

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 535**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

May 31, 2025

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McGRATH & CO., PLLC

Certified Public Accountants

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Houston, Texas 77092

Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 535
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and General Fund of Harris County Municipal Utility District No. 535 (the "District"), as of and for the year ended May 31, 2025, 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 General Fund of Harris County Municipal Utility District No. 535, as of May 31, 2025, 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.

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 County Municipal Utility District No. 535
Harris County, 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.

McGuath & Co, LLC

Houston, Texas
August 22, 2025

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Management's Discussion and Analysis

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***Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2025***

Using this Annual Report

This section of the financial report of Harris County Municipal Utility District No. 535 (the "District") provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended May 31, 2025. 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 Fund Balance Sheet* and the *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance*. 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 County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2025***

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 Fund Balance Sheet* and the *Governmental Fund Revenues, Expenditures and Changes in Fund Balance*. 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 May 31, 2025, was negative \$162,321. This amount is negative because the District relies on advances from its developers to fund operating costs. A comparative summary of the District's overall financial position, as of May 31, 2025 and 2024, is as follows:

	2025	2024
Current and other assets	\$ 69,401	\$ 2,070
Capital assets	1,101,854	352,922
Total assets	1,171,255	354,992
Current liabilities	23,444	11,499
Long-term liabilities	1,310,132	515,922
Total liabilities	1,333,576	527,421
Net position		
Net investment in capital assets	(25,278)	
Unrestricted	(137,043)	(172,429)
Total net position	\$ (162,321)	\$ (172,429)

Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2025

The total net position of the District increased during the current fiscal year by \$10,108. A comparative summary of the District's *Statement of Activities* for the current year and prior fiscal year (unaudited) is as follows:

	2025	2024
Revenues		
Property taxes, penalties and interest	\$ 213,809	\$ -
Expenses		
Operating and administrative	178,423	161,358
Depreciation	25,278	
Total expenses	203,701	161,358
Change in net position	10,108	(161,358)
Net position, beginning of year	(172,429)	(11,071)
Net position, end of year	\$ (162,321)	\$ (172,429)

Financial Analysis of the District's General Fund

A comparative summary of the General Fund's financial position as of May 31, 2025 and 2024, is as follows:

	2025	2024
Total assets	\$ 69,401	\$ 2,070
Total liabilities	\$ 23,444	\$ 11,499
Total fund balance	45,957	(9,429)
Total liabilities and fund balance	\$ 69,401	\$ 2,070

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

	2025	2024
Total revenues	\$ 213,809	\$ -
Total expenditures	(178,423)	(161,358)
Revenues over/(under) expenditures	35,386	(161,358)
Other changes in fund balance	20,000	143,000
Net change in fund balance	\$ 55,386	\$ (18,358)

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 and developer advances.

***Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2025***

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. During the current fiscal year, the District levied and collected property taxes for the 2023 and 2024 tax years.
- Developers in the District advance funds to the District as needed to pay operating costs.

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 \$50,886 greater than budgeted. The *Budgetary Comparison Schedule* on page 28 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.

Capital assets held by the District at May 31, 2025 and 2024, are summarized as follows:

	2025	2024
Capital assets not being depreciated		
Land and improvements	\$ 621,572	\$ 352,922
Capital assets being depreciated		
Landscaping improvements	505,560	
Less accumulated depreciation	(25,278)	
Depreciable capital assets, net	480,282	
Capital assets, net	\$ 1,101,854	\$ 352,922

Capital asset additions during the current fiscal year include the following:

- Rosewood West, Phase 1 – clearing and grubbing
- Redbud, Phase 1 – landscaping improvements

***Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2025***

Long-Term Debt and Related Liabilities

As of May 31, 2025, the District owes approximately \$1,310,132 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 5, the District has an additional commitment in the amount of \$37,151,612 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 is trued up when the developers are reimbursed.

At May 31, 2025, the District had \$425,000,000 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 refunding of such bonds; \$100,000,000 for parks and recreational facilities and refunding of such bonds and \$295,000,000 for road improvements and refunding of such bonds.

Property Taxes

The District's property tax base increased approximately \$26,917,000 for the 2025 tax year from \$10,020,817 to \$36,937,762, based on preliminary values. This increase was primarily due to new construction in the District and increased property values.

