

**HARRIS - WALLER COUNTIES
MUNICIPAL UTILITY DISTRICT NO. 5
HARRIS AND WALLER COUNTIES, TEXAS
FINANCIAL REPORT
April 30, 2023**

Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditor's Report		1
Management's Discussion and Analysis		7
BASIC FINANCIAL STATEMENTS		
Statement of Net Position and Governmental Funds Balance Sheet		16
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances		17
Notes to Financial Statements		19
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		36
Notes to Required Supplementary Information		37
TEXAS SUPPLEMENTARY INFORMATION		
Services and Rates	TSI-1	40
General Fund Expenditures	TSI-2	42
Investments	TSI-3	43
Taxes Levied and Receivable	TSI-4	44
Long-Term Debt Service Requirements by Years	TSI-5	45
Change in Long-Term Bonded Debt	TSI-6	46
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	48
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	50
Board Members, Key Personnel and Consultants	TSI-8	51

McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors

Harris - Waller Counties Municipal Utility District No. 5

Harris and Waller Counties, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris - Waller Counties Municipal Utility District No. 5 (the "District"), as of and for the year ended April 30, 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 Harris - Waller Counties Municipal Utility District No. 5, as of April 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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.

***Board of Directors
Harris - Waller Counties Municipal Utility District No. 5
Harris and Waller Counties, Texas***

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 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

***Board of Directors
Harris - Waller Counties Municipal Utility District No. 5
Harris and Waller Counties, Texas***

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.

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 Texas Supplementary Information schedules are presented for purposes of additional analysis and are 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 information 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 Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

McGuire & Co, P.C.

Houston, Texas
August 17, 2023

(This page intentionally left blank)

Management's Discussion and Analysis

(This page intentionally left blank)

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

Using this Annual Report

Within this section of the financial report of Harris - Waller Counties Municipal Utility District No. 5 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2023. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at April 30, 2023, was negative \$16,142,510. This amount is negative primarily because the District incurs debt to construct public roads which it conveys to Waller County. A comparative summary of the District's overall financial position, as of April 30, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 2,445,835	\$ 1,158,681
Capital assets	18,877,516	7,355,427
Total assets	<u>21,323,351</u>	<u>8,514,108</u>
Current liabilities	7,969,472	5,904,490
Long-term liabilities	<u>29,496,389</u>	<u>8,006,378</u>
Total liabilities	<u>37,465,861</u>	<u>13,910,868</u>
Net position		
Net investment in capital assets	(2,029,368)	(396,179)
Restricted	726,454	
Unrestricted	<u>(14,839,596)</u>	<u>(5,000,581)</u>
Total net position	<u>\$ (16,142,510)</u>	<u>\$ (5,396,760)</u>

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

The total net position of the District decreased during the current fiscal year by \$10,745,750. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2023</u>	<u>2022</u>
Revenues		
Property taxes, penalties and interest	\$ 1,009,957	\$ 158,366
Water and sewer service	1,092,897	36,901
Other	1,262,181	953,707
Total revenues	<u>3,365,035</u>	<u>1,148,974</u>
Expenses		
Current service operations	1,454,333	840,624
Debt interest and fees	392,059	22,515
Developer interest	318,967	
Debt issuance costs	977,119	116,175
Intergovernmental	1,610,652	
Depreciation	462,009	169,377
Total expenses	<u>5,215,139</u>	<u>1,148,691</u>
Change in net position before other item	(1,850,104)	283
Other item		
Transfers to other governments	<u>(8,895,646)</u>	<u>(5,224,148)</u>
Change in net position	(10,745,750)	(5,223,865)
Net position, beginning of year	<u>(5,396,760)</u>	<u>(172,895)</u>
Net position, end of year	<u>\$ (16,142,510)</u>	<u>\$ (5,396,760)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of April 30, 2023, were \$1,620,772, which consists of \$459,774 in the General Fund, \$703,092 in the Debt Service Fund and \$457,906 in the Capital Projects Fund.

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

General Fund

A comparative summary of the General Fund's financial position as of April 30, 2023 and 2022 is as follows:

	2023	2022
Total assets	<u>\$ 1,260,381</u>	<u>\$ 983,016</u>
Total liabilities	\$ 774,157	\$ 566,975
Total deferred inflows	26,450	
Total fund balance	<u>459,774</u>	<u>416,041</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,260,381</u>	<u>\$ 983,016</u>

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2023	2022
Total revenues	\$ 2,899,827	\$ 1,148,545
Total expenditures	<u>(3,064,863)</u>	<u>(747,603)</u>
Revenues over/(under) expenditures	(165,036)	400,942
Other changes in fund balance	208,769	136,744
Net change in fund balance	<u>\$ 43,733</u>	<u>\$ 537,686</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District and tap connection fees charged to homebuilders in the District. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because assessed values increased from prior year.
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

