Fund |
|--|-------------------|----------------------|
| ASSETS | | |
| Cash | \$ 227,508 | \$ 38,135 |
| Investments | | 118,492 |
| Receivables: | | |
| Property Taxes | 31,925 | 26,474 |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts | 12,758 | |
| Due from Other Funds | | 6,418 |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 272,191 | \$ 189,519 |
| LIABILITIES | | |
| Accounts Payable | \$ 70,258 | \$ |
| Unearned Revenues | 80,771 | |
| Due to Developer | | |
| Due to Other Governmental Units | 17,775 | |
| Due to Other Funds | 6,418 | |
| Security Deposits | 16,150 | |
| TOTAL LIABILITIES | \$ 191,372 | \$ - 0 - |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ 31,925 | \$ 26,474 |
| FUND BALANCES/NET POSITION | | |
| FUND BALANCES | | |
| Restricted for Master District Contract Debt | \$ | \$ 163,045 |
| Unassigned | 48,894 | |
| TOTAL FUND BALANCES | \$ 48,894 | \$ 163,045 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 272,191 | \$ 189,519 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|-------------------|---------------------|--------------------------------------|
| \$ 265,643 | \$ | \$ 265,643 |
| 118,492 | | 118,492 |
| 58,399 | | 58,399 |
| 12,758 | 6,424 | 6,424 |
| 6,418 | (6,418) | 12,758 |
| | <u>5,774,702</u> | <u>5,774,702</u> |
| <u>\$ 461,710</u> | <u>\$ 5,774,708</u> | <u>\$ 6,236,418</u> |
| | | |
| \$ 70,258 | \$ | \$ 70,258 |
| 80,771 | | 80,771 |
| 17,775 | 6,167,044 | 6,167,044 |
| 6,418 | (6,418) | 17,775 |
| <u>16,150</u> | | <u>16,150</u> |
| <u>\$ 191,372</u> | <u>\$ 6,160,626</u> | <u>\$ 6,351,998</u> |
| | | |
| <u>\$ 58,399</u> | <u>\$ (58,399)</u> | <u>\$ - 0 -</u> |
| | | |
| \$ 163,045 | \$ (163,045) | \$ |
| <u>48,894</u> | <u>(48,894)</u> | |
| <u>\$ 211,939</u> | <u>\$ (211,939)</u> | <u>\$ - 0 -</u> |
| | | |
| <u>\$ 461,710</u> | | |
| | \$ (41,842) | \$ (41,842) |
| | 195,943 | 195,943 |
| | <u>(269,681)</u> | <u>(269,681)</u> |
| | <u>\$ (115,580)</u> | <u>\$ (115,580)</u> |

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2023**

| | | |
|--|----|---------|
| Total Fund Balances - Governmental Funds | \$ | 211,939 |
|--|----|---------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|--|--|-----------|
| Capital assets are not current financial resources and, therefore, are not reported as assets in governmental funds. | | 5,774,702 |
|--|--|-----------|

| | | |
|--|--|--------|
| Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2022 tax levy became part of recognized revenue in the governmental activities of the District. | | 64,823 |
|--|--|--------|

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year end consist of:

| | | |
|------------------|----------------|--------------------|
| Due to Developer | \$ (6,167,044) | <u>(6,167,044)</u> |
|------------------|----------------|--------------------|

| | | |
|--|----|------------------|
| Total Net Position - Governmental Activities | \$ | <u>(115,580)</u> |
|--|----|------------------|

