

# **Harris County Municipal Utility District No. 418 Harris County, Texas**

## **Independent Auditor's Report and Financial Statements**

May 31, 2024

# **Harris County Municipal Utility District No. 418**

## **Contents**

**May 31, 2024**

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**Independent Auditor's Report**..... 1

**Management's Discussion and Analysis**..... 4

### **Basic Financial Statements**

Statement of Net Position ..... 10

Statement of Activities ..... 12

Balance Sheet – Governmental Fund ..... 13

Statement of Revenues, Expenditures and Changes in Fund  
    Balance – Governmental Fund ..... 14

Statement of Net Position – Proprietary Fund ..... 15

Statement of Revenues, Expenses and Changes in  
    Net Position – Proprietary Fund ..... 16

Statement of Cash Flows – Proprietary Fund ..... 17

Notes to Financial Statements ..... 18

### **Required Supplementary Information**

Budgetary Comparison Schedule – General Fund ..... 29

Notes to Required Supplementary Information ..... 30

### **Supplementary Information**

Other Schedules Included Within This Report ..... 31

Schedule of Services and Rates ..... 32

Schedule of General Fund Expenditures ..... 33

Schedule of Temporary Investments ..... 34

Analysis of Taxes Levied and Receivable ..... 35

Comparative Schedule of Revenues and Expenditures – General Fund – Five Years ..... 36

Board Members, Key Personnel and Consultants ..... 37

## Independent Auditor's Report

Board of Directors  
Harris County Municipal Utility District No. 418  
Harris County, Texas

### ***Opinions***

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Harris County Municipal Utility District No. 418 (the District), as of and for the year ended May 31, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District, as of May 31, 2024, and the respective changes in financial position and, where applicable, cash flows 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 (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 12 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***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 accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the

Board of Directors  
Harris County Municipal Utility District No. 418

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Forvis Mazars, LLP**

**Houston, Texas**  
**October 8, 2024**

**Harris County Municipal Utility District No. 418**  
**Management's Discussion and Analysis**  
**May 31, 2024**

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## ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

### ***Government-Wide Financial Statements***

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

### ***Fund Financial Statements***

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. 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 or governmental statutes or regulations.

### ***Governmental Funds***

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

***Proprietary Funds***

Proprietary funds, in general, charge customers for the services that are provided. These funds use a long-term financial accounting approach, full accrual basis and provide additional information in the statement of cash flows. The proprietary fund statements provide the same information as the business-type activities portion of the government-wide financial statements, only in more detail.

***Notes to Financial Statements***

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

***Financial Analysis of the District as a Whole***

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

**2024 Summary of Net Position**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Current and other assets	\$ 511,756	\$ 1,985,388	\$ 2,497,144
Capital and lease assets	-	58,207,546	58,207,546
<b>Total assets</b>	<b>\$ 511,756</b>	<b>\$ 60,192,934</b>	<b>\$ 60,704,690</b>
Long-term liabilities	\$ 2,120,255	\$ 12,880,605	\$ 15,000,860
Other liabilities	233,188	1,913,864	2,147,052
<b>Total liabilities</b>	<b>2,353,443</b>	<b>14,794,469</b>	<b>17,147,912</b>
Net position:			
Net investment in capital assets	-	45,291,066	45,291,066
Restricted, capital projects	-	107,399	107,399
Unrestricted	(1,841,687)	-	(1,841,687)
<b>Total net position</b>	<b>\$ (1,841,687)</b>	<b>\$ 45,398,465</b>	<b>\$ 43,556,778</b>

**2023 Summary of Net Position**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Current and other assets	\$ 134,736	\$ 2,451,271	\$ 2,586,007
Capital and lease assets	-	51,940,034	51,940,034
<b>Total assets</b>	<b>\$ 134,736</b>	<b>\$ 54,391,305</b>	<b>\$ 54,526,041</b>

**2023 Summary of Net Position (Continued)**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Long-term liabilities	\$ 2,037,585	\$ 13,541,594	\$ 15,579,179
Other liabilities	30,882	1,594,999	1,625,881
<b>Total liabilities</b>	<b>2,068,467</b>	<b>15,136,593</b>	<b>17,205,060</b>
Net position:			
Net investment in capital assets	-	39,230,533	39,230,533
Restricted	-	47,054	47,054
Unrestricted	(1,933,731)	(22,875)	(1,956,606)
<b>Total net position</b>	<b>\$ (1,933,731)</b>	<b>\$ 39,254,712</b>	<b>\$ 37,320,981</b>

The net position of the District's governmental activities increased by \$92,044, or about 5%. The increase in net position is due to property tax, tap connection and inspection fees and other revenues exceeding service and tap connection expenses.

The net position of the District's business-type activities increased by \$6,143,753, or about 16%. The majority of the increase in net position is related to connection fees received from one of the District's participants, offset by depreciation and amortization expense on the District's capital and lease assets. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**2024 Summary of Changes in Net Position**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Program revenues:			
Charges for services	\$ -	\$ 8,836,578	\$ 8,836,578
Connection fees	-	8,070,846	8,070,846
General revenues:			
Property taxes	116,547	-	116,547
Tap connection and inspection fees	269,005	-	269,005
Investment income	1,649	65,568	67,217
Other revenues	152,786	-	152,786
<b>Total revenues</b>	<b>539,987</b>	<b>16,972,992</b>	<b>17,512,979</b>
Expenses:			
Services	447,943	8,313,395	8,761,338
Depreciation and amortization	-	2,471,798	2,471,798
Debt service, interest	-	44,046	44,046
<b>Total expenses</b>	<b>447,943</b>	<b>10,829,239</b>	<b>11,277,182</b>