Debt Service Fund

The District issued bonded debt during the current fiscal year pursuant to a Bond Resolution adopted by the Board. As required by the Bond Resolution, a Debt Service Fund was established to account for the accumulation of financial resources restricted for debt service purposes. A summary of the financial position as of April 30, 2023 is as follows:

Total assets	<u>\$ 727,548</u>
Total liabilities	\$ 1,094
Total deferred inflows	23,362
Total fund balance	<u>703,092</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 727,548</u>

A summary of activities of the Debt Service Fund for the current year is as follows:

Total revenues	\$ 408,998
Total expenditures	<u>(258,806)</u>
Revenues over expenditures	150,192
Other changes in fund balance	552,900
Net change in fund balance	<u>\$ 703,092</u>

The District's financial resources in the Debt Service Fund in the current year are from property tax revenues and capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements resulted in an increase in fund balance. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of April 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 457,906</u>	<u>\$ 175,665</u>
Total fund balance	<u>\$ 457,906</u>	<u>\$ 175,665</u>

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2023	2022
Total revenues	\$ 6,398	\$ 429
Total expenditures	(10,058,757)	(4,964,270)
Revenues under expenditures	(10,052,359)	(4,963,841)
Other changes in fund balance	10,334,600	5,139,506
Net change in fund balance	<u>\$ 282,241</u>	<u>\$ 175,665</u>

The District has had considerable capital asset activity in the last two years which was financed with proceeds from the issuance of its Series 2022 Unlimited Tax Bonds and Series 2022A Bond Anticipation Note in the current year and issuance of its Series 2022 Bond Anticipation Note in the prior year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues and expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$556,182 less than budgeted. The *Budgetary Comparison Schedule* on page 36 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

Capital assets held by the District at April 30, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Capital assets being depreciated		
Infrastructure	\$ 18,483,712	\$ 7,447,072
Landscaping improvements	1,025,190	77,732
	<u>19,508,902</u>	<u>7,524,804</u>
Less accumulated depreciation		
Infrastructure	(576,239)	(165,490)
Landscaping improvements	(55,147)	(3,887)
	<u>(631,386)</u>	<u>(169,377)</u>
Capital assets, net	<u>\$ 18,877,516</u>	<u>\$ 7,355,427</u>

Capital asset additions during the current year include the following:

- Water, sewer, and drainage facilities to serve Sections 12, 13, 17 - 21, 26, 27 and 34
- Water and sewer facilities to serve Sunterra Section 26 entrance
- Landscape to serve Sunterra Sections 8 and 9
- Landscape and hardscape to serve Sunterra Section 10

Waller County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of Waller County. Accordingly, these facilities are not considered assets of the District. The estimated value of these assets is recorded as transfers to other governments upon completion of construction. This estimated cost is trued-up when the developers are reimbursed. For the year ended April 30, 2023, capital assets in the amount of \$8,895,646 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of April 30, 2023, the District owes approximately \$20,281,389 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of \$4,152,612 for projects under construction by the developers. As noted, the District will owe its developers for these projects upon completion of construction. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developers are trued up when the developers are reimbursed.

During the current year, the District issued \$9,215,000 in unlimited tax bonds, all of which were outstanding as of the end of the fiscal year. The District did not have any bonded debt as of April 30, 2022.

***Harris - Waller Counties Municipal Utility District No. 5
Management's Discussion and Analysis
April 30, 2023***

At April 30, 2023, the District had \$125,615,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$40,449,000 for the refunding of such bonds; \$49,780,000 authorized, but unissued, for parks and recreational facilities and \$14,934,000 for the refunding of such bonds; and \$127,245,000 authorized, but unissued, for road improvements and \$38,174,000 for the refunding of such bonds.

During the current year, the District issued a \$7,000,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2023 Actual</u>	<u>2024 Budget</u>
Total revenues	\$ 2,899,827	\$ 3,110,257
Total expenditures	(3,064,863)	(3,053,201)
Revenues over/(under) expenditures	(165,036)	57,056
Other changes in fund balance	208,769	
Net change in fund balance	43,733	57,056
Beginning fund balance	416,041	459,774
Ending fund balance	<u>\$ 459,774</u>	<u>\$ 516,830</u>

Property Taxes

The District's property tax base increased approximately \$293,747,000 for the 2023 tax year from \$64,323,851 to \$358,070,701, based on preliminary values. This increase was primarily due to new construction in the District.