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 the projected cost of operating the District. A comparison of next fiscal year's budget to current fiscal year actual amounts for the General Fund is as follows:

	<u>2025 Actual</u>	<u>2026 Budget</u>
Total revenues	\$ 213,809	\$ 300,000
Total expenditures	<u>(178,423)</u>	<u>(217,804)</u>
Revenues over expenditures	35,386	82,196
Other changes in fund balance	<u>20,000</u>	
Net change in fund balance	55,386	82,196
Beginning fund balance	<u>(9,429)</u>	<u>45,957</u>
Ending fund balance	<u>\$ 45,957</u>	<u>\$ 128,153</u>

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Basic Financial Statements

Harris County Municipal Utility District No. 535
Statement of Net Position and Governmental Fund Balance Sheet
May 31, 2025

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 64,950	\$ -	\$ 64,950
Other receivables	4,451		4,451
Capital assets not being depreciated		621,572	621,572
Capital assets, net		480,282	480,282
Total Assets	<u>\$ 69,401</u>	<u>1,101,854</u>	<u>1,171,255</u>
Liabilities			
Accounts payable	\$ 23,444		23,444
Due to developers		1,310,132	1,310,132
Total Liabilities	<u>23,444</u>	<u>1,310,132</u>	<u>1,333,576</u>
Fund Balance/Net Position			
Fund Balance			
Unassigned	<u>45,957</u>	<u>(45,957)</u>	
Total Liabilities and Fund Balance	<u>\$ 69,401</u>		
Net Position			
Net investment in capital assets		(25,278)	(25,278)
Unrestricted		(137,043)	(137,043)
Total Net Position		<u>\$ (162,321)</u>	<u>\$ (162,321)</u>

See notes to basic financial statements.

Harris County Municipal Utility District No. 535
Statement of Activities and Governmental Fund Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended May 31, 2025

	General Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 211,890	\$ -	\$ 211,890
Penalties and interest	1,919		1,919
Total Revenues	213,809		213,809
Expenditures/Expenses			
Operating and administrative			
Professional fees	113,061		113,061
Contracted services	26,471		26,471
Administrative	37,249		37,249
Other	1,642		1,642
Depreciation		25,278	25,278
Total Expenditures/Expenses	178,423	25,278	203,701
Revenues Over Expenditures	35,386	(35,386)	
Other Financing Sources			
Developer advances	20,000	(20,000)	
Net Change in Fund Balances	55,386	(55,386)	
Change in Net Position		10,108	10,108
Fund Balance/Net Position			
Beginning of the year	(9,429)	(163,000)	(172,429)
End of the year	<u>\$ 45,957</u>	<u>\$ (208,278)</u>	<u>\$ (162,321)</u>

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 535 (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

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality, dated March 31, 2015, and operates in accordance with Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution and with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on February 24, 2023.

The District’s primary activities include construction, maintenance and operation of water, sewer, and drainage, parks and recreational facilities, and the construction of road 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*.

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. The District uses only a General Fund to account for its operations. The District’s principal financial resources are property taxes and developer advances. Expenditures include costs associated with the daily operations of the District.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2025

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. 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.

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.

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 that exceeds the capitalization threshold for the asset class and an estimated useful life in excess of one year. Capital assets that individually are below the capitalization threshold but, in the aggregate, are above the threshold are capitalized. Subsequent replacements of these assets that do not exceed the threshold are not capitalized. The District's capitalization threshold for infrastructure assets is \$50,000. The threshold for subscription-based information technology arrangements (SBITAs) is \$100,000.

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.

Depreciable capital assets, which primarily consist of landscaping improvements, are depreciated using the straight-line method over an estimated useful life of 20 years.

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 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 externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District does not have any restricted fund balances.

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

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2025

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 useful lives and impairment of capital assets; the value of amounts due to developers 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.

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 fund	\$ 45,957
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 1,127,132	
Less accumulated depreciation	<u>(25,278)</u>	
		1,101,854

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 due to developers.	(1,310,132)
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Total net position - governmental activities	<u><u>\$ (162,321)</u></u>
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Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2025

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

Net change in fund balance - total governmental fund	\$ 55,386
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Financial reporting for capital assets varies significantly between the fund statements and the government-wide statements. Reporting at the fund level focuses on the impact of transactions on financial resources (i.e., cash), while reporting at the government-wide level seeks to allocate the cost of the acquisition of capital assets over their useful lives and to measure the economic impact of developer financing of capital assets used by the District or conveyed to other governmental entities. Difference during the current fiscal year is for depreciation expense.	(25,278)
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Financial reporting for long-term obligations varies between the fund statements and the government-wide statements. At the fund level, the focus is on increases and decreases of financial resources as liabilities are acquired and repaid. At the government-wide level, the focus is on measuring and reporting on changes in the District's obligation to repay liabilities in the future. Difference during the current fiscal year is for the developer advances.	(20,000)
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Change in net position of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 10,108</div>
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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

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2025

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.