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2023

| | General Fund | Debt Service Fund |
|--|--------------------|----------------------|
| REVENUES | | |
| Property Taxes | \$ 110,630 | \$ 91,742 |
| Water Service | 8,435 | |
| Wastewater Service | 1,215 | |
| Water Authority Fees | 8,931 | |
| Penalty and Interest | | 313 |
| Tap Connection and Inspection Fees | 91,075 | |
| Investment and Miscellaneous Revenues | 16,668 | 2,873 |
| TOTAL REVENUES | \$ 236,954 | \$ 94,928 |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Professional Fees | \$ 89,762 | \$ |
| Contracted Services | 10,115 | 11,090 |
| Purchased Water and Wastewater Service | 35,550 | |
| Water Authority Assessments | 8,533 | |
| Repairs and Maintenance | 11,058 | |
| Depreciation | | |
| Other | 114,592 | 3,501 |
| Debt Service: | | |
| Contractual Obligation | _____ | 77,779 |
| TOTAL EXPENDITURES/EXPENSES | \$ 269,610 | \$ 92,370 |
| NET CHANGE IN FUND BALANCES | \$ (32,656) | \$ 2,558 |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - | | |
| APRIL 1, 2022 | 81,550 | 160,487 |
| FUND BALANCES/NET POSITION - | | |
| MARCH 31, 2023 | \$ 48,894 | \$ 163,045 |

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

| <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|-------------------|---------------------|------------------------------------|
| \$ 202,372 | \$ 58,399 | \$ 260,771 |
| 8,435 | | 8,435 |
| 1,215 | | 1,215 |
| 8,931 | | 8,931 |
| 313 | 6,424 | 6,737 |
| 91,075 | | 91,075 |
| 19,541 | | 19,541 |
| <u>\$ 331,882</u> | <u>\$ 64,823</u> | <u>\$ 396,705</u> |
| | | |
| \$ 89,762 | \$ | \$ 89,762 |
| 21,205 | | 21,205 |
| 35,550 | | 35,550 |
| 8,533 | | 8,533 |
| 11,058 | | 11,058 |
| | 41,842 | 41,842 |
| 118,093 | | 118,093 |
| <u>77,779</u> | <u></u> | <u>77,779</u> |
| <u>\$ 361,980</u> | <u>\$ 41,842</u> | <u>\$ 403,822</u> |
| | | |
| \$ (30,098) | \$ 30,098 | \$ |
| | (7,117) | (7,117) |
| <u>242,037</u> | <u>(350,500)</u> | <u>(108,463)</u> |
| | | |
| <u>\$ 211,939</u> | <u>\$ (327,519)</u> | <u>\$ (115,580)</u> |

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2023**

| | | |
|--|----|----------|
| Net Change in Fund Balances - Governmental Funds | \$ | (30,098) |
|--|----|----------|

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

| | | |
|---|--|--------|
| Governmental funds report tax revenues and penalty and interest revenues on delinquent taxes when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied and the penalty and interest is assessed. | | 64,823 |
|---|--|--------|

| | | |
|--|--|-----------------|
| Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | | <u>(41,842)</u> |
|--|--|-----------------|

| | | |
|--|----|-----------------------|
| Change in Net Position - Governmental Activities | \$ | <u><u>(7,117)</u></u> |
|--|----|-----------------------|

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 503 (the “District”) was created effective June 26, 2007, by an Order of the Texas Commission on Environmental Quality, (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, drainage, solid waste collection and disposal, including recycling, and to construct parks, recreational facilities and roads for the residents of the District. The District is located within the extraterritorial jurisdiction of the City of Houston, Texas. The Board of Directors held its organizational meeting on October 28, 2008.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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 (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

The District and other districts have contracted with Harris County Municipal Utility District No. 500 in its capacity as Master District (the “Master District”) for the financing, operation, and maintenance of regional water, sanitary sewer, drainage, road, and recreational facilities. These facilities are under the oversight of the Master District’s Board of Directors and financial activity of the Master District has been included in the financial statements of the District as a note disclosure (see Note 8). Copies of the financial statements for the Master District may be obtained from Harris County Municipal Utility District No. 500, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for 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 improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets 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 assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has two governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing contractual debt and the cost of assessing and collecting taxes.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. At year end, the General Fund owed the Debt Service Fund \$6,418 for the over transfer of maintenance tax collections.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets reported in the government-wide Statement of Net Position. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation over periods ranging from 10 to 45 years.