**2024 Summary of Changes in Net Position (Continued)**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Change in net position	\$ 92,044	\$ 6,143,753	\$ 6,235,797
Net position, beginning of year	(1,933,731)	39,254,712	37,320,981
Net position, end of year	<u>\$ (1,841,687)</u>	<u>\$ 45,398,465</u>	<u>\$ 43,556,778</u>

**2023 Summary of Changes in Net Position**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Program revenues:			
Charges for services	\$ -	\$ 7,343,846	\$ 7,343,846
Connection fees	-	11,133,910	11,133,910
General revenues:			
Property Taxes	123,522	-	123,522
Investment income	631	32,641	33,272
Other revenues	<u>135,814</u>	<u>164,082</u>	<u>299,896</u>
Total revenues	<u>259,967</u>	<u>18,674,479</u>	<u>18,934,446</u>
Expenses:			
Services	289,181	6,901,456	7,190,637
Depreciation	-	2,157,045	2,157,045
Conveyance of capital assets	-	735,680	735,680
Debt service, interest	-	39,396	39,396
Total expenses	<u>289,181</u>	<u>9,833,577</u>	<u>10,122,758</u>
Change in net position	(29,214)	8,840,902	8,811,688
Net position, beginning of year	<u>(1,904,517)</u>	<u>30,413,810</u>	<u>28,509,293</u>
Net position, end of year	<u>\$ (1,933,731)</u>	<u>\$ 39,254,712</u>	<u>\$ 37,320,981</u>

***Financial Analysis of the District's Funds***

***Governmental Activities***

The general fund's fund balance increased by \$174,714 as a result of property tax, tap connection and inspection fees and administrative revenues, as well as advances received from the District's developer being greater than service operations and tap connection expenditures.

***Business-Type Activities***

The enterprise fund's net position increased by \$6,143,753 primarily due to connection fees received from one of the District's participants offset by depreciation and amortization expense on the District's capital and lease assets.

### **General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property tax revenues and contracted services expenditures being greater than anticipated and professional fees expenditures and developer advances being less than anticipated. In addition, tap connection and inspection fees revenues and the related tap connection expenditures were not included in the budget. The fund balance as of May 31, 2024, was expected to be \$103,854 and the actual end-of-year fund balance was \$278,568.

### **Capital and Lease Assets and Related Debt**

#### **Capital and Lease Assets**

Capital and lease assets held by the District at the end of the current and previous fiscal years are summarized below:

#### **Capital and Lease Assets (Net of Accumulated Depreciation and Amortization)**

	<b>2024</b>	<b>2023</b>
Business-type activities:		
Land and improvements	\$ 562,077	\$ 562,077
Water facilities	33,322,908	29,268,935
Wastewater facilities	22,822,004	20,412,768
Drainage facilities	1,283,575	1,342,230
Lease assets	<u>216,982</u>	<u>354,024</u>
Total capital and lease assets	<u>\$ 58,207,546</u>	<u>\$ 51,940,034</u>

During the current year, additions to capital and lease assets were as follows:

Water and sewer facilities to serve North Bridgeland Lake Parkway, Section 5, Peak Road, Section 1 and Creekland Village, Sections 1 and 2	\$ 653,905
Bridgeland Creekland Village, Phase 2, offsite waterline	140,582
Water well No. 5	4,903,500
Replacement of variable frequency drive for well motor, air line for hydropneumatic tank, booster pump No. 6 and water plant gate and fence	110,243
Prairieland Village lift stations No. 2 and 3	2,668,917
Sewer plant rehabilitation package	162,085
Replacement of lift pump No. 2, 2" air drops in aeration basin and digester and backwash pump No. 1 and installation of awning over control panel and 5 ton air conditioning unit	<u>100,078</u>
Total additions to capital and lease assets	<u>\$ 8,739,310</u>

The developer within the District has constructed Master District water, sewer, drainage and road facilities on behalf of the District under the terms of contracts with the District. The District has agreed to reimburse the cost of these facilities from the proceeds of future bond issues or from future connection charges, subject to the approval of the Commission, if applicable. At May 31, 2024, a liability for developer-constructed capital assets of \$12,653,973 was recorded in the financial statements for the business-type activities.

**Debt**

The changes in the debt position of the District during the fiscal year ended May 31, 2024, are summarized as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Long-term debt payable, beginning of year	\$ 2,037,585	\$ 13,541,594	\$ 15,579,179
Increases in long-term debt	82,670	4,753,439	4,836,109
Decreases in long-term debt	-	(5,414,428)	(5,414,428)
Long-term debt payable, end of year	<u>\$ 2,120,255</u>	<u>\$ 12,880,605</u>	<u>\$ 15,000,860</u>

At May 31, 2024, the District had \$350,000,000 of internal district unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$143,500,000 of internal district unlimited tax bonds authorized, but unissued, for the purpose of constructing recreational facilities; and \$291,500,000 of internal district unlimited tax bonds authorized, but unissued, for road facilities.

**Other Relevant Factors**

***Relationship to the City of Houston***

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. Effective December 1, 2017, prior to annexation, the City would be required to hold an election in the District whereby the qualified voters of the District would approve the annexation. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

***Economic Dependency***

Since inception, the developer has advanced \$2,120,255 to the Internal District for operations. The Internal District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

***Contingencies***

The developer of the District is constructing Master District water and sewer facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission and subject to the terms of a reimbursement agreement with the District. The District's engineer has stated that current construction amounts are approximately \$45,791,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

