

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

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

May 31, 2026

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		34
Notes to Required Supplementary Information		35
 TEXAS SUPPLEMENTARY INFORMATION		
Services and Rates	TSI-1	38
General Fund Expenditures	TSI-2	40
Investments	TSI-3	41
Taxes Levied and Receivable	TSI-4	42
Long-Term Debt Service Requirements by Years	TSI-5	43
Change in Long-Term Bonded Debt	TSI-6	44
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	46
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	48
Board Members, Key Personnel, and Consultants	TSI-8	49

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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 each major fund of Harris County Municipal Utility District No. 535 (the "District"), as of and for the year ended May 31, 2026, 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 County Municipal Utility District No. 535, as of May 31, 2026, 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.



Houston, Texas
September 25, 2026

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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, 2026***

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, 2026. 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 County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2026

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 May 31, 2026, was negative \$14,224,571. The District's net position is negative because the District incurs debt to construct public roads which it conveys to Harris County. A comparative summary of the District's overall financial position, as of May 31, 2026 and 2025, is as follows:

	2026	2025
Current and other assets	\$ 1,329,791	\$ 69,401
Capital assets	29,738,369	1,101,854
Total assets	31,068,160	1,171,255
Current liabilities	168,013	23,444
Long-term liabilities	45,124,718	1,310,132
Total liabilities	45,292,731	1,333,576
Net position		
Net investment in capital assets	(1,850,428)	(25,278)
Restricted	417,199	
Unrestricted	(12,791,342)	(137,043)
Total net position	\$ (14,224,571)	\$ (162,321)

***Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2026***

The total net position of the District decreased during the current fiscal year by \$14,062,250. A comparative summary of the District's *Statement of Activities* for the past two fiscal years is as follows:

	2026	2025
Revenues		
Property taxes, penalties and interest	\$ 752,125	\$ 213,809
Other	12,803	
Total revenues	<u>764,928</u>	<u>213,809</u>
Expenses		
Operating and administrative	379,363	178,423
Debt interest and fees	178,317	
Developer interest	403,119	
Debt issuance costs	656,345	
Depreciation	617,467	25,278
Total expenses	<u>2,234,611</u>	<u>203,701</u>
Change in net position before other item	(1,469,683)	10,108
Other item		
Transfers to other governments	<u>(12,592,567)</u>	
Change in net position	(14,062,250)	10,108
Net position, beginning of year	(162,321)	(172,429)
Net position, end of year	<u>\$ (14,224,571)</u>	<u>\$ (162,321)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of May 31, 2026, were \$1,245,376, which consists of \$552,464 in the General Fund, \$516,032 in the Debt Service Fund, and \$176,880 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of May 31, 2026 and 2025, is as follows:

	2026	2025
Total assets	<u>\$ 593,974</u>	<u>\$ 69,401</u>
Total liabilities	\$ 26,275	\$ 23,444
Total deferred inflows	15,235	
Total fund balance	552,464	45,957
Total liabilities, deferred inflows and fund balance	<u>\$ 593,974</u>	<u>\$ 69,401</u>

Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2026

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

	2026	2025
Total revenues	\$ 740,575	\$ 213,809
Total expenditures	(369,068)	(178,423)
Revenues over expenditures	371,507	35,386
Other changes in fund balance	135,000	20,000
Net change in fund balance	<u>\$ 506,507</u>	<u>\$ 55,386</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 and developer advances. 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.
- Developers in the District advance funds to the District as needed to pay operating and construction costs.

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 of the Debt Service Fund as of May 31, 2026, is as follows:

Total assets	<u>\$ 516,032</u>
Total fund balance	<u>\$ 516,032</u>

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

Total revenues	\$ 9,035
Total expenditures	(79,484)
Revenues under expenditures	(70,449)
Other changes in fund balance	586,481
Net change in fund balance	<u>\$ 516,032</u>

***Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2026***

Capital Projects Fund

A Capital Projects Fund was established to account for the expenditure of proceeds from the issuance of the District's Series 2025 Unlimited Tax Road Bonds. A summary of the financial position of the Capital Projects Fund as of May 31, 2026, is as follows:

Total assets	<u>\$ 222,285</u>
Total liabilities	\$ 45,405
Total fund balance	<u>176,880</u>
Total liabilities and fund balance	<u>\$ 222,285</u>