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the budgeted amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources.

Fund balances in governmental funds are classified using the following hierarchy:

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

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances, resolutions, or motions approved by the Board. The District does not have any committed fund balances.

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

Unassigned: all other spendable amounts in the General Fund.

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

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 disclosure 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 3. LONG-TERM DEBT

As of March 31, 2023, the District had authorized but unissued bonds in the amount of \$90,285,000 for water, sewer and drainage facilities, \$56,875,000 for roads and \$28,990,000 for recreational facilities. As bonds are issued, they will be repaid from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. During the year ended March 31, 2023, the District did not levy an ad valorem debt service tax.

Unreimbursed Costs

The District has entered into financing agreements with the Developer. The agreements call for the Developer to fund operating advances as well as construction costs associated with water, sewer, drainage, park and road facilities. Reimbursement of these costs will come from future bond proceeds or other lawfully available monies. Due to Developer activity for the current fiscal year is as follows:

| | | |
|----------------------------------|----|-----------|
| Due to Developer, April 1, 2022 | \$ | 350,500 |
| Add: Current Year Additions | | 5,816,544 |
| Due to Developer, March 31, 2023 | \$ | 6,167,044 |

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the 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 District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require 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 District of securities eligible under the laws of Texas to secure the funds of the District, 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 fiscal year end, the carrying amount of the District's deposits was \$265,643 and the bank balance was \$270,497. The District was not exposed to custodial credit risk at year end.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2023, as listed below:

| | Cash |
|-------------------|------------|
| GENERAL FUND | \$ 227,508 |
| DEBT SERVICE FUND | 38,135 |
| TOTAL DEPOSITS | \$ 265,643 |

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of March 31, 2023, the District had the following investment and maturity:

| Fund and Investment Type | Fair Value | Maturities of Less Than 1 Year |
|---------------------------------|-------------------|--------------------------------------|
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | \$ <u>118,492</u> | \$ <u>118,492</u> |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment in TexPool was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one-year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions - All cash and investments of the Debt Service Fund are restricted for the payment of contractual debt and the cost of assessing and collecting taxes.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the current fiscal year is summarized in the following table:

| | April 1, 2022 | Increases | Decreases | March 31, 2023 |
|--|------------------|--------------|-----------|-------------------|
| Capital Assets Subject to Depreciation | | | | |
| Water System | \$ | \$ 1,066,883 | \$ | \$ 1,066,883 |
| Wastewater System | | 1,297,368 | | 1,297,368 |
| Drainage System | | 3,452,293 | | 3,452,293 |
| Total Capital Assets Subject to Depreciation | \$ - 0 - | \$ 5,816,544 | \$ - 0 - | \$ 5,816,544 |
| Less Accumulated Depreciation | | | | |
| Water System | \$ | \$ 7,427 | \$ | \$ 7,427 |
| Wastewater System | | 7,977 | | 7,977 |
| Drainage System | | 26,438 | | 26,438 |
| Total Accumulated Depreciation | \$ - 0 - | \$ 41,842 | \$ - 0 - | \$ 41,842 |
| Total Capital Assets, Net of Accumulated Depreciation | \$ - 0 - | \$ 5,774,702 | \$ - 0 - | \$ 5,774,702 |

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 6. MAINTENANCE TAX

On May 7, 2016, District voters approved the levy and collection of a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay operations and maintenance costs of the District. During the year ended March 31, 2023, the District levied an ad valorem maintenance tax rate of \$0.82 per \$100 of assessed valuation, which resulted in a tax levy of \$142,557 on the adjusted taxable valuation of \$17,384,999 for the 2022 tax year.

On May 7, 2016, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District for purposes of constructing and maintaining roads within the District.