Basic Financial Statements

Harris - Waller Counties Municipal Utility District No. 5
Statement of Net Position and Governmental Funds Balance Sheet
April 30, 2023

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 187,838	\$ 35,032	\$ 85,425	\$ 308,295	\$ -	\$ 308,295
Investments	806,251	693,974	436,957	1,937,182		1,937,182
Taxes receivable	26,450	23,362		49,812		49,812
Customer service receivables	121,658			121,658		121,658
Internal balances	89,296	(24,820)	(64,476)			
Prepaid items	889			889		889
Other receivables	27,999			27,999		27,999
Capital assets, net					18,877,516	18,877,516
Total Assets	<u>\$ 1,260,381</u>	<u>\$ 727,548</u>	<u>\$ 457,906</u>	<u>\$ 2,445,835</u>	<u>18,877,516</u>	<u>21,323,351</u>
Liabilities						
Accounts payable	\$ 238,488	\$ -	\$ -	\$ 238,488		238,488
Retainage payable	15,346			15,346		15,346
Other payables	2,107	1,094		3,201		3,201
Customer deposits	263,587			263,587		263,587
Builder deposits	22,525			22,525		22,525
Unearned revenue	232,104			232,104		232,104
Accrued interest payable					194,221	194,221
Bond anticipation note payable					7,000,000	7,000,000
Due to developers					20,281,389	20,281,389
Long-term debt						
Due after one year					9,215,000	9,215,000
Total Liabilities	<u>774,157</u>	<u>1,094</u>	<u></u>	<u>775,251</u>	<u>36,690,610</u>	<u>37,465,861</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>26,450</u>	<u>23,362</u>	<u></u>	<u>49,812</u>	<u>(49,812)</u>	
Fund Balance/Net Position						
Fund Balance						
Nonspendable	889			889	(889)	
Restricted		703,092	457,906	1,160,998	(1,160,998)	
Unassigned	458,885			458,885	(458,885)	
Total Fund Balances	<u>459,774</u>	<u>703,092</u>	<u>457,906</u>	<u>1,620,772</u>	<u>(1,620,772)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,260,381</u>	<u>\$ 727,548</u>	<u>\$ 457,906</u>	<u>\$ 2,445,835</u>		
Net Position						
Net investment in capital assets					(2,029,368)	(2,029,368)
Restricted for debt service					726,454	726,454
Unrestricted					(14,839,596)	(14,839,596)
Total Net Position					<u>\$ (16,142,510)</u>	<u>\$ (16,142,510)</u>

See notes to basic financial statements.

Harris - Waller Counties Municipal Utility District No. 5
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances
For the Year Ended April 30, 2023

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	\$ 741,594	\$ -	\$ -	\$ 741,594	\$ -	\$ 741,594
Sewer service	351,303			351,303		351,303
Property taxes	534,350	387,122		921,472	44,748	966,220
Penalties and interest	31,619	7,054		38,673	5,064	43,737
Tap connection and inspection	1,211,705			1,211,705		1,211,705
Miscellaneous	20,441	4,217		24,658		24,658
Investment earnings	8,815	10,605	6,398	25,818		25,818
Total Revenues	2,899,827	408,998	6,398	3,315,223	49,812	3,365,035
Expenditures/Expenses						
Current service operations						
Professional fees	86,762		70,278	157,040		157,040
Contracted services	1,051,560	24,394		1,075,954		1,075,954
Repairs and maintenance	173,423			173,423		173,423
Administrative	19,372	5,917		25,289		25,289
Other	21,071	976	580	22,627		22,627
Capital outlay	207,738		8,593,264	8,801,002	(8,801,002)	
Debt service						
Interest and fees		121,804	98,549	220,353	171,706	392,059
Developer interest			318,967	318,967		318,967
Debt issuance costs			977,119	977,119		977,119
Intergovernmental						
Master District connection fees	1,354,012			1,354,012		1,354,012
Maintenance charges	150,925			150,925		150,925
Contractual obligations		105,715		105,715		105,715
Depreciation					462,009	462,009
Total Expenditures/Expenses	3,064,863	258,806	10,058,757	13,382,426	(8,167,287)	5,215,139
Revenues Over/(Under) Expenses/Expenditures	(165,036)	150,192	(10,052,359)	(10,067,203)	8,217,099	(1,850,104)
Other Financing Sources/(Uses)						
Proceeds from sale of bonds		552,900	8,662,100	9,215,000	(9,215,000)	
Proceeds from bond anticipation note			7,000,000	7,000,000	(7,000,000)	
Repayment of bond anticipation note			(5,315,000)	(5,315,000)	5,315,000	
Construction advances	208,769			208,769	(208,769)	
Repayment of developer advances			(12,500)	(12,500)	12,500	
Other Item						
Transfers to other governments					(8,895,646)	(8,895,646)
Net Change in Fund Balance	43,733	703,092	282,241	1,029,066	(1,029,066)	
Change in Net Position					(10,745,750)	(10,745,750)
Fund Balance/Net Position						
Beginning of the year	416,041	-	175,665	591,706	(5,988,466)	(5,396,760)
End of the year	\$ 459,774	\$ 703,092	\$ 457,906	\$ 1,620,772	\$ (17,763,282)	\$ (16,142,510)

See notes to basic financial statements.