**Harris County Municipal Utility District No. 418**  
**Statement of Net Position**  
**May 31, 2024**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 50,442	\$ 461,077	\$ 511,519
Short-term investments	427,113	107,399	534,512
Due from participants	-	1,416,619	1,416,619
Operating reserve	10,000	-	10,000
Prepaid expenditures	-	293	293
Due from others	24,201	-	24,201
Total current assets	<u>511,756</u>	<u>1,985,388</u>	<u>2,497,144</u>
<b>Noncurrent Assets</b>			
Capital and lease assets, net of accumulated depreciation and amortization):			
Infrastructure	-	57,428,487	57,428,487
Lease assets	-	216,982	216,982
Land and improvements	-	562,077	562,077
Total noncurrent assets	<u>-</u>	<u>58,207,546</u>	<u>58,207,546</u>
Total assets	<u>\$ 511,756</u>	<u>\$ 60,192,934</u>	<u>\$ 60,704,690</u>

**Harris County Municipal Utility District No. 418**

**Statement of Net Position**

**May 31, 2024**

**(Continued)**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 119,586	\$ 582,084	\$ 701,670
Deferred tap connection fees	109,810	-	109,810
Due to others	3,792	-	3,792
Long-term liabilities, due within one year	-	138,738	138,738
 Total current liabilities	 233,188	 720,822	 954,010
<b>Noncurrent Liabilities</b>			
Deposits from participants	-	1,331,780	1,331,780
Long-term liabilities, due after one year	2,120,255	12,741,867	14,862,122
 Total noncurrent liabilities	 2,120,255	 14,073,647	 16,193,902
 Total liabilities	 2,353,443	 14,794,469	 17,147,912
<b>Net Position</b>			
Net investment in capital assets	-	45,291,066	45,291,066
Restricted, capital projects	-	107,399	107,399
Unrestricted	(1,841,687)	-	(1,841,687)
 Total net position	 (1,841,687)	 45,398,465	 43,556,778
 Total liabilities and net position	 \$ 511,756	 \$ 60,192,934	 \$ 60,704,690

**Harris County Municipal Utility District No. 418**  
**Statement of Activities**  
**Year Ended May 31, 2024**

	Net Revenue (Expense) and Changes in Net Position				
	Program Revenues		Primary Government		
	Expenses	Charges for Services	Governmental Activities	Business-Type Activities	Total
<b>Government/Programs</b>					
<b>Primary Government</b>					
Governmental activities:					
Service operations	\$ 447,943	\$ -	\$ (447,943)	\$ -	\$ (447,943)
Business-type activities:					
Regional service operations	8,313,395	8,836,578	-	523,183	523,183
Connection fees	-	8,070,846	-	8,070,846	8,070,846
Depreciation and amortization	2,471,798	-	-	(2,471,798)	(2,471,798)
Debt service, interest	44,046	-	-	(44,046)	(44,046)
Total business-type activities	10,829,239	16,907,424	-	6,078,185	6,078,185
Total primary government	<u>\$ 11,277,182</u>	<u>\$ 16,907,424</u>	(447,943)	6,078,185	5,630,242
<b>General Revenues and Transfers</b>					
Property taxes		116,547	-	-	116,547
Tap connection and inspection fees		269,005	-	-	269,005
Investment income		1,649	65,568	-	67,217
Other income		152,786	-	-	152,786
<b>Change in Net Position</b>		92,044	6,143,753		6,235,797
<b>Net Position, Beginning of Year</b>		(1,933,731)	39,254,712		37,320,981
<b>Net Position, End of Year</b>		<u>\$ (1,841,687)</u>	<u>\$ 45,398,465</u>		<u>\$ 43,556,778</u>

**Harris County Municipal Utility District No. 418**  
**Balance Sheet – Governmental Fund**  
**May 31, 2024**

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	<b>General Fund</b>
<b>Assets</b>	
Cash	\$ 50,442
Short-term investments	427,113
Due from others	24,201
Operating reserve	<u>10,000</u>
 Total assets	<u>\$ 511,756</u>
 <b>Liabilities and Fund Balance</b>	
<b>Liabilities</b>	
Accounts payable	\$ 119,586
Deferred tap connection fees	109,810
Due to others	<u>3,792</u>
 Total liabilities	<u>233,188</u>
 <b>Fund Balance</b>	
Assigned, operating reserve	10,000
Unassigned	<u>268,568</u>
 Total fund balance	<u>278,568</u>
 Total liabilities and fund balance	<u>\$ 511,756</u>

**Harris County Municipal Utility District No. 418**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance – Governmental Fund**  
**Year Ended May 31, 2024**

	<b>General Fund</b>
<b>Revenues</b>	
Property taxes	\$ 116,547
Tap connection and inspection fees	269,005
Investment income	1,649
Other income	<u>152,786</u>
 Total revenues	 <u>539,987</u>
<b>Expenditures</b>	
Service operations:	
Purchased services	403
Professional fees	167,856
Contracted services	65,140
Tap connections	136,964
Other expenditures	55,580
Capital outlay	<u>22,000</u>
 Total expenditures	 <u>447,943</u>
<b>Excess of Revenues Over Expenditures</b>	<b>92,044</b>
<b>Other Financing Sources</b>	
Developer advances	<u>82,670</u>
<b>Net Change in Fund Balance</b>	<b>174,714</b>
<b>Fund Balance, Beginning of Year</b>	<b><u>103,854</u></b>
<b>Fund Balance, End of Year</b>	<b><u>\$ 278,568</u></b>

**Harris County Municipal Utility District No. 418**  
**Statement of Net Position – Proprietary Fund**  
**May 31, 2024**