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

NOTE 7. CONTRACT TAX

The voters in the District have approved the levy and collection of an annual contract tax imposed on all taxable property within the boundaries of the District in an unlimited amount per \$100 of assessed valuation for purposes of making payments to the Master District for the debt service requirements of the Master District's water, sewer, drainage, road, and park contract revenue bonds, and for monthly charges associated with the services from the Master District's water, sewer, drainage, road, and park facilities (see Note 8). During the current year, the District levied an ad valorem contract tax rate of \$0.68 per \$100 of assessed valuation, which resulted in a tax levy of \$118,218 on the adjusted taxable valuation of \$17,384,999 for the 2022 tax year. The District made contractual payments of \$77,779 during the current fiscal year.

NOTE 8. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES

Harris County Municipal Utility District No. 500 as Master District (the "Master District") executed a 40-year contract with the District on August 3, 2016, for the financing, operation and maintenance of the Master District's regional water, wastewater and drainage facilities as well as park and road facilities. The first, second and third amendments were executed on August 3, 2016, and the fourth amendment was executed on May 6, 2020. The Master District administers the contract for the Participants which include the District, Harris County Municipal Utility District No. 500 (as Internal District), Harris County Municipal Utility District No. 501, and Harris County Municipal Utility District No. 502 (collectively, the "Participants").

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 8. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

Each Participant has contracted with the Master District to provide, receive, and transport its water supply, sanitary waste, and storm waters through the Master District facilities. The Master District has also assumed the responsibility of providing regional parks and major roadways. The Master District owns and operates the Master District facilities, except to the extent roadways and storm sewers are accepted for maintenance by Harris County or other governmental entities.

The Master District finances the Master District facilities through the issuance of Master District contract revenue bonds. The Master District has the authority to issue water, wastewater and drainage bonds not to exceed \$754,660,000, road bonds not to exceed \$350,600,000 and park bonds not to exceed \$64,550,000. Each Participant is responsible for its pro rata share of the debt service requirements on the Master District contract revenue bonds. As of March 31, 2023, the Master District has authorized but unissued water, wastewater and drainage bonds of \$635,655,000, road bonds of \$310,240,000 and park bonds of \$52,870,000.

As of March 31, 2023, the debt service requirements on the Master District contract revenue bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|-----------------------|----------------------|-----------------------|
| 2024 | \$ 4,470,000 | \$ 4,945,726 | \$ 9,415,726 |
| 2025 | 4,620,000 | 4,849,457 | 9,469,457 |
| 2026 | 4,775,000 | 4,693,868 | 9,468,868 |
| 2027 | 4,935,000 | 4,528,785 | 9,463,785 |
| 2028 | 5,095,000 | 4,355,060 | 9,450,060 |
| 2029-2033 | 28,045,000 | 19,269,630 | 47,314,630 |
| 2034-2038 | 33,305,000 | 14,391,055 | 47,696,055 |
| 2039-2043 | 40,270,000 | 8,165,979 | 48,435,979 |
| 2044-2048 | 26,015,000 | 1,693,142 | 27,708,142 |
| | <u>\$ 151,530,000</u> | <u>\$ 66,892,702</u> | <u>\$ 218,422,702</u> |

The Master District prepares an operating budget annually. The budget is based on annual estimates provided by each Participant to the Master District for waste discharge, water usage and connections. As of March 31, 2023, the Master District had enough funds on hand to meet its three-month reserve requirement.

Each Participant's monthly bill is determined by multiplying the total number of equivalent single-family residential connections (ESFC) reserved for the Participant on the first day of the previous month by the unit cost per ESFC shown in the budget for each Participant. The current

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 8. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES (Continued)

rate is \$27 per ESFC. The Master District separates the Authority fees from the monthly per connection charges and bills such Authority fees to each Participant monthly based upon that Participant’s actual water usage plus an additional 5% for flushing and other non-metered water usage. As of the fiscal year end the rate charged to each participant for the Authority surface water fees was \$4.56 (\$4.35 plus 5%) per 1,000 gallons of water.