(This page intentionally left blank)

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris - Waller Counties Municipal Utility District No. 5 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

Harris - Waller Counties Municipal Utility District No. 4 (“MUD 4”) was organized, created, and established pursuant to House Bill No. 4520, 86th Session of the Texas Legislature, Regular Session, codified as Chapter 8047, Texas Special District Local Law Code (the “Act”), effective May 3, 2019. On July 30, 2020, the voters of MUD 4 approved a proposition dividing MUD 4 into three districts: the District, MUD 4 and Waller County Municipal Utility District No. 37 (“MUD 37”). As a result of the division, the District operates in accordance with Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution, and the Texas Water Code, Chapters 49 and 54. On November 3, 2020, the voters of the District voted to confirm the creation of the District. The Board of Directors held its first meeting on August 11, 2020, and the first bonds were issued on November 22, 2022.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

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

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At April 30, 2023, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	45 years
Landscaping improvements	20 years

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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’s nonspendable fund balance consists of prepaid items.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and capitalized interest from the sale of bonds and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. 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 an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developers; the value of capital assets transferred to Waller County and the value of capital assets for which the developers have not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds		\$ 1,620,772
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 19,508,902	
Less accumulated depreciation	<u>(631,386)</u>	
Change due to capital assets		18,877,516
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bond anticipation payable	(7,000,000)	
Interest payable on bonds	(194,221)	
Bonds payable	<u>(9,215,000)</u>	
Change due to long-term debt		(16,409,221)
Amounts due to the District's developers for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i> .		
		(20,281,389)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		
		49,812
Total net position - governmental activities		<u><u>\$ (16,142,510)</u></u>

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

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

Net change in fund balances - total governmental funds \$ 1,029,066

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and penalties and interest. 49,812

Governmental funds report capital outlays for developer reimbursements as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset. Other assets are recorded as transfers to other governments.

Capital outlays	\$ 8,801,002	
Depreciation expense	(462,009)	
Transfers to other governments	<u>(8,895,646)</u>	(556,653)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government-wide statements.

Issuance of long term debt	(9,215,000)	
Proceeds from bond anticipation note	(7,000,000)	
Repayment of bond anticipation note	5,315,000	
Interest payable on bonds	<u>(171,706)</u>	(11,071,706)

Amounts received from the District's developers for construction advances provide financial resources at the fund level, but are recorded as a liability in the *Statement of Net Position*. (208,769)

Amounts repaid to the District's developers for operating advances use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*. 12,500

Change in net position of governmental activities \$ (10,745,750)

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of April 30, 2023, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexSTAR	General	\$ 806,251	AAAm	18 days
	Debt Service	693,974		
	Capital Projects	436,957		
		<u>\$ 1,937,182</u>		

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 3 – Deposits and Investments (continued)

TexSTAR

The District participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

The District’s investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District’s investment in TexSTAR is measured using published fair value per share (level 1 inputs).

Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at April 30, 2023, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General	Debt Service	\$ 24,820	Maintenance tax collections not remitted as of year end
General	Capital Projects	64,476	Bond application fees paid by the General Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended April 30, 2023, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets being depreciated			
Infrastructure	\$ 7,447,072	\$ 11,036,640	\$ 18,483,712
Landscaping improvements	77,732	947,458	1,025,190
	<u>7,524,804</u>	<u>11,984,098</u>	<u>19,508,902</u>
Less accumulated depreciation			
Infrastructure	(165,490)	(410,749)	(576,239)
Landscaping improvements	(3,887)	(51,260)	(55,147)
	<u>(169,377)</u>	<u>(462,009)</u>	<u>(631,386)</u>
Capital assets, net	<u>\$ 7,355,427</u>	<u>\$ 11,522,089</u>	<u>\$ 18,877,516</u>

Depreciation expense for the current year was \$462,009.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short-term financing for reimbursements to its developers. Despite its short-term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long-term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of \$5,315,000. This BAN was repaid on November 22, 2022, with proceeds from the issuance of the District’s Series 2022 Unlimited Tax Bonds.

On December 22, 2022, the District issued a \$7,000,000 BAN with an interest rate of 4.80%, which is due on December 16, 2023. This BAN was repaid subsequent to year end. See Note 13 for additional information.

The effect of these transactions on the District’s short-term obligations are as follows:

Beginning balance	\$ 5,315,000
Amounts borrowed	7,000,000
Amounts repaid	(5,315,000)
Ending balance	<u>\$ 7,000,000</u>

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 7 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage, and park and recreational facilities and road improvements. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developers are reimbursed.

The District’s developers have also advanced funds to the District for operating expenses.

