

REPORT ON THE AUDIT OF

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1**

*FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2017*

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS §

COUNTY OF HARRIS §

I, Ray Mullins
(Name of Duly Authorized District Representative)

of the Harris County Water Control and Improvement District No. 1
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the _____ day of _____, _____ its annual audit report for the fiscal period ended September 30, 2017 and that copies of the annual report have been filed in the District's office, located at 125 San Jacinto, Highlands, TX 77562.

The filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date

By: _____
(Signature of District Official)

Ray Mullins, President
(Typed Name and Title of Above District Official)

Sworn to and subscribed to before me this _____ day of _____, _____.

[Seal]

(Signature of Notary Public)

Commission expires on _____, 20 _____, Notary Public in the State of Texas.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harris County Water Control and Improvement District No. 1
Highlands, Texas 77562

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harris County Water Control and Improvement District No. 1 ("the District") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, net pension liability, and employer contribution schedules on pages 4 through 8 and 37 through 41 be presented to supplement the basic financial statements. Such information, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Texas Supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



RATLIFF & JENTHO
Certified Public Accountants

Baytown, Texas
January 23, 2018

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Management's Discussion and Analysis ***For The Year Ended September 30, 2017***

Using this Report

Within this section of the Harris County Water Control and Improvement District No. 1's ("the District") report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017.

The report consists of a series of financial statements plus additional supplemental information to the financial statements. In accordance with the required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities that engage in a single governmental program, in this case providing water and sewer services to individuals and businesses located within or near the boundaries of the District. The financial statements of special-purpose governments typically combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

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 and liabilities owned by 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 total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise. Although the purpose of the District is not to accumulate net position, in general, as the amount increases, it may indicate that the financial position of the District is improving over time.

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. 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 period.

Although the Statement of Activities looks different from a commercial enterprise's income statement, 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. Fund financial statements are divided into two broad categories, governmental funds and fiduciary funds. The District has only governmental funds within its financial statements.

Governmental Funds

Governmental fund financial statements consist of a Balance Sheet and Statement of Revenues, Expenditures and Change 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. 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 total assets and total liabilities is labeled fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement of 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 are different, there may be significant differences between the totals presented in these financial statements. For this reason, there is an analysis at the bottom of the Balance Sheet that reconciles the total fund balances to the amount of net assets presented in the governmental activities column on the Statement of Net Assets. Also, there is an explanation at the bottom of the Statement of Revenues, Expenditures, and Changes in Fund Balances that explains the difference in the total change in fund balances for all governmental funds to the change in net assets as reported in the governmental activities column in the Statement of Activities.

Financial Analysis of the District as a Whole

The District's overall financial position as of September 30, 2017 is summarized as follows:

	Summary of Net Position			
	2017	2016	Amount of Change	% Change
Cash and Temporary Investments	\$10,651,984	\$3,061,853	\$7,590,131	247.9%
Receivables	302,781	335,476	(32,695)	(9.7%)
Other	43,635	37,409	6,226	16.6%
Capital Assets	9,370,268	8,692,564	677,704	7.8%
Total Assets	20,368,668	12,127,302	8,241,366	68.0%
Deferred Outflows	243,061	282,477	(39,416)	(14.0%)
Current and other Liabilities	858,558	473,885	384,673	81.2%
Long-Term Liabilities	10,237,366	2,713,368	7,523,998	572.6%
Total Liabilities	11,095,924	3,187,253	7,908,671	248.1%
Deferred Inflows	57,969	55,709	2,260	4.1%
Net position	\$ 9,457,836	\$9,166,817	\$ 291,019	3.2%

The District's operations for the year ended September 30, 2017 are summarized as follows:

	Summary Changes in Net Position			
	2017	2016	Amount of Change	% Change
Revenues				
Taxes	\$ 554,737	\$ 552,037	\$ 2,700	0.5%
Services	2,364,166	2,304,687	59,479	2.6%
Other	270,855	144,235	126,620	87.8%
Total Revenues	\$3,189,758	\$3,000,959	\$ 188,799	6.3%
Expenses				
Operation	\$1,987,616	\$1,995,586	\$ (7,970)	(0.4%)
Interest, Bond Costs, Etc.	419,110	64,821	354,289	546.6%
Depreciation	492,012	519,944	(27,932)	(5.4%)
Total Expenses	\$2,898,738	\$2,580,351	\$ 318,387	12.3%
Change in Net Position	291,020	420,608	(129,588)	(30.8%)

Financial Analysis of the District's Funds

General Fund: As of September 30, 2017 the General Fund had total assets of \$2,280,500 consisting primarily of cash, temporary investments and accounts receivable. Liabilities and deferred inflows totaled \$514,757 with \$120,190 of accounts payable and \$325,375 of customer deposits.

