

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT

DENTON, COUNTY, TEXAS

FINANCIAL REPORT

APRIL 30, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT

DENTON, COUNTY, TEXAS

FINANCIAL REPORT

APRIL 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Prairie Oaks Municipal Utility District
Denton County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Prairie Oaks Municipal Utility District (the "District") as of and for the seven-month period ended April 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of April 30, 2023, and the respective changes in financial position for the seven-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund. Our opinion on the basic financial statements is not affected by this missing information.

Board of Directors
Prairie Oaks Municipal Utility District

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

August 25, 2023

**PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023**

Management's discussion and analysis of the financial performance of Prairie Oaks Municipal Utility District provides an overview of the District's financial activities for the seven-month period ended April 30, 2023. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position includes all of the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for resources not accounted for in another fund, property tax revenues, developer advances, operating costs and general expenditures.

**PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023**

FUND FINANCIAL STATEMENTS (Continued)

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. A budgetary comparison schedule is normally included as RSI for the General Fund, however, there was no budget adopted for the current period.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$128,550 as of April 30, 2023. This is the District's first audit. In future years a comparative analysis of government-wide changes in net position will be presented.

**PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the Statement of Net Position for the seven-month period ended April 30, 2023:

	Summary of the Statement of Net Position 2023
Current Assets	\$ 5,591
Intangible Assets (Net of Amortization)	1,699,384
Capital Assets (Net of Depreciation)	2,559,220
Total Assets	\$ 4,264,195
Due to Developer	\$ 4,386,288
Other Liabilities	6,457
Total Liabilities	\$ 4,392,745
Net Position:	
Net Investment in Capital Assets	\$ (127,684)
Unrestricted	(866)
Total Net Position	\$ (128,550)

The following table provides a summary of the District's operations for the seven-month period ended April 30, 2023, which is the initial audit period for the District.

	Summary of the Statement of Activities 2023
Revenues:	
Property Taxes	\$ 16,100
Total Expenses	\$ 87,768
Change in Net Position	\$ (71,668)
Net Position, Beginning of Year	(56,882)
Net Position, End of Year	\$ (128,550)

**PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's General Fund had a deficit fund balance of \$866 as of April 30, 2023 (see Note 8).

GENERAL FUND BUDGETARY HIGHLIGHTS

No budget was adopted for the current period.

CAPITAL ASSETS

The District's capital assets as of April 30, 2023, amount to \$2,559,220 (net of accumulated depreciation). These capital assets include drainage and road facilities.

Capital Assets At Year-End	
	2023
Capital Assets Subject to Depreciation:	
Drainage System	\$ 800,421
Roads	1,796,071
Less Accumulated Depreciation	(37,272)
Total Net Capital Assets	\$ 2,559,220

Additional information on the District's capital assets can be found in Note 4 of this report.

The District's intangible assets as of April 30, 2023, amount to \$1,699,384 (net of accumulated amortization). Current year amortization expenses were \$25,412.

LONG-TERM DEBT

As of April 30, 2023, the District recorded an amount due to Developer of \$4,386,288, which consists of costs associated with water, wastewater, drainage and road facilities and operating advances.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Prairie Oaks Municipal Utility District, c/o Winstead PC, 2728 N. Harwood Street, Suite 500, Dallas, Texas 75201.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
APRIL 30, 2023

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 5,591	\$	\$ 5,591
Intangible Assets (Net of Accumulated Amortization)		1,699,384	1,699,384
Capital Assets (Net of Accumulated Depreciation)		2,559,220	2,559,220
TOTAL ASSETS	\$ 5,591	\$ 4,258,604	\$ 4,264,195
LIABILITIES			
Accounts Payable	\$ 6,457	\$	\$ 6,457
Due to Developer		4,386,288	4,386,288
TOTAL LIABILITIES	\$ 6,457	\$ 4,386,288	\$ 4,392,745
TOTAL FUND BALANCE	\$ (866)	\$ 866	\$ - 0 -
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,591		
NET POSITION			
Net Investment in Capital Assets		\$ (127,684)	\$ (127,684)
Unrestricted		(866)	(866)
TOTAL NET POSITION		\$ (128,550)	\$ (128,550)