Changes in the estimated amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$ 8,006,378
Developer reimbursements	(8,593,264)
Developer funded construction and adjustments	20,672,006
Repayment of operating advances	(12,500)
Construction advances from developers	208,769
Due to developers, end of year	<u><u>\$ 20,281,389</u></u>

In addition, the District will owe the developers approximately \$4,152,612 which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Percentage Completed
Sunterra Section 26 - hardscape, landscape and irrigation	\$ 221,363	43%
Sunterra Section 27 - hardscape, landscape and irrigation	973,626	3%
Sunterra Sections 5-7 and 11 - landscape and irrigation	1,058,057	89%
Sunterra Sections 12 and 13 - hardscape, landscape and irrigation	880,844	84%
Sunterra Sections 17-20 - hardscape, landscape and irrigation	1,018,722	61%
	<u><u>\$ 4,152,612</u></u>	

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	<u><u>\$ 9,215,000</u></u>
Due within one year	<u><u>\$ -</u></u>

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 8 – Long-Term Debt (continued)

The District’s bonds payable at April 30, 2023, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2022	\$ 9,215,000	\$ 9,215,000	4.00% - 5.00%	September 1, 2024/2048	September 1, March 1	September 1, 2029

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

At April 30, 2023, the District had authorized, but unissued bonds in the amount of \$125,615,000 for water, sanitary sewer and drainage systems within the District and \$40,449,000 for the refunding of such bonds; \$49,780,000 for parks and recreational facilities and \$14,934,000 for the refunding of such bonds; and \$127,245,000 for road improvements and \$38,174,000 for the refunding of such bonds.

On November 22, 2022, the District issued its \$9,215,000 Series 2022 Unlimited Tax Bonds at a net effective interest rate of 5.115272%. Proceeds of the bonds were used to (1) reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds; (2) to repay a \$5,315,000 BAN issued in the previous fiscal year; and (3) to pay capitalized interest into the Debt Service Fund.

The change in the District’s long-term debt during the year is as follows:

Bonds payable, beginning of year	\$ -
Bonds issued	9,215,000
Bonds payable, end of year	<u>\$ 9,215,000</u>

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 8 – Long-Term Debt (continued)

As of April 30, 2023, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2024	\$ -	\$ 442,925	\$ 442,925
2025	185,000	439,225	624,225
2026	195,000	431,625	626,625
2027	205,000	423,625	628,625
2028	220,000	415,125	635,125
2029	230,000	406,125	636,125
2030	240,000	396,575	636,575
2031	255,000	386,206	641,206
2032	265,000	374,825	639,825
2033	280,000	362,563	642,563
2034	295,000	349,256	644,256
2035	310,000	334,500	644,500
2036	330,000	318,500	648,500
2037	345,000	301,625	646,625
2038	365,000	283,875	648,875
2039	380,000	265,250	645,250
2040	400,000	245,750	645,750
2041	425,000	225,125	650,125
2042	445,000	203,375	648,375
2043	470,000	180,500	650,500
2044	495,000	156,375	651,375
2045	520,000	131,000	651,000
2046	545,000	104,375	649,375
2047	575,000	76,375	651,375
2048	605,000	46,875	651,875
2049	635,000	15,875	650,875
	<u>\$ 9,215,000</u>	<u>\$ 7,317,450</u>	<u>\$ 16,532,450</u>

Note 9 – Property Taxes

On November 3, 2020, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and a road maintenance tax limited to \$0.25 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 9 – Property Taxes (continued)

All property values and exempt status, if any, are determined by the Harris Central and Waller County Appraisal Districts. 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.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2023 fiscal year was financed through the 2022 tax levy, pursuant to which the District levied property taxes of \$1.50 per \$100 of assessed value, of which \$0.87 was allocated to maintenance and operations, \$0.22 was allocated to debt service and \$0.41 was allocated to contract tax. The resulting tax levy was \$964,858 on the adjusted taxable value of \$64,323,851.

Property taxes receivable, at April 30, 2023, consisted of the following:

Current year taxes receivable	\$ 43,567
Prior years taxes receivable	1,181
	<u>44,748</u>
Penalty and interest receivable	5,064
Property taxes receivable	<u><u>\$ 49,812</u></u>

Note 10 – Transfers to Other Governments

Waller County assumes responsibility for the maintenance of public roads constructed within Waller County limits. Accordingly, road facilities are considered to be capital assets of Waller County, not the District. The estimated cost of each road project is recorded as a transfer to other government upon completion of construction. This cost is trued-up when the developers are subsequently reimbursed. For the year ended April 30, 2023, the District recorded transfers to other governments in the amount of \$8,895,646 for road facilities constructed by a developer within the District.

Note 11 – Master District

On November 17, 2020, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the “Contract”) with MUD 4 (the “Master District”), as subsequently amended, whereby the Master District agrees to provide or cause to be provided the regional water, wastewater, drainage and road facilities necessary to serve all participating districts located within the Master District’s service area.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 11 – Master District (continued)

Operating and Maintenance Reserve

The Contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. Prior to commencement of services, the Master District shall bill the District to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually. As of April 30, 2023, the District has paid \$251,294 to the Master District for its share of the operating and maintenance reserve.