Revenues of \$2,822,504 exceeded expenditures of \$1,982,735 by \$839,769.

**Debt Service
Fund:**

As of September 30, 2017, the Debt Service Fund had total assets of \$1,016,512 consisting primarily of cash, temporary investments and taxes receivable. Liabilities and deferred inflows totaled \$79,982 consisting of accounts payable, interfund payables and deferred revenue.

Revenues of \$348,259 were less than expenditures of \$386,877 by \$38,618.

**Capital Projects
Fund:**

As of September 30, 2017, the Capital Projects Fund had total assets of \$7,682,799 consisting primarily of cash and temporary investments. Liabilities totaled \$215,744, consisting entirely of accounts payable.

Expenditures of \$1,338,242 exceeded the revenues of \$42,589 by \$1,295,653. These excess expenditures were paid from funds transferred from the General Fund and the proceeds of the 2017 Bond Series.

Budget

The District reviewed and approved its 2016-2017 budget in September of 2016 and did not amend it. The revenue for the year exceeded the budget by \$274,129, approximately 10%, and expenditures were less than the budget by \$323,275 or approximately 16%. The District had budgeted for excess revenues of \$242,365 and actual results were at \$839,769 of excess revenues. All categories of expenditures were under budget except for Capital Outlay0

Capital Assets

During the year, the District had expenditures for capital outlay of \$54,075 in the General Fund and \$1,115,641 in the Capital Projects Fund related to various water and waste system improvements.

Long-Term Debt

The District retired \$210,000 of its Series 2013 Bonds during the current year. Also, \$7,850,000 of Series 2017 tax bonds were issued during the year. The remaining \$8,150,000 of voter approved bonds are not expected to be issue for five years or more.

The District's Net Pension Liability as of September 30, 2017 was \$187,948, a decrease of \$17,313

Next Year's Budget

The District currently anticipates the 2017-2018 year to have operating revenues and expenditures similar to the current year. Construction costs in the Capital Projects Fund are expected to increase to \$3,000,000 or more.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Statement of Net Position and Governmental Funds Balance Sheet

September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (A)	Statement of Net Position
Assets						
Cash	\$ 1,998,614	\$ -	\$ 223,458	\$ 2,222,072	\$ -	\$ 2,222,072
Receivables, Net of Allowance						
Taxes	32,092	45,928	-	78,020	51,547	129,567
Service Accounts	173,201	-	-	173,201	-	173,201
Other	-	-	-	-	-	-
Due From Other Funds	32,958	-	-	32,958	(32,958)	-
Prepaid Expenses	43,635	-	-	43,635	-	43,635
Restricted Assets						
Cash	-	753,990	7,459,341	8,213,331	-	8,213,331
Temporary Investments	-	216,581	-	216,581	-	216,581
Accrued Interest	-	13	-	13	-	13
Capital Assets (net of accumulated depreciation)						
Land	-	-	-	-	101,882	101,882
Buildings	-	-	-	-	58,116	58,116
Water System	-	-	-	-	1,048,603	1,048,603
Sewer System	-	-	-	-	6,111,179	6,111,179
Machinery and Equipment	-	-	-	-	157,936	157,936
Leased Equipment	-	-	-	-	714,029	714,029
Autos and Trucks	-	-	-	-	28,193	28,193
Construction in Progress	-	-	-	-	1,150,330	1,150,330
Total Assets	\$ 2,280,500	\$ 1,016,512	\$ 7,682,799	\$ 10,979,811	\$ 9,388,857	\$ 20,368,668
Deferred Outflows of Resources						
Pension Contributions					54,975	54,975
Pension Change in Assumptions					11,870	11,870
Pension Investments					176,216	176,216
Total Deferred Outflows					243,061	243,061

(A) This column represents adjustments for penalty and interest receivables, due to/due from, general capital assets, deferred revenue, accrued interest, and long-term liabilities.