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

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
APRIL 30, 2023

Total Fund Balance - Governmental Fund	\$	(866)
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital and intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		4,258,604
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of amounts recorded as Due to the Developer.		<u>(4,386,288)</u>
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Total Net Position - Governmental Activities	\$	<u>(128,550)</u>
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The accompanying notes to the financial statements are an integral part of this report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Taxes	\$ 16,100	\$ -0-	\$ 16,100
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 17,356	\$	\$ 17,356
Contracted Services	2,920		2,920
Depreciation		37,272	37,272
Amortization		25,412	25,412
Other	4,808		4,808
TOTAL EXPENDITURES/EXPENSES	<u>\$ 25,084</u>	<u>\$ 62,684</u>	<u>\$ 87,768</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (8,984)</u>	<u>\$ (62,684)</u>	<u>\$ (71,668)</u>
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ 5,500	\$ (5,500)	\$
NET CHANGE IN FUND BALANCE	\$ (3,484)	\$ 3,484	\$
CHANGE IN NET POSITION		(71,668)	(71,668)
FUND BALANCE/NET POSITION - OCTOBER 1, 2022	<u>2,618</u>	<u>(59,500)</u>	<u>(56,882)</u>
FUND BALANCE (DEFICIT)/NET POSITION - APRIL 30, 2023	<u>\$ (866)</u>	<u>\$ (127,684)</u>	<u>\$ (128,550)</u>

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

**PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023**

Net Change in Fund Balance - Governmental Fund	\$	(3,484)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds do not account for depreciation and amortization. In governmental activities, capital assets are depreciated and intangible assets are amortized over the estimated useful lives.		(62,684)
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Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances are recorded as a liability.		(5,500)
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Change in Net Position - Governmental Activities	\$	<u>(71,668)</u>
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The accompanying notes to the financial statements are an integral part of this report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 1. CREATION OF DISTRICT

Prairie Oaks Municipal Utility District was created on April 20, 2021, as a conservation and reclamation district and political subdivision of the State of Texas organized and operating pursuant to Article XVI, Section 59, of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code (the “District”). The District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, and roads services for its residents. The Board of Directors held its first meeting on May 25, 2021.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

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

Financial Statement Presentation

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

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net position that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund (Continued)

General Fund – To account for resources not accounted for in another fund, property tax revenues, developer advances, operating costs and general expenditures.

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which includes certain drainage and road infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized if they have an original cost greater than \$10,000 and a useful life over 2 years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation over 30-45 years.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets (Continued)

Intangible assets include the costs of water facilities and wastewater facilities constructed within the District which are conveyed to Mustang Special Utility District for operation and maintenance for the benefit of District residents. Intangible assets are amortized using the straight-line method over 45 years.

Budgeting

An annual unappropriated budget should be 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. A General Fund budget for the current year was not adopted. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the budgeted amounts compared to the actual amounts of revenues and expenditures for the current year. This comparison was omitted in the current period.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position. Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

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

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$5,591 and the bank balance was \$5,730. The District was not exposed to custodial credit risk at year-end.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

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

As of April 30, 2023, the District did not have any investments.

NOTE 4. CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital asset activity for the seven-month period ended April 30, 2023, is summarized as follows:

	October 1, 2022	Increases	Decreases	April 30, 2023
Capital Assets Subject to Depreciation				
Drainage System	\$	\$ 800,421	\$	\$ 800,421
Roads		1,796,071		1,796,071
Total Capital Assets Subject to Depreciation	\$ - 0 -	\$ 2,596,492	\$ - 0 -	\$ 2,596,492
Less Accumulated Depreciation				
Drainage System	\$	\$ 11,793	\$	\$ 11,793
Roads		25,479		25,479
Total Accumulated Depreciation	\$ - 0 -	\$ 37,272	\$ - 0 -	\$ 37,272
Total Capital Assets, Net of Accumulated Depreciation	\$ - 0 -	\$ 2,559,220	\$ - 0 -	\$ 2,559,220

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 4. CAPITAL ASSETS AND INTANGIBLE ASSETS (Continued)

Developers have financed the construction of water facilities and wastewater facilities which serve District residents. These facilities have been conveyed to Mustang Special Utility District (“Mustang”) in accordance with the service agreement (see Note 10). In exchange for conveyance of these assets, Mustang agrees to provide service to residents of the District. Intangible asset activity for the seven-month ended April 30, 2023, is summarized in the following tables:

	October 1, 2022	Increases	Decreases	April 30, 2023
Intangible Assets Subject to Amortization				
Water System	\$	\$ 797,598	\$	\$ 797,598
Wastewater System		927,198		927,198
Total Intangible Assets Subject to Amortization	<u>\$ -0-</u>	<u>\$ 1,724,796</u>	<u>\$ - 0 -</u>	<u>\$ 1,724,796</u>
Less Accumulated Amortization				
Water System	\$	\$ 11,751	\$	\$ 11,751
Wastewater System		13,661		13,661
Total Accumulated Amortization	<u>\$ -0-</u>	<u>\$ 25,412</u>	<u>\$ - 0 -</u>	<u>\$ 25,412</u>
Intangible Assets Net of Accumulated Amortization	<u>\$ -0-</u>	<u>\$ 1,699,384</u>	<u>\$ - 0 -</u>	<u>\$ 1,699,384</u>

NOTE 5. RISK MANAGEMENT

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

NOTE 6. MAINTENANCE TAX

On November 11, 2021, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.20 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District’s systems and other operating and maintenance expenses. During the current period, the District levied an ad valorem maintenance tax rate of \$1.00 per \$100 of assessed valuation, which resulted in a tax levy of \$16,100 on the adjusted taxable valuation of \$1,610,000 for the 2022 tax year.

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

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2023

NOTE 7. UNREIMBURSED DEVELOPER COSTS

The District and the Developer have entered into agreements which require the Developer to fund construction costs associated with roads, water, wastewater and drainage infrastructure and operating advances. Reimbursement to the Developer for these construction costs and operating advances is contingent upon approval from the Commission and the future sale of bonds. The following table summarize the current year activity.

Due to Developer, October 1, 2022	\$ 59,500
Current year additions	<u>4,326,788</u>
Due to Developer, April 30, 2023	<u>\$ 4,386,288</u>

NOTE 8. ECONOMIC DEPENDENCY

The District's Developer owns a substantial portion of the taxable property within the District. The Developer's ability to make full and timely payments of taxes and provide operating advances directly affects the District's ability to meet its financial obligations. The District has recorded a deficit fund balance of \$866 in the General Fund. The District anticipates the deficit will be alleviated with future advances.

NOTE 9. BOND AUTHORIZATION

At an election held November 11, 2021, the voters of the District authorized the issuance of bonds up to \$4,502,211 for the purposes of acquiring or constructing utility facilities, \$3,205,696 for road facilities, \$5,627,763 for the purpose of refunding utility facilities bonds and \$4,007,120 for the purpose of refunding road bonds of which all remain authorized but unissued as of April 30, 2023.

NOTE 10. AGREEMENT FOR WATER SUPPLY AND WASTEWATER SERVICES

The District is located within Mustang's political boundaries and service area where Mustang owns and operates a retail public water system and retail public wastewater system under Certificate of Convenience and Necessity Nos. 11856 and 20930, respectively. Mustang is the sole certificated retail public utility for water and wastewater service in the area in which the District is located. On October 21, 2021, the Developer of the District entered into an agreement with Mustang stating Mustang shall provide potable water and wastewater treatment services to the District. The Developer will construct the internal facilities necessary to service customers within the District's boundaries. Upon completion of such system, the system will be conveyed to Mustang. In consideration of the District's construction and conveying such system, Mustang shall assume all operation and maintenance responsibilities for the water and wastewater systems.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

APRIL 30, 2023

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE SEVEN MONTH PERIOD ENDED APRIL 30, 2023

1. SERVICES PROVIDED BY THE DISTRICT DURING THE PERIOD:

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

2. RETAIL SERVICE PROVIDERS: Not Applicable

3. TOTAL WATER CONSUMPTION DURING THE PERIOD ROUNDED TO THE NEAREST THOUSAND: (Not Applicable)

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

Does the District have Debt Service standby fees? Yes No X

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Denton County, Texas

Is the District located within a city?