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	<b>Business-Type Activities - Enterprise Fund</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 461,077
Short-term investments	107,399
Due from participants	1,416,619
Prepaid expenses	293
	<hr/>
Total current assets	1,985,388
	<hr/>
<b>Capital and Lease Assets</b>	
Infrastructure, net of accumulated depreciation of \$17,499,394	57,428,487
Land and improvements	562,077
Lease assets, net of accumulated amortization of \$274,083	216,982
	<hr/>
Total capital and lease assets	58,207,546
	<hr/>
Total assets	\$ 60,192,934
	<hr/>
<b>Liabilities and Net Position</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 582,084
Long-term liabilities, due within one year	138,738
	<hr/>
Total current liabilities	720,822
	<hr/>
<b>Noncurrent Liabilities</b>	
Deposits from participants	1,331,780
Long-term liabilities, due after one year	12,741,867
	<hr/>
Total noncurrent liabilities	14,073,647
	<hr/>
Total liabilities	14,794,469
	<hr/>
<b>Net Position</b>	
Net investment in capital assets	45,291,066
Restricted, capital projects	107,399
	<hr/>
Total net position	45,398,465
	<hr/>
Total liabilities and net position	\$ 60,192,934
	<hr/>

**Harris County Municipal Utility District No. 418**  
**Statement of Revenues, Expenses and Changes**  
**in Net Position – Proprietary Fund**  
**Year Ended May 31, 2024**

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	<b>Business-Type Activities - Enterprise Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 8,836,578
Connection fees	<u>8,070,846</u>
Total operating revenues	<u>16,907,424</u>
<b>Operating Expenses</b>	
Purchased services	1,712,579
Regional water fee	3,257,166
Professional fees	130,759
Contracted services	253,977
Utilities	447,941
Repairs and maintenance	2,246,627
Interest expense	44,046
Other expenditures	264,346
Depreciation and amortization	<u>2,471,798</u>
Total operating expenses	<u>10,829,239</u>
<b>Operating Income</b>	<u>6,078,185</u>
<b>Nonoperating Income</b>	
Investment income	<u>65,568</u>
<b>Change in Net Position</b>	<u>6,143,753</u>
<b>Net Position, Beginning of Year</b>	<u>39,254,712</u>
<b>Net Position, End of Year</b>	<u>\$ 45,398,465</u>

**Harris County Municipal Utility District No. 418**  
**Statement of Cash Flows – Proprietary Fund**  
**Year Ended May 31, 2024**

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	<b>Business-Type Activities - Enterprise Fund</b>
<b>Operating Activities</b>	
Receipts from connection fees	\$ 8,070,846
Receipts from participant charges	8,653,877
Payments for service operations	(8,368,871)
Other operating receipts	330,002
	<hr/>
Net cash provided by operating activities	8,685,854
<b>Capital and Related Financing Activities</b>	
Repayment to developer	(5,289,474)
Principal payments on lease liability	(124,954)
Purchase of capital assets	(3,985,871)
	<hr/>
Net cash used in capital and related financing activities	(9,400,299)
<b>Investing Activities</b>	
Sale of investments	771,748
Interest and other income	65,568
	<hr/>
Net cash provided by investing activities	837,316
<b>Net Increase in Cash</b>	122,871
<b>Cash, Beginning of Year</b>	338,206
<b>Cash, End of Year</b>	<hr/> \$ 461,077
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 6,078,185
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	2,471,798
Change in assets and liabilities:	
Receivables, net	(182,701)
Prepaid expenditures	(293)
Accounts payable and accrued liabilities	318,865
	<hr/>
Net cash provided by operating activities	\$ 8,685,854
<b>Noncash Investing and Financing Activities</b>	
Capital assets financed by developer	<hr/> \$ 4,753,439

## **Note 1. Nature of Operations and Summary of Significant Accounting Policies**

Harris County Municipal Utility District No. 418 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective February 21, 2005, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District is also authorized by the Texas Water Code, Chapter 49, to provide recreational facilities and has acquired the authority to provide road facilities under the Texas Water Code, Chapter 54. The District also serves as the "Master District" as discussed in Note 7 to the financial statements.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

### ***Reporting Entity***

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

### ***Government-Wide Financial Statements***

The statement of net position and the statement of activities display information about the District as a whole. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through intergovernmental revenues and reimbursements from participants. Business-type activities are financed by fees charged to external parties for goods and services.

In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a full accrual, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations.

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

### ***Fund Financial Statements***

Fund financial statements of the District are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two

# **Harris County Municipal Utility District No. 418**

## **Notes to Financial Statements**

**May 31, 2024**

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categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or if it meets certain other criteria.

Currently, the District only has one governmental fund, the general fund.

### ***Governmental Fund***

The District presents the following major governmental fund:

*General Fund* – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund, including the proprietary fund.

### ***Fund Balance – Governmental Fund***

The fund balance for the District's governmental fund can be displayed in up to five components:

*Nonspendable* – Amounts that are not in a spendable form or are required to be maintained intact.

*Restricted* – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

*Assigned* – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

### ***Proprietary Fund***

*Enterprise Fund* – The enterprise fund accounts for the operations of the regional facilities. These facilities provide water supply and delivery, wastewater collection, treatment and disposal facilities to participants.

### ***Measurement Focus***

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

In the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item B as shown below.

# **Harris County Municipal Utility District No. 418**

## **Notes to Financial Statements**

**May 31, 2024**

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In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate:

- (A) All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- (B) The proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

### ***Basis of Accounting***

All governmental funds use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when susceptible to accrual (*i.e.*, when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

All primary sources of the District's revenue are susceptible to accrual. Examples of revenue accrued are taxes, fees for services, charges to participants based on cost-reimbursement contracts and earnings from investments.

Deferred inflows of resources is recorded when the potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred inflows of resources also arise when resources are received before earned.

Expenditures and liabilities are recognized when the related fund obligations are incurred as a result of receipt of goods and services.

All proprietary funds use the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services along with penalties and fees. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### ***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

### ***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

**Harris County Municipal Utility District No. 418**  
**Notes to Financial Statements**  
**May 31, 2024**

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***Pension Costs***

The District does not participate in a pension plan and, therefore, has no pension costs.