Monthly Connection Fees for Operating Expenses

Upon commencement of services, the Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection multiplied by the number of equivalent single-family connections reserved to the District. The term of the Contract is 40 years.

Master District Debt

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing regional water, wastewater, drainage, and road facilities needed to provide services to all participating districts in the service area. The District shall contribute annually to the payment of debt service requirements based on its pro rata share of the total certified assessed valuation of all participating districts. During the current year, the Master District issued its \$12,480,000 Series 2022 Contract Revenue Bonds and \$10,400,000 Series 2022 Contract Revenue Road Bonds.

Summary of Charges

For the fiscal year ended April 30, 2023, the District incurred the following costs pursuant to the Contract with the Master District:

- Monthly connection fees for operating expenses in the amount of \$1,354,012;
- Monthly charges for mowing expenses in the amount of \$150,925; and
- Contractual obligations for Master District debt service requirements in the amount of \$105,715.

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Harris - Waller Counties Municipal Utility District No. 5
Notes to Financial Statements
April 30, 2023

Note 13 – Subsequent Event

On July 20, 2023, the District approved the sale of its Series 2023 Unlimited Tax Bonds in the amount of \$12,350,000. Proceeds from the bonds will be used to reimburse the District's developers for infrastructure improvements in the District and to repay a \$7,000,000 BAN issued in the current fiscal year.

Required Supplementary Information

Harris - Waller Counties Municipal Utility District No. 5
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended April 30, 2023

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water service	\$ 875,297	\$ 1,075,932	\$ 741,594	\$ (334,338)
Sewer service			351,303	351,303
Property taxes	800,000	500,000	534,350	34,350
Penalties and interest	1,000	1,000	31,619	30,619
Tap connection and inspection	923,210	1,583,010	1,211,705	(371,305)
Miscellaneous			20,441	20,441
Investment earnings	15	15	8,815	8,800
Total Revenues	<u>2,599,522</u>	<u>3,159,957</u>	<u>2,899,827</u>	<u>(260,130)</u>
Expenditures				
Current service operations				
Professional fees	132,000	127,000	86,762	40,238
Contracted services	871,925	969,738	1,051,560	(81,822)
Repairs and maintenance	75,000	75,000	173,423	(98,423)
Administrative	19,600	19,600	19,372	228
Other	1,000	1,000	21,071	(20,071)
Capittal outlay			207,738	(207,738)
Intergovernmental				
Master District connection fees	1,005,177	1,180,928	1,354,012	(173,084)
Maintenance charges	168,000	186,776	150,925	35,851
Total Expenditures	<u>2,272,702</u>	<u>2,560,042</u>	<u>3,064,863</u>	<u>(504,821)</u>
Revenues Over/(Under) Expenditures	326,820	599,915	(165,036)	(764,951)
Other Financing Sources				
Construction advances			208,769	208,769
Net Change in Fund Balance	326,820	599,915	43,733	(556,182)
Fund Balance				
Beginning of the year	416,041	416,041	416,041	
End of the year	<u>\$ 742,861</u>	<u>\$ 1,015,956</u>	<u>\$ 459,774</u>	<u>\$ (556,182)</u>

Harris - Waller Counties Municipal Utility District No. 5
Notes to Required Supplementary Information
April 30, 2023

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues and expenditures.

(This page intentionally left blank)

Texas Supplementary Information

Harris - Waller Counties Municipal Utility District No. 5
TSI-1. Services and Rates
April 30, 2023

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 57.00	10,000	N	\$ 4.30	10,001 to no limit
Wastewater:	\$ 47.50		Y		

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 57.00 Wastewater \$ 47.50

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	1,159	1,148	x 1.0	1,148
1"	1	1	x 2.5	3
1.5"			x 5.0	
2"	26	26	x 8.0	208
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	1,186	1,175		1,359
Total Wastewater	1,158	1,147	x 1.0	1,147

See accompanying auditor's report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-1. Services and Rates
April 30, 2023

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons purchased:	<u>93,224,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>93,224,000</u>	(Gallons billed / Gallons pumped)
		<u>100.00%</u>

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District:

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Harris and Waller Counties

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditor's report.