Note 4 – Capital Assets

A summary of changes in capital assets, for the year ended May 31, 2025, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 352,922	\$ 268,650	\$ 621,572
Capital assets being depreciated			
Landscaping improvements		505,560	505,560
Less accumulated depreciation		(25,278)	(25,278)
Subtotal depreciable capital assets, net		480,282	480,282
Capital assets, net	\$ 352,922	\$ 748,932	\$ 1,101,854

Depreciation expense for the current fiscal year was \$25,278.

Note 5 – 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 construct facilities on behalf of 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.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2025

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

Due to developers, beginning of year	\$ 515,922
Developer funded construction and adjustments	774,210
Operating advances from developers	<u>20,000</u>
Due to developers, end of year	<u><u>\$ 1,310,132</u></u>

In addition, the District will owe the developers approximately \$37,151,612, 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.

	<u>Contract Amount</u>	<u>Percent Complete</u>
Redbud Section 2 and offsite waterline - utilities and paving	\$ 2,797,869	91%
Bauer Hockley Road No. 1, Redbud Section 1, Redbud Drainage Improvements Phase I - utilities and paving	8,020,151	93%
Redbud Section 4 - utilities	1,431,373	88%
Redbud Section 4 - paving	910,046	74%
Redbud, Phase 2 - clearing and grubbing	471,528	62%
Hopfe Road, Sections 1, 2, and 3 - utilities and paving	8,300,000	92%
Rosewood West, Phase 1 - offsite clearing and grubbing, detention, and mass grading	5,169,507	88%
Hopfe Road, Botkins Road, and Recreation Center - utilities and paving	5,465,000	91%
Rosewood West, Phase 1 - offsite water facilities and forcemain	1,027,755	95%
Rosewood West - lift station	1,434,875	50%
Redbud Recreation Center - landscaping improvements	1,958,793	69%
Redbud, Section 4 - landscaping improvements	97,231	38%
Redbud, Section 4 - columns	67,484	-%
	<u><u>\$ 37,151,612</u></u>	

Note 6 – Long-Term Debt

At May 31, 2025, the District had \$425,000,000 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 refunding of such bonds; \$100,000,000 for parks and recreational facilities and refunding of such bonds and \$295,000,000 for road improvements and refunding of such bonds.

Note 7 – Property Taxes

On November 7, 2023, 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. In

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2025

addition, the voters of the District authorized the District's Board of Directors to levy taxes annually for road maintenance limited to \$0.25 per \$100 of assessed value.

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

Property taxes are collected based on rates adopted in the year of the levy. Harris Central Appraisal District certified tax values for the 2023 tax year subsequent to the end of the 2024 fiscal year. As a result, the District's 2025 fiscal year was financed through both the 2023 and 2024 tax levies, pursuant to which the District levied property taxes of \$1.50 per \$100 of assessed value, all of which was allocated to maintenance and operations. The District's adjusted taxable value for the 2023 tax year was \$4,105,183, which resulted in a tax levy of \$61,578. The District's adjusted taxable value for the 2024 tax year was \$10,020,817, which resulted in a tax levy of \$150,312.

Note 8 – Public-Private Partnership – Quadvest, LP – Taylor Morrison of Texas, Inc.

On October 5, 2022, the District entered into an agreement (the "Agreement") with Taylor Morrison of Texas, Inc. ("Taylor") and Quadvest, LP ("Quadvest") for the provision of water and wastewater service to a 247-acre residential development in Harris County, Texas. Quadvest, a state-certificated retail public water and wastewater utility, will design, finance, construct, and own the water production facilities and wastewater treatment plant (collectively, the "Plants"). Taylor will design and construct the water distribution and wastewater collection system (the "Utility System Mains") and convey related sites, easements, and improvements and will make a \$2,000,000 contribution in aid of construction for the Plants.