Entirely Partly Not at all X

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

Entirely X Partly Not at all

ETJ in which the District is located: City of Oak Point, Texas

Are Board Members appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023

PROFESSIONAL FEES:	
Legal	\$ <u>17,356</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ <u>2,920</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 1,131
Insurance	3,386
Other	<u>291</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>4,808</u>
TOTAL EXPENDITURES	\$ <u>25,084</u>

See accompanying independent auditor's report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE SEVEN-MONTH PERIOD ENDED APRIL 30, 2023

	Maintenance Taxes	
TAXES RECEIVABLE -		
OCTOBER 1, 2022	\$ -0-	
Adjustments to Beginning		
Balance	\$ -0-	
Original 2022 Tax Levy	\$ 16,100	
Adjustment to 2022 Tax Levy		16,100
TOTAL TO BE		
ACCOUNTED FOR		\$ 16,100
 TAX COLLECTIONS:		
Prior Years	\$	
Current Year	16,100	16,100
 TAXES RECEIVABLE -		
APRIL 30, 2023		\$ -0-
 TAXES RECEIVABLE BY		
YEAR:		
2022		\$ -0-

See accompanying independent auditor's report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE SEVEN MONTH PERIOD ENDED APRIL 30, 2023

	2022
PROPERTY VALUATIONS:	
Land	\$ 1,610,000
TAX RATES PER \$100 VALUATION:	
Maintenance	\$ 1.00
ADJUSTED TAX LEVY*	\$ 16,100
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	100.00 %

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

Maintenance Tax – Maximum tax rate of \$1.20 per \$100 assessed valuation approved by voters on November 11, 2021.

See accompanying independent auditor's report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - ONE YEAR

	Amounts	Percentage of Total Revenues
	2023	2023
REVENUES		
Property Taxes	\$ 16,100	100.0 %
EXPENDITURES		
Professional Fees	\$ 17,356	107.8 %
Contracted Services	2,920	18.1
Other	4,808	29.9
TOTAL EXPENDITURES	\$ 25,084	155.8 %
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (8,984)	(55.8) %
OTHER FINANCING SOURCES (USES)		
Developer Advances	\$ 5,500	
NET CHANGE IN FUND BALANCE	\$ (3,484)	
BEGINNING FUND BALANCE	2,618	
ENDING FUND BALANCE	\$ (866)	

See accompanying independent auditor's report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2023

District Mailing Address - Prairie Oaks Municipal Utility District
c/o Winstead PC
2728 N. Harwood Street, Suite 500
Dallas, TX 75201

District Telephone Number - (214) 745-5400

Board Members	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the seven-month period ended April 30, 2023</u>	<u>Expense Reimbursements for the seven-month period ended April 30, 2023</u>	<u>Title</u>
Connor Maloney	03/23 05/26 (Appointed)	\$ -0-	\$ -0-	President
Lindsey Welch	11/21 05/24 (Elected)	\$ 300	\$ -0-	Vice President
Justin McGinnity	05/22 05/26 (Elected)	\$ 300	\$ -0-	Secretary
Nathan Mantz	05/22 05/26 (Elected)	\$ 150	\$ -0-	Assistant Secretary
Kelly Maloney	05/22 03/23 (Resigned)	\$ 300	\$ -0-	Former President

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District’s developers or with any of the District’s consultants.

Submission date of most recent District Registration Form: May 1, 2023

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200. Fees of Office are the amounts actually paid to a Director during the District’s current fiscal year.

See accompanying independent auditor’s report.

PRAIRIE OAKS MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2023

Consultants:	<u>Date Hired</u>	<u>Fees for the Seven-month period ended April 30, 2023</u>	<u>Title</u>
Winstead PC	05/25/21	\$ 17,356	General Counsel
McCall Gibson Swedlund Barfoot PLLC	06/07/23	\$ -0-	Auditor
L&S District Services	05/25/21	\$ 2,920 \$ -0-	Bookkeeper/ Investment Officer
Kimley-Horn and Associates, Inc.	05/25/21	\$ -0-	Engineer
Hilltop Securities	05/25/21	\$ -0-	Financial Advisor
McCreary, Veselka, Bragg & Allen, PC	09/15/22	\$ -0-	Delinquent Attorney
Denton County	05/11/22	\$ 3	Tax Assessor/ Collector

See accompanying independent auditor's report.