*Harris - Waller Counties Municipal Utility District No. 5
 TSI-2 General Fund Expenditures
 For the Year Ended April 30, 2023*

Professional fees	
Legal	\$ 75,762
Audit	11,000
	<u>86,762</u>
Contracted services	
Bookkeeping	24,600
Operator	99,471
Tap connection and inspection	648,149
Garbage service	203,891
Security service	75,449
	<u>1,051,560</u>
Repairs and maintenance	<u>173,423</u>
Administrative	
Directors fees	8,550
Printing and office supplies	2,397
Insurance	3,113
Other	5,312
	<u>19,372</u>
Other	<u>21,071</u>
Capital outlay	<u>207,738</u>
Intergovernmental	
Master District connection fees	1,354,012
Maintenance charges	150,925
	<u>1,504,937</u>
Total expenditures	<u>\$ 3,064,863</u>

See accompanying auditor's report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-3. Investments
April 30, 2023

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexSTAR	Variable	N/A	\$ 806,251
Debt Service			
TexSTAR	Variable	N/A	551,702
TexSTAR	Variable	N/A	142,272
			<u>693,974</u>
Capital Projects			
TexSTAR	Variable	N/A	436,957
Total - All Funds			<u>\$ 1,937,182</u>

See accompanying auditor's report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-4. Taxes Levied and Receivable
April 30, 2023

	Maintenance Taxes	W-S-D Debt Service Taxes	Contract Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 17,309	\$ -	\$ -	\$ 17,309
2022 Original Tax Levy	529,497	133,896	249,533	912,926
Adjustments	30,120	7,617	14,195	51,932
Adjusted Tax Levy	559,617	141,513	263,728	964,858
Rollback Taxes	1,181			1,181
Total to be accounted for	578,107	141,513	263,728	983,348
Tax collections:				
Current year	534,349	135,122	251,820	921,291
Prior years	17,309			17,309
Total Collections	551,658	135,122	251,820	938,600
Taxes Receivable, End of Year	\$ 26,449	\$ 6,391	\$ 11,908	\$ 44,748
Taxes Receivable, By Years				
2022	\$ 25,268	\$ 6,391	\$ 11,908	\$ 43,567
2021	1,181			1,181
Taxes Receivable, End of Year	\$ 26,449	\$ 6,391	\$ 11,908	\$ 44,748
			2022	2021
Property Valuations:				
Land			\$ 55,871,227	\$ 10,036,475
Improvements			8,733,418	440,490
Personal Property			277,369	75,854
Exemptions			(558,163)	(99,673)
Total Property Valuations			\$ 64,323,851	\$ 10,453,146
Tax Rates per \$100 Valuation:				
Maintenance tax rates			\$ 0.87	\$ 1.50
W-S-D debt service tax rates			0.22	
Contract tax rates			0.41	
Total Tax Rates per \$100 Valuation			\$ 1.50	\$ 1.50
Adjusted Tax Levy:			\$ 964,858	\$ 156,797
Percentage of Taxes Collected to Taxes Levied ***			95.48%	99.25%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 3, 2020

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on November 3, 2020

*** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditor's report.

*Harris - Waller Counties Municipal Utility District No. 5
 TSI-5. Long-Term Debt Service Requirements
 Series 2022--by Years
 April 30, 2023*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2024	\$ -	\$ 442,925	\$ 442,925
2025	185,000	439,225	624,225
2026	195,000	431,625	626,625
2027	205,000	423,625	628,625
2028	220,000	415,125	635,125
2029	230,000	406,125	636,125
2030	240,000	396,575	636,575
2031	255,000	386,206	641,206
2032	265,000	374,825	639,825
2033	280,000	362,563	642,563
2034	295,000	349,256	644,256
2035	310,000	334,500	644,500
2036	330,000	318,500	648,500
2037	345,000	301,625	646,625
2038	365,000	283,875	648,875
2039	380,000	265,250	645,250
2040	400,000	245,750	645,750
2041	425,000	225,125	650,125
2042	445,000	203,375	648,375
2043	470,000	180,500	650,500
2044	495,000	156,375	651,375
2045	520,000	131,000	651,000
2046	545,000	104,375	649,375
2047	575,000	76,375	651,375
2048	605,000	46,875	651,875
2049	635,000	15,875	650,875
	<u>\$ 9,215,000</u>	<u>\$ 7,317,450</u>	<u>\$ 16,532,450</u>

See accompanying auditor's report.

Harris - Waller Counties Municipal Utility District No. 5
TSI-6. Change in Long-Term Bonded Debt
April 30, 2023

	<u>Bond Issue</u> <u>Series 2022</u>
Interest rate	4.00% - 5.00%
Dates interest payable	9/1; 3/1
Maturity dates	9/1/24 - 9/1/48
Beginning bonds outstanding	\$ -
Bonds issued	<u>9,215,000</u>
Ending bonds outstanding	<u>\$ 9,215,000</u>
Interest paid during fiscal year	<u>\$ 121,804</u>

Paying agent's name and city
Series 2022

Regions Bank, Houston, Texas

	<u>Water, Sewer and Drainage Bonds</u>	<u>Water, Sewer and Drainage Refunding Bonds</u>	<u>Road Bonds</u>	<u>Road Refunding Bonds</u>
Bond Authority:				
Amount Authorized by Voters	\$ 134,830,000	\$ 40,449,000	\$ 127,245,000	\$ 38,174,000
Amount Issued	(9,215,000)			
Remaining To Be Issued	<u>\$ 125,615,000</u>	<u>\$ 40,449,000</u>	<u>\$ 127,245,000</u>	<u>\$ 38,174,000</u>