The accompanying notes are an integral part of these financial statements.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Statement of Net Position and Governmental Funds Balance Sheet

September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (A)	Statement of Net Position
Liabilities						
Accounts Payable	\$ 120,190	\$ 1,096	\$ 215,744	\$ 337,030	\$ -	\$ 337,030
Accrued Expenses	11,751	-	-	11,751	-	11,751
Accrued Interest Payable	-	-	-	-	159,053	159,053
Compensated Absences Payable	20,002	-	-	20,002	-	20,002
Customer Deposits	325,375	-	-	325,375	-	325,375
Fire Department Collected & Payable	5,347	-	-	5,347	-	5,347
Due to General Fund	-	32,958	-	32,958	(32,958)	-
Long-term Liabilities:						
Due within one year	-	-	-	-	-	-
Due after one year	-	-	-	-	487,908	487,908
Aggregate Net Pension Liability	-	-	-	-	9,561,510	9,561,510
					187,948	187,948
Total Liabilities	482,665	34,054	215,744	732,463	10,363,461	11,095,924
Deferred Inflows of Resources						
Deferred Property Taxes	32,092	45,928	-	78,020	(78,020)	-
Pension Economic/Demographic	-	-	-	-	57,969	57,969
Total Deferred Inflows of Resources	32,092	45,928	-	78,020	(20,051)	57,969
Fund Balances/ Net Position						
Fund Balance						
Non-spendable	43,635	-	-	43,635	(43,635)	-
Restricted	-	936,530	7,467,020	8,403,550	(8,403,550)	-
Assigned	101,178	-	35	101,213	(101,213)	-
Unassigned	1,620,930	-	-	1,620,930	(1,620,930)	-
Total Fund Balances	1,765,743	936,530	7,467,055	10,169,328	(10,169,328)	-
Total Liabilities and Fund Balance	\$ 2,280,500	\$ 1,016,512	\$ 7,682,799	\$ 10,979,811		
Net Position						
Invested in Capital Assets, net of related debt					6,217,446	6,217,446
Restricted for Debt Service					1,015,604	1,015,604
Unrestricted					2,224,786	2,224,786
Total Net Position					\$ 9,457,836	\$ 9,457,836

(A) This column represents adjustments for penalty and interest receivables, due to/due from, general capital assets, deferred revenue, accrued interest, and long-term liabilities.

The accompanying notes are an integral part of these financial statements.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (A)	Statement of Activities
Revenues						
Taxes	\$ 261,371	\$ 316,960	\$ -	\$ 578,331	\$ (23,594)	\$ 554,737
Service Revenues	2,316,906	-	-	2,316,906	-	2,316,906
Tap Connection	47,260	-	-	47,260	-	47,260
Penalty and Interest	78,691	31,299	42,589	152,579	-	152,579
Miscellaneous	118,276	-	-	118,276	-	118,276
Total Revenues	<u>2,822,504</u>	<u>348,259</u>	<u>42,589</u>	<u>3,213,352</u>	<u>(23,594)</u>	<u>3,189,758</u>
Expenditures/expenses:						
Service operations:						
Purchased Water and Sewer	492,121	-	-	492,121	-	492,121
Payroll	804,814	-	-	804,814	24,363	829,177
Professional Fees	49,660	11,732	-	61,392	-	61,392
Purchased and Contracted Services	171,985	18,683	-	190,668	-	190,668
Consumable Supplies and Materials	169,212	-	-	169,212	-	169,212
Recurring Operating Expenses	240,868	4,168	10	245,046	-	245,046
Capital Outlay	54,075	-	1,115,641	1,169,716	(1,169,716)	-
Debt Service	-	-	-	-	-	-
Principal	-	300,168	-	300,168	(300,168)	-
Interest and Fiscal Charges	-	52,126	-	52,126	144,393	196,519
Bond Costs	-	-	222,591	222,591	-	222,591
Depreciation	-	-	-	-	492,012	492,012
Total Expenditures/ expenses	<u>1,982,735</u>	<u>386,877</u>	<u>1,338,242</u>	<u>3,707,854</u>	<u>(809,116)</u>	<u>2,898,738</u>
Excess of Revenues Over (Under) Expenditures	839,769	(38,618)	(1,295,653)	(494,502)	785,522	291,020
Other Financing Sources (Uses)						
Operating Transfers In	-	117,365	125,000	242,365	(242,365)	-
Operating Transfers Out	(242,365)	-	-	(242,365)	242,365	-
Bond Proceeds	-	-	7,850,000	7,850,000	(7,850,000)	-
Bond Discount	-	-	(92,317)	(92,317)	92,317	-
Bond Premium	-	-	93,377	93,377	(93,377)	-
Total Other Financing Sources (Uses)	<u>(242,365)</u>	<u>117,365</u>	<u>7,976,060</u>	<u>7,851,060</u>	<u>(7,851,060)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	597,404	78,747	6,680,407	7,356,558	939,800	291,020
Fund Balances/ Net Position						
Beginning of Year	1,168,339	857,783	786,648	2,812,770	6,354,046	9,166,816
End of Year	<u>\$ 1,765,743</u>	<u>\$ 936,530</u>	<u>\$ 7,467,855</u>	<u>\$ 10,169,328</u>	<u>\$ 7,293,846</u>	<u>\$ 9,457,836</u>