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

Total revenues	\$ 83
Total expenditures	<u>(8,201,732)</u>
Revenues under expenditures	(8,201,649)
Other changes in fund balance	<u>8,378,529</u>
Net change in fund balance	<u>\$ 176,880</u>

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 did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$424,311 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 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 County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2026***

Capital assets held by the District at May 31, 2026 and 2025, are summarized as follows:

	<u>2026</u>	<u>2025</u>
Capital assets not being depreciated		
Land and improvements	\$ 5,483,822	\$ 621,572
Construction in progress	660,792	
	<u>6,144,614</u>	<u>621,572</u>
Capital assets being depreciated		
Infrastructure	21,396,914	
Recreational facilities	406,615	
Landscaping improvements	2,432,971	505,560
	<u>24,236,500</u>	<u>505,560</u>
Less accumulated depreciation		
Infrastructure	(475,487)	
Recreational facilities	(20,331)	
Landscaping improvements	(146,927)	(25,278)
	<u>(642,745)</u>	<u>(25,278)</u>
Depreciable capital assets, net	<u>23,593,755</u>	<u>480,282</u>
Capital assets, net	<u>\$ 29,738,369</u>	<u>\$ 1,101,854</u>

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

- Bauer Hockley Road Extension No. 1, Redbud Section 1, and Redbud Drainage Improvements Phase 1 – utilities
- Everly Recreation Center – site work
- Hopfe Road, Botkins Road, and Recreation Center – utilities
- Hopfe Road, Section 1, 2, and 3 - utilities
- Redbud, Phase 2 – clearing and grubbing
- Redbud Section 2 and offsite waterline – utilities
- Redbud Section 4 – utilities
- Redbud, Section 4 - landscape improvements
- Redbud Recreation Center – landscaping improvements
- Rosewood West, Phase 1 - offsite clearing and grubbing, detention, and mass grading
- Rosewood West, Phase 1 – offsite water facilities and forcemain

The District's construction in progress is for the engineering fees of Mason Basin Extended Infrastructure.

Additionally, Harris County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of the 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

Harris County Municipal Utility District No. 535
Management's Discussion and Analysis
May 31, 2026

are reimbursed. For the year ended May 31, 2026, capital assets in the amount of \$12,592,567 have been recorded as transfers to other governments in the government-wide statements.

Long-Term Debt and Related Liabilities

As of May 31, 2026, the District owes approximately \$36,969,718 to developers for completed projects and operating and construction 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 6, the District has an additional commitment in the amount of \$12,930,000 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 fiscal year, the District issued \$8,155,000 in unlimited tax road bonds, all of which were outstanding as of the end of the fiscal year. The District did not have any bonded debt as of May 31, 2025.

At May 31, 2026, 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 \$286,845,000 for road improvements and refunding of such bonds.

Property Taxes

The District's property tax base increased approximately \$27,375,000 for the 2026 tax year from \$49,936,607 to \$77,311,775. This increase was primarily due to new construction in the District.

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:

	2026 Actual	2027 Budget
Total revenues	\$ 740,575	\$ 750,000
Total expenditures	(369,068)	(380,500)
Revenues over expenditures	371,507	369,500
Other changes in fund balance	135,000	
Net change in fund balance	506,507	369,500
Beginning fund balance	45,957	552,464
Ending fund balance	<u>\$ 552,464</u>	<u>\$ 921,964</u>

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Basic Financial Statements

Harris County Municipal Utility District No. 535
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2026