***Use of Estimates***

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

***Cash and Cash Equivalents***

The District considers all liquid investments with original maturities of three months or less to be cash equivalents.

***Investments and Investment Income***

Investments in certificates of deposit, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2024, include collections during the current period or within 60 days of year-end related to the 2023 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2024, the 2023 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

***Capital Assets***

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets of proprietary funds are reported in both the government-wide and fund financial statements. All other capital assets of the governmental unit are general capital assets. They are not reported as assets in governmental funds, but are reported in the governmental activities column in the government-wide statement of net position.

**Harris County Municipal Utility District No. 418**  
**Notes to Financial Statements**  
**May 31, 2024**

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Capital assets are recorded at historical cost and depreciated over their estimated useful lives, unless they are inexhaustible, such as land. Depreciation expense is reported in the government-wide statement of activities, and the proprietary fund statement of revenues, expenses and changes in net position.

Capital assets are depreciated using the straight-line method over their estimated useful lives, as follows:

	<b>Years</b>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45

### **Lease Assets**

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

### **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Net Position/Fund Balance**

Fund balance and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

### **Reconciliation of Government-Wide and Fund Financial Statements**

Amounts reported for net position of governmental activities in the statement of net position and fund balance in the governmental fund balance sheet are different because:

Long-term debt obligations are not due and payable in the current period and are not reported in the funds.

\$ (2,120,255)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balance in the governmental fund statement of revenues, expenditures and changes in fund balance because of the following items.

# Harris County Municipal Utility District No. 418

## Notes to Financial Statements

May 31, 2024

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Change in fund balance.	\$ 174,714
Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer.	<u>(82,670)</u>
Change in net position of governmental activities.	<u>\$ 92,044</u>

## Note 2. Deposits, Investments and Investment Income

### ***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At May 31, 2024, none of the District's bank balances were exposed to custodial credit risk.

### ***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and 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, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. The District's investments in Texas CLASS are reported at net asset value.

At May 31, 2024, the District had the following investments and maturities:

Type	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Texas CLASS	\$ 534,512	\$ 534,512	\$ -	\$ -	\$ -

**Harris County Municipal Utility District No. 418**  
**Notes to Financial Statements**  
**May 31, 2024**

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**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2024, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

***Summary of Carrying Values***

The carrying values of deposits and investments shown above are included in the balance sheet at May 31, 2024, as follows:

Carrying value:	
Deposits	\$ 511,519
Investments	<u>534,512</u>
Total	<u>\$ 1,046,031</u>

Included in the following statement of net position captions:

Governmental activities:	
Cash and cash equivalents	\$ 50,442
Short-term investments	427,113
Business-type activities:	
Cash and cash equivalents	461,077
Short-term investments	<u>107,399</u>
Total	<u>\$ 1,046,031</u>

***Investment Income***

Investment income of \$1,649 in the governmental activities and \$65,568 in business-type activities for the year ended May 31, 2024, consisted of interest income.

***Fair Value Measurements***

The District has the following recurring fair value measurements as of May 31, 2024:

- Pooled investments of \$534,512 are valued at fair value per share of the pool's underlying portfolio

***Note 3. Capital and Lease Assets***

A summary of changes in capital and lease assets for the year ended May 31, 2024, is presented below.

**Harris County Municipal Utility District No. 418**  
**Notes to Financial Statements**  
**May 31, 2024**

Business-Type Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 562,077	\$ -	\$ 562,077
Capital and lease assets, depreciable and amortizable:			
Water production and distribution facilities	36,770,007	5,316,380	42,086,387
Wastewater collection and treatment facilities	27,745,823	3,422,930	31,168,753
Drainage facilities	1,672,740	-	1,672,740
Lease assets - equipment	491,065	-	491,065
Total capital and lease assets, depreciable/amortizable	66,679,635	8,739,310	75,418,945
Less accumulated depreciation and amortization:			
Water production and distribution facilities	(7,501,072)	(1,262,407)	(8,763,479)
Wastewater collection and treatment facilities	(7,333,055)	(1,013,694)	(8,346,749)
Drainage facilities	(330,510)	(58,655)	(389,165)
Lease assets - equipment	(137,041)	(137,042)	(274,083)
Total accumulated depreciation and amortization	(15,301,678)	(2,471,798)	(17,773,476)
Total business-type activities, net	\$ 51,940,034	\$ 6,267,512	\$ 58,207,546

#### Note 4. Long-Term Liabilities

Changes in long-term liabilities for the year ended May 31, 2024, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Due to developer, advances	\$ 2,037,585	\$ 82,670	\$ -	\$ 2,120,255	\$ -
Business-Type Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Lease liability	\$ 351,586	\$ -	\$ 124,954	\$ 226,632	\$ 138,738
Due to developer, construction	13,190,008	4,753,439	5,289,474	12,653,973	-
Total business-type activities long-term liabilities	\$ 13,541,594	\$ 4,753,439	\$ 5,414,428	\$ 12,880,605	\$ 138,738

# Harris County Municipal Utility District No. 418

## Notes to Financial Statements

May 31, 2024

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### Internal District bonds voted:

Water, sewer and drainage	\$ 350,000,000
Recreational facilities	143,500,000
Road facilities	291,500,000

### Refunding bonds voted:

Water, sewer, drainage and recreational facilities	493,500,000
Road facilities	291,500,000

### **Due to Developer**

The developer of the District has constructed Master District facilities on behalf of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$12,653,973 for the business-type activities. The District has agreed to reimburse these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales or connection charges from participating districts. These amounts have been recorded in the financial statements as long-term liabilities.