On September 27, 2024, the Agreement was amended to add the District as a party. The District will own the Utility System Mains for the life of the bonds issued to finance their acquisition and construction. During the bond term, Quadvest will have exclusive rights to operate and maintain the Utility System Mains. Upon the earlier of (i) retirement of the bonds, (ii) dissolution of the District, or (iii) termination of the Agreement, the District will convey the Utility System Mains to Quadvest at no cost. At that time, the District will not retain any ownership or residual interest in the assets. Quadvest will make no payments to the District in connection with the transfer.

This arrangement meets the definition of a public-private partnership under GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). Since the District will not retain a significant residual interest in the Utility System Mains, the assets will be removed from the District's capital asset records upon transfer to Quadvest. Quadvest is not required to make any payments to the District during the term of the arrangement. As of May 31, 2025, construction of the Utility System Mains was in progress, and no assets have yet been transferred to Quadvest.

Note 9 – Public–Private Partnership – Quadvest, LP – JDS Hopfe Rd, LLC

On May 31, 2024, the District entered into an agreement with JDS Hopfe Rd, LLC (“JDS”) and Quadvest, LP (“Quadvest”) for water and wastewater service to a 300-acre residential development within the District, projected to contain approximately 1,100 equivalent single-family connections (“ESFCs”). The District will design and construct water and sewer mains, lift stations, and related improvements (“Utility System Mains”) to connect the development to Quadvest’s production and treatment facilities. The District will finance the Utility System Mains through bonds and will own them during the bond term. Quadvest will have the exclusive right to operate and maintain the Utility System Mains to serve customers.

Upon retirement of the bonds, the District will convey the Utility System Mains and related sites to Quadvest at no cost and will retain no residual interest. Quadvest will make no payments to the District in connection with the transfer. JDS will convey plant and lift station sites, utility and access easements, and groundwater rights to Quadvest and will make a \$2,250,000 contribution in aid of construction for the Plants. Quadvest will construct and expand the Plants as needed and will provide retail service at rates approved by state regulatory agencies.

This arrangement meets the definition of a public–private partnership under GASB 94. Since the District will not retain a significant residual interest, the Utility System Mains will be removed from the District’s capital asset records upon transfer. Quadvest is not required to make any payments to the District during the term of the arrangement. As of May 31, 2025, construction of the Utility System Mains was in progress, and no assets have yet been transferred to Quadvest.

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 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 two prior years.

Note 11 – Economic Dependency

The District is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers’ willingness to make future operating advances and/or to pay property taxes will directly affect the District’s ability to meet its future obligations.

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Required Supplementary Information

Harris County Municipal Utility District No. 535
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended May 31, 2025

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ -	\$ 140,000	\$ 211,890	\$ 71,890
Penalties and interest			1,919	1,919
Total Revenues	-	140,000	213,809	73,809
Expenditures				
Operating and administrative				
Professional fees	110,000	110,000	113,061	(3,061)
Contracted services	12,000	12,000	26,471	(14,471)
Repairs and maintenance		40,000		40,000
Administrative	28,500	28,500	37,249	(8,749)
Other	5,000	5,000	1,642	3,358
Total Expenditures	155,500	195,500	178,423	17,077
Revenues Over (Under) Expenditures	(155,500)	(55,500)	35,386	90,886
Other Financing Sources				
Developer advances	156,000	60,000	20,000	(40,000)
Net Change in Fund Balance	500	4,500	55,386	50,886
Fund Balance				
Beginning of the year	(9,429)	(9,429)	(9,429)	
End of the year	\$ (8,929)	\$ (4,929)	\$ 45,957	\$ 50,886

Harris County Municipal Utility District No. 535
Notes to Required Supplementary Information
May 31, 2025

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.

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Texas Supplementary Information

Harris County Municipal Utility District No. 535
TSI-1. Services and Rates
May 31, 2025

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

- | | | | |
|--|---|---|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input checked="" type="checkbox"/> Solid Waste / Garbage | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input checked="" type="checkbox"/> Flood Control | <input type="checkbox"/> Irrigation |
| <input checked="" type="checkbox"/> Parks / Recreation | <input type="checkbox"/> Fire Protection | <input checked="" type="checkbox"/> Roads | <input type="checkbox"/> Security |

☐ Participates in joint venture, regional system and/or wastewater service

☒ Other (Specify): Water and sewer services are provided by Quadvest, LP

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:					to
Wastewater:					to
Surcharge:					to

District employs winter averaging for wastewater usage? ☐ Yes ☐ No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"			x 1.0	
1"			x 2.5	
1.5"			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				
Total Wastewater			x 1.0	

See accompanying auditor's report.