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 29,721	\$ -	\$ 222,285	\$ 252,006	\$ -	\$ 252,006
Investments	533,587	516,032		1,049,619		1,049,619
Taxes receivable	15,235			15,235		15,235
Internal receivables	2,500			2,500	(2,500)	
Other receivables	12,931			12,931		12,931
Capital assets not being depreciated					6,144,614	6,144,614
Capital assets, net					23,593,755	23,593,755
Total Assets	<u>\$ 593,974</u>	<u>\$ 516,032</u>	<u>\$ 222,285</u>	<u>\$ 1,332,291</u>	<u>29,735,869</u>	<u>31,068,160</u>
Liabilities						
Accounts payable	\$ 26,275	\$ -	\$ 42,905	\$ 69,180		69,180
Internal payables			2,500	2,500	(2,500)	
Accrued interest payable					98,833	98,833
Due to developers					36,969,718	36,969,718
Long-term debt						
Due after one year					8,155,000	8,155,000
Total Liabilities	<u>26,275</u>		<u>45,405</u>	<u>71,680</u>	<u>45,221,051</u>	<u>45,292,731</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>15,235</u>			<u>15,235</u>	<u>(15,235)</u>	
Fund Balances/Net Position						
Fund Balances						
Restricted		516,032	176,880	692,912	(692,912)	
Unassigned	552,464			552,464	(552,464)	
Total Fund Balances	<u>552,464</u>	<u>516,032</u>	<u>176,880</u>	<u>1,245,376</u>	<u>(1,245,376)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 593,974</u>	<u>\$ 516,032</u>	<u>\$ 222,285</u>	<u>\$ 1,332,291</u>		
Net Position						
Net investment in capital assets					(1,850,428)	(1,850,428)
Restricted for debt service					417,199	417,199
Unrestricted					(12,791,342)	(12,791,342)
Total Net Position					<u>\$ (14,224,571)</u>	<u>\$ (14,224,571)</u>

See notes to basic financial statements.

Harris County Municipal Utility District No. 535**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances****For the Year Ended May 31, 2026**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 735,569	\$ -	\$ -	\$ 735,569	\$ 13,482	\$ 749,051
Penalties and interest	1,321			1,321	1,753	3,074
Investment earnings	3,685	9,035	83	12,803		12,803
Total Revenues	<u>740,575</u>	<u>9,035</u>	<u>83</u>	<u>749,693</u>	<u>15,235</u>	<u>764,928</u>
Expenditures/Expenses						
Operating and administrative						
Professional fees	188,767		10,200	198,967		198,967
Contracted services	73,770			73,770		73,770
Repairs and maintenance	63,201			63,201		63,201
Administrative	43,330			43,330		43,330
Other			95	95		95
Capital outlay			7,131,973	7,131,973	(7,131,973)	
Debt service						
Interest and fees		79,484		79,484	98,833	178,317
Developer interest			403,119	403,119		403,119
Debt issuance costs			656,345	656,345		656,345
Depreciation					617,467	617,467
Total Expenditures/Expenses	<u>369,068</u>	<u>79,484</u>	<u>8,201,732</u>	<u>8,650,284</u>	<u>(6,415,673)</u>	<u>2,234,611</u>
Revenues Over (Under) Expenditures/ Expenses	371,507	(70,449)	(8,201,649)	(7,900,591)	6,430,908	(1,469,683)
Other Financing Sources						
Proceeds from sale of bonds		586,481	7,568,519	8,155,000	(8,155,000)	
Developer advances	135,000		810,010	945,010	(945,010)	
Other Items						
Transfers to other governments					(12,592,567)	(12,592,567)
Net Change in Fund Balances Change in Net Position	506,507	516,032	176,880	1,199,419	(1,199,419) (14,062,250)	(14,062,250)
Fund Balance/Net Position						
Beginning of the year	45,957			45,957	(208,278)	(162,321)
End of the year	<u>\$ 552,464</u>	<u>\$ 516,032</u>	<u>\$ 176,880</u>	<u>\$ 1,245,376</u>	<u>\$ (15,469,947)</u>	<u>\$ (14,224,571)</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, and the first bonds were issued on December 18, 2025.

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. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major”

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

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 and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and developer advances. 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. During the current fiscal year, financial resources included capitalized interest from the sale of bonds. Expenditures include costs associated with the payment of interest on the District's general long-term debt.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer, drainage, park and recreational facilities, and road 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 and interest earned on investments. 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 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.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

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 May 31, 2026, 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 eliminated in the government-wide 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 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 water, wastewater, and drainage facilities, are depreciated using the straight-line method as follows:

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

The District's detention facilities and drainage channels are considered improvements to land and are non-depreciable.

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

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

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 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’s restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and capitalized interest from the sale of bonds 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.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

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 developer; the value of capital assets transferred to Harris 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.