### **Note 5. Maintenance Taxes**

At an election held November 7, 2006, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2024, the District levied an ad valorem maintenance tax at the rate of \$1.00 per \$100 of assessed valuation, which resulted in a tax levy of \$127,348 on a taxable valuation of \$12,734,793 for the 2023 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

### **Note 6. Regional Water Authority**

The District is within the boundaries of the West Harris County Regional Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of May 31, 2024, the Authority was billing the District \$3.95 per 1,000 gallons of water pumped from its wells and \$4.35 per 1,000 gallons of surface water delivered to the District. These amounts are subject to future increases.

### **Note 7. Joint Facilities**

#### ***Contract***

The District entered into that certain Contract for Financing, Operation and Maintenance of Master Water and Sanitary Sewer Facilities with Harris County Municipal Utility District Nos. 419, 489, 490, 491, 492 and 493 (collectively, the "Bridgeland Districts") dated August 1, 2006, as amended from time to time. Under the terms of the master contract, the District serves as the "Master District" and provides or causes to be provided the Master District water supply and delivery facilities and the Master District waste collection, treatment and disposal facilities necessary to serve the District, and the Bridgeland Districts. Under the terms of the master contract,

# **Harris County Municipal Utility District No. 418**

## **Notes to Financial Statements**

**May 31, 2024**

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which is in effect for 50 years, the Master District establishes annual operating charges per 1,000 gallons of water and wastewater usage, which is billed to the Bridgeland Districts receiving service on a monthly basis. Operational costs are classified as fixed or variable and are shared, respectively, based on capacity reserved by the participants or estimated usage. In addition, the District bills a portion of its general and administrative costs to the Bridgeland Districts receiving service as an administrative fee.

### ***Operating Deposits***

The master contract requires that each participant advance funds to the Master District to create a reserve for the benefit of such participant in an amount equal to the participant's projected share of operations and maintenance costs for a two-month period commencing at the beginning of the Master District's fiscal year. Harris County Municipal Utility District No. 419 (District No. 419) has contributed \$545,481 for its share of the water supply reserve and \$125,485 for the wastewater treatment reserve. Harris County Municipal Utility District No. 489 (District No. 489) has contributed \$420,246 for its share of the water supply reserve and \$114,024 for the wastewater treatment reserve. Harris County Municipal Utility District No. 490 (District No. 490) has contributed \$53,784 for its share of the water supply reserve and \$36,558 for the wastewater treatment reserve. Harris County Municipal Utility District No. 491 (District No. 491) has contributed \$9,546 for its share of the water supply reserve and \$6,493 for the wastewater treatment reserve. Harris County Municipal Utility District No. 493 (District No. 493) has contributed \$13,670 for its share of the water supply reserve and \$6,493 for the wastewater treatment reserve. These amounts are reflected as deposits from participants in the financial statements. The reserves are subject to adjustment annually.

### ***Connection Charges***

Under the terms of the master contract, the District collects connection charges from the participating districts in order to obtain funds to finance capital costs of the Master District facilities. The connection charge per equivalent single-family connection is currently \$5,012 for capacity in the Master District's water delivery system and \$3,848 for capacity in the Master District's wastewater treatment plant. The connection charge per equivalent single-family connection for sanitary sewer system capacity currently varies from \$0 to \$5,127, depending on the location of such connection. These amounts are subject to adjustment annually. Through May 31, 2024, the District has collected water and sewer connection fees with a total value of \$31,066,207 from District No. 419, \$30,399,382 from District No. 489 and \$11,133,910 from Harris County Municipal District No. 490.

In addition, the District is authorized, under certain circumstances, to issue contract revenue bonds sufficient to complete acquisition and construction of the Master District facilities, as needed, to serve all districts in the service area. Subject to approval by the voters within the participating districts, the participating districts would contribute to the debt service requirements of such contract revenue bonds.

### **Note 8. Lease Liability**

The District entered into an amended sewage treatment plant lease contract dated November 3, 2015, which consolidated all previous lease agreements into one monthly payment of \$13,000. The amended lease agreement extended the terms of the original agreements to October 31, 2021. The lease continues on a month-to-month basis after October 31, 2021. Payments made under the amended lease agreement for the year ended May 31, 2024, were \$156,000.

The following schedule shows the annual lease requirements to pay principal and interest on the lease liability outstanding at May 31, 2024.

# **Harris County Municipal Utility District No. 418**

## **Notes to Financial Statements**

**May 31, 2024**

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<b>Fiscal Years Ending May 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2025	\$ 138,738	\$ 17,262	\$ 156,000
2026	87,894	3,106	91,000
<b>Total</b>	<b>\$ 226,632</b>	<b>\$ 20,368</b>	<b>\$ 247,000</b>

### **Note 9. Contracts with Others**

During the year ended May 31, 2024, the District entered into a contract with District Nos. 419, 489, 490, 491, 492 and 493, as well as Harris County Water Control and Improvement District Nos. 158 and 159 (the WCIDs), which created the Bridgeland Water Agency. The Agency was created to facilitate and coordinate public communications, sharing of costs and expenses and to provide supporting administrative functions to the Districts and the WCIDs, and to acquire and maintain lands, buildings or office space, equipment, materials and supplies necessary to carry out the provisions of the contract. For the year ended May 31, 2024, the District incurred costs of \$403 and contributed \$10,000 for its share of a reserve.

### **Note 10. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

### **Note 11. Economic Dependency**

Since inception, the developer has advanced \$2,120,255 to pay operational costs of the Internal District. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. Due to the uncertain reimbursement date and in accordance with standards adopted by the Governmental Accounting Standards Board, these advances are considered long-term and have been recorded as liabilities in the government-wide financial statements.