A summary of Master District financial activity for the current fiscal year is as follows:

| | Master District Enterprise Fund |
|--|------------------------------------|
| Total Assets | \$ 136,577,352 |
| Total Deferred Outflows of Resources | 1,262,653 |
| Total Liabilities | <u>(156,688,966)</u> |
| Total Net Position | <u>\$ (18,848,961)</u> |
| Total Operating Revenues | \$ 3,719,227 |
| Total Operating Expenses | <u>7,252,304</u> |
| Operating Income (Loss) | <u>\$ (3,533,077)</u> |
| Total Nonoperating Revenues (Expenses) | <u>\$ 3,473,584</u> |
| Change in Net Position | \$ (59,493) |
| Net Position – April 1, 2022 | <u>(18,789,468)</u> |
| Net Position – March 31, 2023 | <u>\$ (18,848,961)</u> |

NOTE 9. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the West Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the “Act”), as passed by the 77th Texas Legislature, in 2001. The Act, as amended, empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. Effective January 1, 2023, the fees per 1,000 gallons of surface water and groundwater delivered from the Authority were \$4.35 and \$3.95, respectively. Surface water and groundwater costs are included in the amounts paid to the Master District for purchased water services.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

On December 12, 2008, the City of Houston (the City), the Towne Lake Management District (the "MMD") and the District entered into a Strategic Partnership Agreement (Agreement). The Agreement provides for the annexation into the City of a tract of land in the District for limited purposes for the imposition of the City's Sales and Use Tax. The City shall pay to the MMD an amount equal to 50% of the City's Sales and Use Tax revenues received by the City and generated within the boundaries of the tract. The District agrees to pay to the City an annual fee of \$100 for the provision of municipal services provided in lieu of full purpose annexation. The City agrees to not annex or attempt to annex the District for full purposes unless it simultaneously annexes for full purposes Harris County Municipal Utility District Nos. 500, 501 and 503. The term of this agreement is 30 years from the effective date.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2023

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2023

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|--|------------------------------|-------------------|------------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 95,000 | \$ 110,630 | \$ 15,630 |
| Water Service | | 8,435 | 8,435 |
| Wastewater Service | | 1,215 | 1,215 |
| Water Authority Fees | | 8,931 | 8,931 |
| Tap Connection and Inspection Fees | 207,300 | 91,075 | (116,225) |
| Investment and Miscellaneous Revenues | | 16,668 | 16,668 |
| TOTAL REVENUES | <u>\$ 302,300</u> | <u>\$ 236,954</u> | <u>\$ (65,346)</u> |
| EXPENDITURES | | | |
| Service Operations: | | | |
| Professional Fees | \$ 88,000 | \$ 89,762 | \$ (1,762) |
| Contracted Services | 8,500 | 10,115 | (1,615) |
| Purchased Water and Wastewater Service | 63,180 | 35,550 | 27,630 |
| Water Authority Assessments | 50,400 | 8,533 | 41,867 |
| Repairs and Maintenance | | 11,058 | (11,058) |
| Other | 130,985 | 114,592 | 16,393 |
| TOTAL EXPENDITURES | <u>\$ 341,065</u> | <u>\$ 269,610</u> | <u>\$ 71,455</u> |
| NET CHANGE IN FUND BALANCE | \$ (38,765) | \$ (32,656) | \$ 6,109 |
| FUND BALANCE - APRIL 1, 2022 | <u>81,550</u> | <u>81,550</u> | |
| FUND BALANCE - MARCH 31, 2023 | <u>\$ 42,785</u> | <u>\$ 48,894</u> | <u>\$ 6,109</u> |

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MARCH 31, 2023

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2023**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

The following rates are based on the rate order approved February 23, 2023.