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds	\$ 1,245,376
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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	\$ 30,381,114	
Less accumulated depreciation	<u>(642,745)</u>	
		29,738,369

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:

Accrued interest payable	(98,833)	
Due to developer	(36,969,718)	
Bonds payable	<u>(8,155,000)</u>	
		(45,223,551)

Deferred inflows in the fund statements consist of property taxes receivable and related penalties and interest that have been levied and are due, but are not available to pay current period expenditures. These amounts are included in revenues in the government-wide statements.

15,235

Total net position - governmental activities	<u><u>\$ (14,224,571)</u></u>
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Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

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

Net change in fund balance - total governmental funds	\$ 1,199,419
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Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.	15,235
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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. Differences during the current fiscal year are for the following:

Capital outlays	\$ 7,131,973	
Transfers to other governments	(12,592,567)	
Depreciation expense	(617,467)	
		(6,078,061)

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. Differences during the current fiscal year are for the following:

Issuance of long-term debt	(8,155,000)	
Developer advances	(945,010)	
Interest expense accrual	(98,833)	
		(9,198,843)

Change in net position of governmental activities	\$ (14,062,250)
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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.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

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 May 31, 2026, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexSTAR	General	\$ 533,587	AAAm	40 days
	Debt Service	516,032		
Total		<u>\$ 1,049,619</u>		

TexSTAR

The Texas Short Term Asset Reserve fund ("TexSTAR") is managed by Hilltop Securities, 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.

TexSTAR uses amortized cost rather than fair value to report net assets to compute share price. Accordingly, investments in TexSTAR are stated at amortized cost which approximates fair value. 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.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at May 31, 2026, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Capital Projects Fund	\$ 2,500	Bond issuance costs 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.

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended May 31, 2026, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 621,572	\$ 4,862,250	\$ 5,483,822
Construction in progress		660,792	660,792
	<u>621,572</u>	<u>5,523,042</u>	<u>6,144,614</u>
Capital assets being depreciated			
Infrastructure		21,396,914	21,396,914
Recreational facilities		406,615	406,615
Landscaping improvements	505,560	1,927,411	2,432,971
	<u>505,560</u>	<u>23,730,940</u>	<u>24,236,500</u>
Less accumulated depreciation			
Infrastructure		(475,487)	(475,487)
Recreational facilities		(20,331)	(20,331)
Landscaping improvements	(25,278)	(121,649)	(146,927)
	<u>(25,278)</u>	<u>(617,467)</u>	<u>(642,745)</u>
Subtotal depreciable capital assets, net	<u>480,282</u>	<u>23,113,473</u>	<u>23,593,755</u>
Capital assets, net	<u>\$ 1,101,854</u>	<u>\$ 28,636,515</u>	<u>\$ 29,738,369</u>

Depreciation expense for the current fiscal year was \$617,467.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

Note 6 – 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 and construction expenses.

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

Due to developers, beginning of year	\$ 1,310,132
Developer reimbursements	(6,471,181)
Developer funded construction and adjustments	41,185,757
Operating advances from developers	135,000
Construction advances from developers	810,010
Due to developers, end of year	<u>\$ 36,969,718</u>

In addition, the District will owe the developers approximately \$12,930,000, which is included in the schedule of contractual commitments below. The projects in this schedule are in varying stages of completion and, as previously noted, will be reported in the government-wide financial statements upon completion of construction. The exact amount due to the developers are not known until approved by the TCEQ and verified by the District's auditor.

	Contract Amount*
Boulevard Street Dedication Sections 1, 2 and 3, Darvesh	
Drainage Channel and TxDOT Storm - utilities	\$ 9,000,000
Redbud Section 5 - utilities	1,260,000
Redbud Section 5 - paving	1,180,000
Rosewood - Lift Station No. 1	1,490,000
	<u>\$ 12,930,000</u>

* Rounded to the nearest \$10,000

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	<u>\$ 8,155,000</u>
Due within one year	<u>\$ -</u>

The District's bonds payable at May 31, 2026, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2025 Road	\$ 8,155,000	\$ 8,155,000	4.25% - 6.75%	September 1, 2027 - 2051	September 1, March 1	September 1, 2030

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 May 31, 2026, the District had authorized but unissued bonds in the amount of \$425,000,000 for water, sewer, and drainage facilities and refunding of such bonds; \$100,000,000 for park and recreational facilities and refunding of such bonds and \$286,845,000 for road improvements and refunding such bonds.