### **Note 12. Contingencies**

The developer of the District is constructing Master District water and sewer facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission and subject to the terms of a reimbursement agreement with the District. The District's engineer has stated that current construction amounts are approximately \$45,791,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

***Required Supplementary Information***

**Harris County Municipal Utility District No. 418**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended May 31, 2024**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 90,000	\$ 116,547	\$ 26,547
Tap connection and inspection fees	-	269,005	269,005
Investment income	3,000	1,649	(1,351)
Other income	140,000	152,786	12,786
<b>Total revenues</b>	<b>233,000</b>	<b>539,987</b>	<b>306,987</b>
<b>Expenditures</b>			
Service operations:			
Purchased services	10,000	403	9,597
Professional fees	213,000	167,856	45,144
Contracted services	45,000	65,140	(20,140)
Tap connections	-	136,964	(136,964)
Other expenditures	47,880	55,580	(7,700)
Capital outlay	13,000	22,000	(9,000)
<b>Total expenditures</b>	<b>328,880</b>	<b>447,943</b>	<b>(119,063)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(95,880)</b>	<b>92,044</b>	<b>187,924</b>
<b>Other Financing Sources</b>			
Developer advances	95,880	82,670	(13,210)
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>-</b>	<b>174,714</b>	<b>174,714</b>
<b>Fund Balance, Beginning of Year</b>	<b>103,854</b>	<b>103,854</b>	<b>-</b>
<b>Fund Balance, End of Year</b>	<b>\$ 103,854</b>	<b>\$ 278,568</b>	<b>\$ 174,714</b>

**Harris County Municipal Utility District No. 418**  
**Notes to Required Supplementary Information**  
**May 31, 2024**

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***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2024.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

## ***Supplementary Information***

**Harris County Municipal Utility District No. 418**  
**Other Schedules Included Within This Report**  
**May 31, 2024**

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(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 18-28
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [ ] Schedule of Long-Term Debt Service Requirements by Years – Not Applicable
- [ ] Changes in Long-Term Bonded Debt – Not Applicable
- [X] Comparative Schedule of Revenues and Expenditures – General Fund – Five Years
- [X] Board Members, Key Personnel and Consultants

**Harris County Municipal Utility District No. 418**  
**Schedule of Services and Rates**  
**Year Ended May 31, 2024**

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1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input checked="" type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input checked="" type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
Other _____		

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>	
Water:	\$ 18.00	5,000	N	\$ 1.75	5,001	to 10,000
				\$ 2.00	10,001	to 20,000
				\$ 2.50	20,001	to No limit
Wastewater:	\$ 56.05	0	Y			
Regional Water Fee:	\$ 4.66	1,000	N	\$ 4.66	1,001	to No limit

Does the District employ winter averaging for wastewater usage? Yes \_\_\_\_\_ No

Total charges per 10,000 gallons usage (including fees): Water \$ 73.35 Wastewater \$ 56.05

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	-	-	x1.0	-
1"	-	-	x2.5	-
1 1/2"	1	1	x5.0	5
2"	2	2	x8.0	16
3"	1	1	x15.0	15
4"	-	-	x25.0	-
6"	1	1	x50.0	50
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	6	6		166
Total wastewater	4	4	x1.0	4

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	1,224,655
Gallons billed to customers:	1,120,416
Water accountability ratio (gallons billed/gallons pumped):	91.49%

\*\*ESFC" means equivalent single-family connections

**Harris County Municipal Utility District No. 418**  
**Schedule of General Fund Expenditures**  
**Year Ended May 31, 2024**

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<b>Personnel (including benefits)</b>	\$	-
<b>Professional Fees</b>		
Auditing	\$	9,900
Legal		46,183
Engineering		111,773
Financial advisor		<u>-</u>
		167,856
<b>Purchased Services for Resale</b>		
Bulk water and wastewater service purchases		403
<b>Regional Water Fee</b>		-
<b>Contracted Services</b>		
Bookkeeping		53,657
General manager		-
Appraisal district		1,055
Tax collector		10,428
Security		-
Other contracted services		<u>-</u>
		65,140
<b>Utilities</b>		-
<b>Repairs and Maintenance</b>		-
<b>Administrative Expenditures</b>		
Directors' fees		17,238
Office supplies		3,515
Insurance		5,415
Interest expense		-
Other administrative expenditures		<u>29,412</u>
		55,580
<b>Capital Outlay</b>		
Capitalized assets		-
Expenditures not capitalized		<u>22,000</u>
		22,000
<b>Tap Connection Expenditures</b>		136,964
<b>Solid Waste Disposal</b>		-
<b>Fire Fighting</b>		-
<b>Parks and Recreation</b>		-
<b>Other Expenditures</b>		-
<b>Total expenditures</b>	\$	<u>447,943</u>

**Harris County Municipal Utility District No. 418**  
**Schedule of Temporary Investments**  
**May 31, 2024**

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	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Reivable</b>
<b>Governmental Activities</b>				
<b>General Fund</b>				
Texas CLASS	5.44%	Demand	\$ 427,113	\$ -
<b>Business-Type Activities</b>				
<b>Enterprise Fund</b>				
Texas CLASS	5.44%	Demand	<u>107,399</u>	<u>-</u>
<b>Totals</b>			<u>\$ 534,512</u>	<u>\$ -</u>

**Harris County Municipal Utility District No. 418**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended May 31, 2024**