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1,000 Gallons over Minimum Use</u> | <u>Usage Levels</u> |
|------------------------|---|----------------------|----------------------|--|---------------------|
| WATER: | \$ 22.00 | 7,000 | N | \$ 2.25 | 7,001 to 15,000 |
| | | | | \$ 2.50 | 15,001 to 25,000 |
| | | | | \$ 3.00 | 25,001 and up |
| WASTEWATER: | \$30.00 ⁽¹⁾ | | Y | | |
| SURCHARGE: | | | | | |
| Commission | | | | | |
| Regulatory Assessments | Included in the rates above | | | | |
| Water Authority Fees | 110% of the surface water fee charged by the WHCRWA | | | | |

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$28.75 Wastewater: \$30.00 Surcharge: \$47.90

(1) Includes the cost of trash pickup.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2023

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC Factor</u> | <u>Active ESFCs</u> |
|------------------------------|--------------------------|---------------------------|--------------------|---------------------|
| Unmetered | | | x 1.0 | |
| ≤¾" | <u>50</u> | <u>50</u> | x 1.0 | <u>50</u> |
| 1" | <u>9</u> | <u>9</u> | x 2.5 | <u>23</u> |
| 1½" | | | x 5.0 | |
| 2" | | | x 8.0 | |
| 3" | | | x 15.0 | |
| 4" | | | x 25.0 | |
| 6" | | | x 50.0 | |
| 8" | | | x 80.0 | |
| 10" | | | x 115.0 | |
| Total Water Connections | <u><u>59</u></u> | <u><u>59</u></u> | | <u><u>73</u></u> |
| Total Wastewater Connections | <u><u>57</u></u> | <u><u>57</u></u> | x 1.0 | <u><u>57</u></u> |

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons billed to customers: 1,973,000

Gallons Purchased: *

* The District, along with Harris County Municipal Utility District No. 500 (Internal District), Harris County Municipal Utility District No. 501, and Harris County Municipal Utility District No. 502, receive water from the Harris County Municipal Utility District No. 500 Master District. The Master District purchases water from the West Harris County Regional Water Authority and, from time to time, Remington Municipal Utility District No. 1 and Harris County Municipal Utility District No. 196 via emergency interconnects. Gallons purchased is calculated using gallons billed to District customers divided by total gallons billed to all participants times the total gallons purchased by the Master District.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2023

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2023

| | |
|--|--------------------------|
| PROFESSIONAL FEES: | |
| Auditing | \$ 9,000 |
| Engineering | 27,356 |
| Legal | <u>53,406</u> |
| TOTAL PROFESSIONAL FEES | <u>\$ 89,762</u> |
| PURCHASED SERVICES FOR RESALE: | |
| Purchased Water and Wastewater Service | \$ 35,550 |
| Water Authority Assessments | <u>8,533</u> |
| TOTAL PURCHASED SERVICES FOR RESALE | <u>\$ 44,083</u> |
| CONTRACTED SERVICES: | |
| Bookkeeping | <u>\$ 10,115</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 11,058</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Director Fees, Including Payroll Taxes | \$ 6,381 |
| Insurance | 3,019 |
| Legal Notices | 1,575 |
| Office Supplies and Postage | 1,112 |
| Travel and Other | <u>1,325</u> |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 13,412</u> |
| TAP CONNECTIONS | <u>\$ 92,600</u> |
| OTHER EXPENDITURES: | |
| Inspection and Connection Fees | \$ 8,548 |
| Regulatory Assessment | <u>32</u> |
| TOTAL OTHER EXPENDITURES | <u>\$ 8,580</u> |
| TOTAL EXPENDITURES | <u><u>\$ 269,610</u></u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
INVESTMENTS
MARCH 31, 2023

| <u>Fund</u> | <u>Identification or Certificate Number</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance at End of Year</u> | <u>Accrued Interest Receivable at End of Year</u> |
|--------------------------|---|--------------------------|--------------------------|-----------------------------------|---|
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0001 | Varies | Daily | <u>\$ 118,492</u> | <u>\$ - 0 -</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2023