On December 18, 2025, the District issued its \$8,155,000 Series 2025 Unlimited Tax Road Bonds at a net effective interest rate of 4.790336%. Proceeds of the bonds were used (1) to reimburse developers for the following: the construction of capital assets within the District; engineering, and other costs associated with the construction of capital assets, (2) to pay developer interest at the net effective interest rate of the bonds, 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	<u>8,155,000</u>
Bonds payable, end of year	<u>\$ 8,155,000</u>

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

As of May 31, 2026, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2027	\$ -	\$ 390,988	\$ 390,988
2028	170,000	385,250	555,250
2029	180,000	373,438	553,438
2030	190,000	360,950	550,950
2031	200,000	347,788	547,788
2032	210,000	333,950	543,950
2033	220,000	319,438	539,438
2034	230,000	307,125	537,125
2035	240,000	297,138	537,138
2036	250,000	286,725	536,725
2037	265,000	275,781	540,781
2038	280,000	264,200	544,200
2039	290,000	252,088	542,088
2040	305,000	239,444	544,444
2041	320,000	226,163	546,163
2042	340,000	211,925	551,925
2043	355,000	196,722	551,722
2044	375,000	180,753	555,753
2045	390,000	163,775	553,775
2046	410,000	145,775	555,775
2047	430,000	126,875	556,875
2048	455,000	106,677	561,677
2049	475,000	85,171	560,171
2050	500,000	62,624	562,624
2051	525,000	38,593	563,593
2052	550,000	13,062	563,062
	<u>\$ 8,155,000</u>	<u>\$ 5,992,418</u>	<u>\$ 14,147,418</u>

Note 8 – 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 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. 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.

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.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

Property taxes are collected based on rates adopted in the year of the levy. The District's 2026 fiscal year was financed through the 2025 tax levy, 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 resulting tax levy was \$749,049 on the adjusted taxable value of \$49,936,607.

Property taxes receivable, at May 31, 2026, consisted of the following:

Current year taxes receivable	\$ 13,480
Penalty and interest receivable	1,755
Property taxes receivable	<u>\$ 15,235</u>

Note 9 – Transfers to Other Governments

Harris County assumes responsibility for the maintenance of public roads constructed within the county limits. Accordingly, road facilities are considered to be capital assets of Harris County, not the District and are recorded as transfers to other governments on the *Statement of Activities* upon completion of construction. This cost is trued-up when the developers are subsequently reimbursed. For the year ended May 31, 2026, the District recorded transfers to other governments in the amount of \$12,592,567 for road facilities constructed by developers within the District.

Note 10 – Water and Wastewater Service Agreements

Quadvest, LP with 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.

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, 2026, construction of the Utility System Mains was in progress, and no assets have yet been transferred to Quadvest.

Harris County Municipal Utility District No. 535
Notes to Financial Statements
May 31, 2026

Quadvest, LP with JDS Hopfe Rd, LLC

On May 31, 2024, the District entered into an agreement with JDS Hopfe Rd, LLC (“JDS”) and 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.

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, 2026, construction of the Utility System Mains was in progress, and no assets have yet been transferred to Quadvest.

Note 11 – 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.

Note 12 – Concentration Risk

The District is currently dependent on its developers to finance the construction of infrastructure and to advance funds necessary to finance operating and administrative expenditures. The developers also own a significant portion of the undeveloped property within the District and are responsible for development of the tax base that will support future operations and debt service. As a result, the District is exposed to a concentration risk related to the developer. If the developers were unable to continue development activities or provide financial support, the District’s ability to fund operations and complete infrastructure projects could be adversely affected.

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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, 2026

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 300,000	\$ 735,569	\$ 435,569
Penalties and interest		1,321	1,321
Investment earnings		3,685	3,685
Total Revenues	<u>300,000</u>	<u>740,575</u>	<u>440,575</u>
Expenditures			
Operating and administrative			
Professional fees	110,000	188,767	(78,767)
Contracted services	26,400	73,770	(47,370)
Repairs and maintenance	40,000	63,201	(23,201)
Administrative	36,404	43,330	(6,926)
Other	5,000		5,000
Total Expenditures	<u>217,804</u>	<u>369,068</u>	<u>(151,264)</u>
Revenues Over Expenditures	82,196	371,507	289,311
Other Financing Sources			
Developer advances		135,000	135,000
Net Change in Fund Balance	82,196	506,507	424,311
Fund Balance			
Beginning of the year	45,957	45,957	
End of the year	<u>\$ 128,153</u>	<u>\$ 552,464</u>	<u>\$ 424,311</u>

Harris County Municipal Utility District No. 535
Notes to Required Supplementary Information
May 31, 2026

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. There were no amendments to the budget during the fiscal year.