	<b>Maintenance Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ -
Additions and corrections to prior years' taxes	<u>(10,801)</u>
Adjusted receivable, beginning of year	<u>(10,801)</u>
<b>2023 Original Tax Levy</b>	75,716
Additions and corrections	<u>51,632</u>
Adjusted tax levy	<u>127,348</u>
Total to be accounted for	116,547
Tax (collections) repayments:	Current year
	(127,348)
	<u>10,801</u>
Receivable, end of year	\$ -
	<u><u></u></u>
	<b>2023</b>
<b>Property Valuations</b>	<b>2022</b>
Land	\$ 12,669,299
Improvements	219,426
Personal property	5,660
Exemptions	<u>(159,592)</u>
Total property valuations	<u>\$ 12,734,793</u>
	<b>2022</b>
	\$ 11,368,045
	100
	4,360
	<u>(100,364)</u>
	<u><u></u></u>
	<b>\$ 11,272,141</b>
<b>Tax Rates per \$100 Valuation</b>	
Maintenance tax rates*	<u><u>\$ 1.0000</u></u>
	<u><u>\$ 1.0000</u></u>
<b>Tax Levy</b>	<u><u>\$ 127,348</u></u>
	<u><u>\$ 112,721</u></u>
<b>Percent of Taxes Collected to Taxes Levied**</b>	<u><u>100 %</u></u>
	<u><u>100 %</u></u>

\*Maximum tax rate approved by voters: \$1.50 on November 7, 2006

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

**Harris County Municipal Utility District No. 418**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended May 31,**

	<b>Amounts</b>				
	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 116,547	\$ 123,522	\$ -	\$ -	\$ -
Tap connection and inspection fees	269,005	-	-	-	-
Investment income	1,649	631	-	15	17
Administrative fee	152,786	135,814	141,809	94,414	72,291
<b>Total revenues</b>	<b>539,987</b>	<b>259,967</b>	<b>141,809</b>	<b>94,429</b>	<b>72,308</b>
<b>Expenditures</b>					
Service operations:					
Purchased services	403	-	-	-	-
Professional fees	167,856	189,811	174,380	131,331	95,413
Contracted services	65,140	46,824	27,694	21,295	18,809
Tap connections	136,964	-	-	-	-
Other expenditures	55,580	40,646	33,670	27,418	27,270
Capital outlay	22,000	11,900	46,500	15,900	-
<b>Total expenditures</b>	<b>447,943</b>	<b>289,181</b>	<b>282,244</b>	<b>195,944</b>	<b>141,492</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>92,044</b>	<b>(29,214)</b>	<b>(140,435)</b>	<b>(101,515)</b>	<b>(69,184)</b>
<b>Other Financing Sources</b>					
Developer advances	82,670	112,984	148,437	95,594	69,264
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>174,714</b>	<b>83,770</b>	<b>8,002</b>	<b>(5,921)</b>	<b>80</b>
<b>Fund Balance, Beginning of Year</b>	<b>103,854</b>	<b>20,084</b>	<b>12,082</b>	<b>18,003</b>	<b>17,923</b>
<b>Fund Balance, End of Year</b>	<b>\$ 278,568</b>	<b>\$ 103,854</b>	<b>\$ 20,084</b>	<b>\$ 12,082</b>	<b>\$ 18,003</b>
<b>Total Active Retail Water Connections</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Active Retail Wastewater Connections</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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Percent of Fund Total Revenues					
2024	2023	2022	2021	2020	
21.6 %	47.5 %	- %	- %	- %	
49.8	-	-	-	-	
0.3	0.2	-	0.0	0.0	
<u>28.3</u>	<u>52.3</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	
0.1	-	-	-	-	
31.1	73.0	123.0	139.1	132.0	
12.1	18.0	19.5	22.6	26.0	
25.4	-	-	-	-	
10.3	15.6	23.7	29.0	37.7	
<u>4.1</u>	<u>4.6</u>	<u>32.8</u>	<u>16.8</u>	<u>-</u>	
<u>83.0</u>	<u>111.2</u>	<u>199.0</u>	<u>207.5</u>	<u>195.7</u>	
<u>17.0 %</u>	<u>(11.2) %</u>	<u>(99.0) %</u>	<u>(107.5) %</u>	<u>(95.7) %</u>	

**Harris County Municipal Utility District No. 418  
Board Members, Key Personnel and Consultants  
Year Ended May 31, 2024**

Complete District mailing address:	Harris County Municipal Utility District No. 418 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 2400 Houston, Texas 77056		
District business telephone number:	713.623.4531		
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>May 28, 2024</u>		
Limit on fees of office that a director may receive during a fiscal year:	\$ <u>7,200</u>		

<b>Board Members</b>	<b>Term of Office Elected &amp; Expires</b>	<b>Fees*</b>	<b>Expense Reimbursements</b>	<b>Title at Year-End</b>
Steven P. Knabe	Elected 05/22- 05/26	\$ 5,304	\$ 2,200	President
Chris Gilbert	Elected 05/24- 05/28	4,199	2,163	Vice President
Bettina Parr	Elected 05/22- 05/26	2,652	71	Secretary
Cathy H. Guernsey Cobb	Elected 05/22- 05/26	2,652	1,058	Assistant Secretary
Colby McClary	Elected 05/24- 05/28	2,431	686	Assistant Secretary

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

**Harris County Municipal Utility District No. 418**  
**Board Members, Key Personnel and Consultants**  
**Year Ended May 31, 2024**

**(Continued)**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>		<b>Title</b>
BGE, Inc.	04/15/05	\$	225,075	Engineer
FORVIS, LLP	05/16/06		42,000	Auditor
Harris Central Appraisal District	Legislative Action		1,055	Appraiser
Inframark, LLC	06/21/05		2,600,192	Operator
Masterson Advisors LLC	05/22/18		-	Financial Advisor
Municipal Accounts & Consulting, L.P.	03/03/05		88,393	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/26/22		-	Delinquent Tax Attorney
Schwartz, Page & Harding, L.L.P.	03/03/05		80,264	Attorney
Wheeler & Associates, Inc.	03/03/05		15,561	Tax Assessor/Collector
<b>Investment Officers</b>				
Mark M. Burton and Ghia Lewis	03/03/05		N/A	Bookkeepers