	<u>Park and Recreation Facilities Bonds</u>	<u>Park and Recreation Facilities Refunding Bonds</u>
Bond Authority:		
Amount Authorized by Voters	\$ 49,780,000	\$ 14,934,000
Amount Issued		
Remaining To Be Issued	<u>\$ 49,780,000</u>	<u>\$ 14,934,000</u>

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investment balances as of April 30, 2023:	<u>\$ 729,006</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 635,863</u>

See accompanying auditor's report.

(This page intentionally left blank)

Harris - Waller Counties Municipal Utility District No. 5
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Three Fiscal Years

	Amounts		
	2023	2022	2021
Revenues			
Water service	\$ 741,594	\$ 27,381	\$ -
Sewer service	351,303	9,520	
Property taxes	534,350	156,797	
Penalties and interest	31,619	1,569	
Tap connection and inspection	1,211,705	952,845	
Miscellaneous	20,441	340	
Investment earnings	8,815	93	13
Total Revenues	<u>2,899,827</u>	<u>1,148,545</u>	<u>13</u>
Expenditures			
Current service operations			
Purchased services		223,041	
Professional fees	86,762	95,630	155,968
Contracted services	1,051,560	389,411	6,000
Repairs and maintenance	173,423	20,587	
Administrative	19,372	17,364	9,904
Other	21,071	1,570	1,036
Capital outlay	207,738		
Intergovernmental			
Master District connection fees	1,354,012		
Maintenance charges	150,925		
Total Expenditures	<u>3,064,863</u>	<u>747,603</u>	<u>172,908</u>
Revenues Over/(Under) Expenditures	<u>\$ (165,036)</u>	<u>\$ 400,942</u>	<u>\$ (172,895)</u>
Total Active Retail Water Connections	<u>1,175</u>	<u>614</u>	<u>N/A</u>
Total Active Retail Wastewater Connections	<u>1,147</u>	<u>606</u>	<u>N/A</u>

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues		
2023	2022	2021
26%	2%	
12%	1%	
18%	14%	
1%	*	
42%	83%	
1%	*	
*	*	100%
100%	100%	100%

	19%	
3%	8%	1199754%
36%	34%	46154%
6%	2%	
1%	2%	76185%
1%	*	7969%
7%		
47%		
5%		
106%	65%	1330062%
(6%)	35%	(1329962%)

Harris - Waller Counties Municipal Utility District No. 5
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Current Fiscal Year

	Amounts	Percent of Fund Total Revenues
	2023	2023
Revenues		
Property taxes	\$ 387,122	94%
Penalties and interest	7,054	2%
Miscellaneous	4,217	1%
Investment earnings	10,605	3%
Total Revenues	<u>408,998</u>	<u>100%</u>
Expenditures		
Tax collection services	30,311	7%
Other	976	*
Debt service		
Interest and fees	121,804	30%
Intergovernmental		
Contractual obligations	105,715	26%
Total Expenditures	<u>258,806</u>	<u>63%</u>
Revenues Over Expenditures	<u>\$ 150,192</u>	<u>37%</u>

*Percentage is negligible

See accompanying auditor's report.

**Harris - Waller Counties Municipal Utility District No. 5
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended April 30, 2023**

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): August 18, 2022
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.060)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Christie Leighton	11/20 - 05/24	\$ 2,250	\$ 1,379	President
Brian Lopera	11/20 - 05/24	1,650	827	Vice President
Olga M. Strong	11/20 - 05/24	1,200	82	Secretary
Jimm Davis	05/22 - 04/23	1,500	285	Assistant Vice President
Cindy Morrow	05/22 - 05/26	1,350	112	Assistant Secretary
Andrew Palermo	11/20 - 05/22	150	23	Former Director
Consultants				
Allen Boone Humphries Robinson LLP	2020	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 114,250		
<i>Bond counsel</i>		303,543		
Municipal District Services	2020	1,077,129		Operator
Myrtle Cruz, Inc.	2020	34,192		Bookkeeper
Bob Leared Interests	2020	5,462		Tax Collector
Waller County Appraisal District	Legislation	10,256		Property Valuation
Harris Central Appraisal District	Legislation	808		Property Valuation
Perdue Brandon Fielder Collins & Mott, LLP	2020			Delinquent Tax Attorney
Quiddity Engineering, LLC	2020	88,184		Engineer
Kimley-Horn & Associates, Inc.	2020			Landscape Architect
McGrath & Co., PLLC	2020	28,825		Auditor
R.W. Baird & Co., Inc.	2020	257,382		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.

See accompanying auditor's report.