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Texas Supplementary Information

Harris County Municipal Utility District No. 535
TSI-1. Services and Rates
May 31, 2026

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 (Specify): <u>Water and sewer services are provided by Quadvest, LP</u>			

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 _____

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"			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, 2026

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 to customers:	<u>N/A</u>	(Gallons billed / Gallons pumped)
		<u>N/A</u>

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

The District does not have Debt Service standby fees.

The District does not have Operation and Maintenance standby fees.

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, 2026

Professional fees	
Legal	\$ 122,848
Audit	15,000
Engineering	50,919
	<u>188,767</u>
Contracted services	
Bookkeeping	22,625
Tax assessor collector	8,530
Garbage collection	38,142
Appraisal district fees	4,473
	<u>73,770</u>
Repairs and maintenance	<u>63,201</u>
Administrative	
Directors fees	20,774
Printing and office supplies	2,858
Insurance	7,171
Other	12,527
	<u>43,330</u>
Total expenditures	<u>\$ 369,068</u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 535
TSI-3. Investments
May 31, 2026

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
TexSTAR	Variable	N/A	<u>\$ 533,587</u>
Debt Service			
TexSTAR	Variable	N/A	<u> 516,032</u>
Total - All Funds			<u><u>\$ 1,049,619</u></u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 535
TSI-4. Taxes Levied and Receivable
May 31, 2026

	Maintenance Taxes		
Taxes Receivable, Beginning of Year	\$ -		
2025 Original Tax Levy	401,211		
Adjustments	347,838		
Adjusted Tax Levy	749,049		
Total to be accounted for	749,049		
Tax collections:			
Current year	735,569		
Taxes Receivable, End of Year	\$ 13,480		
Taxes Receivable, By Years			
2025	\$ 13,480		
	2025	2024	2023
Property Valuations:			
Land	\$ 46,421,696	\$ 25,724,099	\$ 21,043,267
Improvements	16,835,137	1,107,039	277,890
Personal Property	428,293	366,760	
Exemptions	(13,748,519)	(17,177,081)	(17,215,974)
Total Property Valuations	\$ 49,936,607	\$ 10,020,817	\$ 4,105,183
Tax Rates per \$100 Valuation:			
Maintenance tax rates	\$ 1.50	\$ 1.50	\$ 1.50
Adjusted Tax Levy:	\$ 749,049	\$ 150,312	\$ 61,578
Percentage of Taxes Collected to Taxes Levied ***	98.20%	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-5. Long-Term Debt Service Requirements
Series 2025 Road--by Years
May 31, 2026

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2027	\$ -	\$ 390,988	\$ 390,988
2028	170,000	385,250	555,250
2029	180,000	373,438	553,438
2030	190,000	360,950	550,950
2031	200,000	347,788	547,788
2032	210,000	333,950	543,950
2033	220,000	319,438	539,438
2034	230,000	307,125	537,125
2035	240,000	297,138	537,138
2036	250,000	286,725	536,725
2037	265,000	275,781	540,781
2038	280,000	264,200	544,200
2039	290,000	252,088	542,088
2040	305,000	239,444	544,444
2041	320,000	226,163	546,163
2042	340,000	211,925	551,925
2043	355,000	196,722	551,722
2044	375,000	180,753	555,753
2045	390,000	163,775	553,775
2046	410,000	145,775	555,775
2047	430,000	126,875	556,875
2048	455,000	106,677	561,677
2049	475,000	85,171	560,171
2050	500,000	62,624	562,624
2051	525,000	38,593	563,593
2052	550,000	13,062	563,062
	<u>\$ 8,155,000</u>	<u>\$ 5,992,418</u>	<u>\$ 14,147,418</u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 535
TSI-6. Change in Long-Term Bonded Debt
May 31, 2026