| | Maintenance Taxes | | Contract Taxes | |
|------------------------------|-------------------|------------------|----------------|------------------|
| TAXES RECEIVABLE - | | | | |
| APRIL 1, 2022 | \$ | -0- | \$ | -0- |
| Adjustments to Beginning | | | | |
| Balance | <u>(2)</u> | \$ (2) | <u>(2)</u> | \$ (2) |
| Original 2022 Tax Levy | \$ | 138,009 | \$ | 114,447 |
| Adjustments to 2022 Tax Levy | <u>4,548</u> | <u>142,557</u> | <u>3,771</u> | <u>118,218</u> |
| TOTAL TO BE | | | | |
| ACCOUNTED FOR | | \$ 142,555 | | \$ 118,216 |
| TAX COLLECTIONS: | | | | |
| Prior Years | \$ | (2) | \$ | (2) |
| Current Year | <u>110,632</u> | <u>110,630</u> | <u>91,744</u> | <u>91,742</u> |
| TAXES RECEIVABLE - | | | | |
| MARCH 31, 2023 | | <u>\$ 31,925</u> | | <u>\$ 26,474</u> |
| TAXES RECEIVABLE BY | | | | |
| YEAR: | | | | |
| 2022 | | <u>\$ 31,925</u> | | <u>\$ 26,474</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2023

| | 2022 | 2021 |
|---|---------------|---------------|
| PROPERTY VALUATIONS: | | |
| Land | \$ 17,542,505 | \$ 12,139,411 |
| Improvements | 410 | |
| Personal Property | 870 | 790 |
| Exemptions | (158,786) | (145,580) |
| TOTAL PROPERTY VALUATIONS | \$ 17,384,999 | \$ 11,994,621 |
| TAX RATES PER \$100 VALUATION: | | |
| Debt Service | \$ 0.00 | \$ 0.00 |
| Contract | 0.68 | 0.60 |
| Maintenance | 0.82 | 0.90 |
| TOTAL TAX RATES PER \$100 VALUATION | \$ 1.50 | \$ 1.50 |
| ADJUSTED TAX LEVY* | \$ 260,775 | \$ 179,919 |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED** | 77.61 % | 100.00 % |

* Based upon adjusted tax at time of audit for the fiscal year in which the tax was levied.

** As of March 31, 2023

On May 7, 2016, District voters approved an operations maintenance tax rate not to exceed \$1.50 per \$100 of assessed valuation.

On May 7, 2016, District voters approved a road maintenance tax rate not to exceed \$0.25 per \$100 of assessed valuation.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - TWO YEARS

| | Amounts | | Percentage of Total Revenues | |
|--|--------------------|-------------------|---------------------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUES | | | | |
| Property Taxes | \$ 110,630 | \$ 107,952 | 46.7 % | 100.0 % |
| Water Service | 8,435 | | 3.6 | |
| Wastewater Service | 1,215 | | 0.5 | |
| Water Authority Fees | 8,931 | | 3.8 | |
| Tap Connection and Inspection Fees | 91,075 | | 38.4 | |
| Investment and Miscellaneous Revenues | 16,668 | 2 | 7.0 | |
| TOTAL REVENUES | <u>\$ 236,954</u> | <u>\$ 107,954</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| EXPENDITURES | | | | |
| Professional Fees | \$ 89,762 | \$ 66,474 | 37.9 % | 61.6 % |
| Contracted Services | 10,115 | 6,015 | 4.3 | 5.6 |
| Purchased Water and Wastewater Services | 35,550 | | 15.0 | |
| Water Authority Assessments | 8,533 | | 3.6 | |
| Repairs and Maintenance | 11,058 | | 4.7 | |
| Other | 114,592 | 16,523 | 48.4 | 15.3 |
| TOTAL EXPENDITURES | <u>\$ 269,610</u> | <u>\$ 89,012</u> | <u>113.9 %</u> | <u>82.5 %</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (32,656)</u> | <u>\$ 18,942</u> | <u>(13.9) %</u> | <u>17.5 %</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Developer Advances | <u>\$ - 0 -</u> | <u>\$ 50,000</u> | | |
| NET CHANGE IN FUND BALANCE | \$ (32,656) | \$ 68,942 | | |
| BEGINNING FUND BALANCE | <u>81,550</u> | <u>12,608</u> | | |
| ENDING FUND BALANCE | <u>\$ 48,894</u> | <u>\$ 81,550</u> | | |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - TWO YEARS