Harris County Municipal Utility District No. 535
TSI-1. Services and Rates
May 31, 2025

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

Gallons pumped into system:	<u>N/A</u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>N/A</u>	<u>N/A</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 (required for first audit year or when information changes,

Is the District located entirely within one county? Yes ☒ No ☐

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

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 County Municipal Utility District No. 535
TSI-2. General Fund Expenditures
For the Year Ended May 31, 2025

Professional fees	
Legal	\$ 85,850
Engineering	27,211
	<u>113,061</u>
Contracted services	
Bookkeeping	11,630
Tax assessor collector	9,530
Garbage collection	3,564
Appraisal district fees	389
Delinquent tax attorney	1,358
	<u>26,471</u>
Administrative	
Directors fees	21,216
Printing and office supplies	1,581
Insurance	3,363
Other	11,089
	<u>37,249</u>
Other	<u>1,642</u>
Total expenditures	<u><u>\$ 178,423</u></u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 535
TSI-4. Taxes Levied and Receivable
May 31, 2025

	Maintenance Taxes	
2023 Original and Adjusted Tax Levy	\$	61,578
2024 Original Tax Levy		101,699
Adjustments		48,613
Adjusted Tax Levy		150,312
Total to be accounted for		211,890
Tax collections:		
2024		150,312
2023		61,578
Total Collections		211,890
Taxes Receivable, End of Year	\$	-
	2024	2023
Property Valuations:		
Land	\$ 25,724,099	\$ 21,043,267
Improvements	1,107,039	277,890
Personal Property	366,774	
Exemptions	(17,177,095)	(17,215,974)
Total Property Valuations	\$ 10,020,817	\$ 4,105,183
Tax Rates per \$100 Valuation:		
Maintenance tax rates	\$ 1.50	\$ 1.50
Adjusted Tax Levy:	\$ 150,312	\$ 61,578
Percentage of Taxes Collected to Taxes Levied ***	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 7, 2023

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on November 7, 2023

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

See accompanying auditor's report.

Harris County Municipal Utility District No. 535

TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund

For the Last Three Fiscal Years

	Amounts		
	2025	2024**	2023**
Revenues			
Property taxes	\$ 211,890	\$ -	\$ -
Penalties and interest	1,919		
Total Revenues	213,809	-	-
Expenditures			
Operating and administrative			
Professional fees	113,061	115,454	3,944
Contracted services	26,471	12,045	
Administrative	37,249	22,093	6,490
Other	1,642	11,766	637
Total Expenditures	178,423	161,358	11,071
Revenues Over (Under) Expenditures	\$ 35,386	\$ (161,358)	\$ (11,071)

**Unaudited

See accompanying auditor's report.

Percent of Fund Total Revenues		
2025	2024**	2023**
99%	- %	- %
1%		
100%	-	-
53%	-	-
12%	-	
17%	-	-
1%	-	-
83%	-	-
17%	- %	- %

Harris County Municipal Utility District No. 535
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended May 31, 2025

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): May 24, 2024
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				
Gregory Prioli	05/24 - 05/28	\$ 2,210	\$ 57	President
Marc Warren	11/23 - 05/26	5,304	681	Vice President
J Chase Oelkers	05/24 - 05/28	3,978	254	Secretary
Justin Waggoner	03/24 - 05/26	5,746	2,994	Assistant Vice President
Brandon West	11/23 - 05/26	3,978	1,663	Assistant Secretary
Consultants				
Allen Boone Humphries Robinson LLP	02/23	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 71,025		
Myrtle Cruz, Inc.	04/23	16,701		Bookkeeper
Bob Leared Interests	04/23	5,000		Tax Collector
Harris Central Appraisal District	Legislation	194		Property Valuation
Perdue, Bramdon, Fielder, Collins & Mott, LLP	10/23	1,358		Delinquent Tax Attorney
Quiddity Engineering, LLC	04/23	25,198		Engineer
McGrath & Co., PLLC	07/25			Auditor
Robert W. Baird & Co., Inc.	04/23			Financial Advisor
KGA/Deforest Design, LLC	05/23	459		Landscape Architect

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

See accompanying auditor's report.