	Bond Issue
	Series 2025
	Road
Interest rate	4.25% - 6.75%
Dates interest payable	3/1 ; 9/1
Maturity dates	9/1/27 - 9/1/51
Beginning bonds outstanding	\$ -
Bonds issued	8,155,000
Bonds retired	
Ending bonds outstanding	\$ 8,155,000
Interest paid during fiscal year	\$ 79,284

Paying agent's name and city
All Series

BOKF, N.A., Dallas, Texas

	Water, Sewer, Drainage and Refunding Bonds	Recreational Facilities and Refunding Bonds	Road Facilities and Refunding Bonds
Bond Authority:			
Amount Authorized by Voters	\$ 425,000,000	\$ 100,000,000	\$ 295,000,000
Amount Issued			(8,155,000)
Remaining To Be Issued	\$ 425,000,000	\$ 100,000,000	\$ 286,845,000

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

Debt Service Fund cash and investments balance as of May 31, 2026: \$ 516,032

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 544,131

See accompanying auditor's report.

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Harris County Municipal Utility District No. 535

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

For the Last Four Fiscal Years

	Amounts			
	2026	2025	2024**	2023**
Revenues				
Property taxes	\$ 735,569	\$ 211,890	\$ -	\$ -
Penalties and interest	1,321	1,919		
Investment earnings	3,685			
Total Revenues	740,575	213,809		
Expenditures				
Operating and administrative				
Professional fees	188,767	113,061	115,454	3,944
Contracted services	73,770	26,471	12,045	
Repairs and maintenance	63,201			
Administrative	43,330	37,249	22,093	6,490
Other		1,642	11,766	637
Total Expenditures	369,068	178,423	161,358	11,071
Revenues Over (Under) Expenditures	371,507	35,386	(161,358)	(11,071)
Other Financing Sources				
Developer advances	135,000	20,000	143,000	20,000
Net Change in Fund Balance	506,507	55,386	(18,358)	8,929
Fund Balance, Beginning of the year	45,957	(9,429)	8,929	
End of the year	<u>\$ 552,464</u>	<u>\$ 45,957</u>	<u>\$ (9,429)</u>	<u>\$ 8,929</u>

*Percentage is negligible

**Unaudited

See accompanying auditor's report.

Percent of Fund Total Revenues			
2026	2025	2024**	2023**
100%	99%	- %	- %
*	1%		
*			
100%	100%	-	-
25%	53%	-	-
10%	12%	-	
9%			
6%	17%	-	-
	1%	-	-
50%	83%	-	-
50%	17%	- %	- %

Harris County Municipal Utility District No. 535

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Current Fiscal Year*

	Amounts	Percent of Fund Total Revenues
	2026	2026
Revenues		
Investment earnings	\$ 9,035	100%
Expenditures		
Interest and fees	79,484	880%
Revenues Under Expenditures	(70,449)	(780%)
Other Financing Sources		
Proceeds from sale of bonds	586,481	
Net Change in Fund Balance	516,032	
Fund Balance, Beginning of the year		
End of the year	\$ 516,032	

*Percentage is negligible

See accompanying auditor's report.

***Harris County Municipal Utility District No. 535
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended May 31, 2026***

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2400, 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 22, 2026
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	\$ 2,652	\$ 66	President
Marc Warren	05/26 - 05/30	5,304	749	Vice President
J Chase Oelkers	05/24 - 05/28	4,057	363	Secretary
Justin Waggoner	05/26 - 05/30	4,862	2,842	Assistant Vice President
Brandon West	05/26 - 05/30	4,420	3,397	Assistant Secretary
Consultants				
Allen Boone Humphries Robinson LLP	02/23	Amounts Paid		Attorney
<i>General legal fees</i>		\$ 135,996		
<i>Bond counsel</i>		221,255		
Myrtle Cruz, Inc.	04/23	27,931		Bookkeeper
Bob Leared Interests	04/23	6,000		Tax Collector
Harris Central Appraisal District	Legislation	4,473		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	10/23			Delinquent Tax Attorney
Quiddity Engineering, LLC	04/23	587,932		Engineer
McGrath & Co., PLLC	07/25	24,600		Auditor
Cedar Creek Munucipal Advisors, LLC	04/26			Financial Advisor
Robert W. Baird & Co., Inc.	04/23	165,652		Former Financial Advisor
KGA/Deforest Design, LLC	05/23			Landscape Architect

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

See accompanying auditor's report.