| | Amounts | | Percentage of Total Revenues | |
|---|-------------------|-------------------|---------------------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUES | | | | |
| Contract Taxes | \$ 91,742 | \$ 71,967 | 96.7 % | 99.4 % |
| Penalty and Interest | 313 | | 0.3 | |
| Investment and Miscellaneous Revenues | <u>2,873</u> | <u>465</u> | <u>3.0</u> | <u>0.6</u> |
| TOTAL REVENUES | <u>\$ 94,928</u> | <u>\$ 72,432</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| EXPENDITURES | | | | |
| Other Expenditures | \$ 14,591 | \$ 14,296 | 15.4 % | 19.7 % |
| Contractual Obligation | <u>77,779</u> | <u>62,113</u> | <u>81.9</u> | <u>85.8</u> |
| TOTAL EXPENDITURES | <u>\$ 92,370</u> | <u>\$ 76,409</u> | <u>97.3 %</u> | <u>105.5 %</u> |
| NET CHANGE IN FUND BALANCE | \$ 2,558 | \$ (3,977) | <u>2.7 %</u> | <u>(5.5) %</u> |
| BEGINNING FUND BALANCE | <u>160,487</u> | <u>164,464</u> | | |
| ENDING FUND BALANCE | <u>\$ 163,045</u> | <u>\$ 160,487</u> | | |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | <u>59</u> | <u>-0-</u> | | |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | <u>57</u> | <u>-0-</u> | | |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2023

District Mailing Address - Harris County Municipal Utility District No. 503
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

| Board Members | Term of Office (Elected or Appointed) | Fees of Office for the year ended March 31, 2023 | Expense Reimbursements for the year ended March 31, 2023 | Title |
|----------------------|--|--|--|--|
| Patrick Carrigan | 05/22 - 05/26 (Elected) | \$ 1,350 | \$ 341 | President |
| Kevin Gilligan | 02/22 - 05/24 (Appointed) | \$ 1,500 | \$ 516 | Vice President |
| Kelli Odum | 05/20 - 05/24 (Elected) | \$ 750 | \$ 50 | Assistant Vice President/ Assistant Secretary |
| Jennifer Taylor | 05/20 - 05/24 (Elected) | \$ 1,050 | \$ 66 | Secretary |
| Sean Mulroony | 05/22 - 05/26 (Elected) | \$ 1,350 | \$ 157 | Assistant Secretary |

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants. The District's auditor leases office space from an entity affiliated with the District's Developer.

The submission date of the most recent District Registration Form: July 15, 2022

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on October 28, 2008. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 503
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2023

| Consultants: | <u>Date Hired</u> | <u>Fees for the year ended March 31, 2023</u> | <u>Title</u> |
|---|-----------------------|---|----------------------------|
| Allen Boone Humphries Robinson LLP | 10/28/08 | \$ 53,406 | General Counsel |
| McCall Gibson Swedlund Barfoot PLLC | 03/21/22 | \$ 9,000 | Auditor |
| Myrtle Cruz, Inc. | 07/15/22 | \$ 7,333 | Bookkeeper |
| F. Matuska, Inc. | 11/14/08- 07/15/22 | \$ 3,115 | Former Bookkeeper |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. | 10/07/16 | \$ -0- | Delinquent Tax Attorney |
| Edminster, Hinshaw, Russ and Associates, Inc. | 11/14/08 | \$ 27,356 | Engineer |
| RBC Capital Markets | 11/14/08 | \$ -0- | Financial Advisor |
| Mary Jarmon | 07/15/22 | \$ -0- | Investment Officer |
| Environmental Development Partners | 12/10/20 | \$ 112,831 | Operator |
| BLICO, Inc. | 11/14/08 | \$ 12,500 | Tax Assessor/ Collector |

See accompanying independent auditor's report.