(A) This column represents adjustments for penalty and interest receivables, due to/due from, general capital assets, deferred revenue, accrued interest, and long-term liabilities.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements *For the Fiscal Year Ended September 30, 2017*

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creation of District

Harris County Water Control and Improvement District No. 1 ("the District") was created, according to official state records, on May 1, 1939, by the State Board of Water Engineers, a state agency that was a predecessor of the Texas Commission on Environmental Quality pursuant to Article XVI, Section 59 of the Texas Constitution, and operates under provisions of Chapter 51 of the Texas Water Code, as amended, and other general statutes of Texas. The first board meeting of the lawfully appointed Board of Directors was on or about May 25, 1939. On July 1, 1939, a new board was duly elected in accordance with state law by the duly qualified voters of the District. The first bonds were sold July 20, 1939. The District is located in an unincorporated area north of Baytown, Texas.

Reporting Entity

The Board of Directors ("the Board"), a five member group of elected officials, is the level of government which has governance responsibilities over all activities related to the District. The Board is the primary government, since the Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District has no component units.

Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) have been prepared using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned, regardless of when cash is received; and recognizes expenses in the accounting period in which expenses are incurred, regardless of when cash is disbursed.

The fund financial statements (i.e., the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance) have been prepared using the current resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt in the governmental fund types, are recorded when the liability is incurred.

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes not deemed available to finance operations of the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long term portions of debt and compensated absences must be included.

Since the government fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

The fund financial statements and the government-wide financial statements of the District have been combined, using a columnar format with reconciliation from one column to the other, on the face of the statement. The provisions of Statement No. 34 of the Governmental Accounting Standards Board ("GASB") allows this format for special-purpose governmental units, engaged in a single governmental program (i.e., water districts).

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the District has the following governmental funds: General Fund, Debt Service Fund, and Capital Projects Fund.

Governmental Funds

General Fund: The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of the resources for, and the payment of, general long-term debt principal, interest and related costs.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Fund: The Capital Projects Fund is used to account for the use of bond proceeds and other revenues used in construction of improvements and additions to the District's water and sewer system.

Cash and Cash Equivalents

In preparation of its financial statements the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments are composed of certificates of deposit and are carried at face value, which approximates market value.

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 the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Materials and Supplies

Materials and supplies have been accounted for using the purchase method of accounting. Under this method, materials and supplies are considered an expenditure when acquired rather than when used.

Budget

The District's Board of Directors adopts an annual budget for each governmental fund, which is reflected in the financial statements. The budgets may be amended through the fiscal year and are prepared on a basis consistent with generally accepted accounting principles. The general fund budget reflected in the required supplementary information was approved in September of 2016 and was not amended.

Encumbrances

Encumbrances accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

Ad Valorem Taxes

Ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year. Property taxes which have been levied and are not yet available (or have been collected in advance of the fiscal year which they have been levied) are recorded as deferred revenues in the financial statements. Property taxes collected after the end of the fiscal year are not included in revenues. The District's taxes are generally levied October 1, for property in existence on

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the previous January 1, and if not collected, become delinquent February 1. The District has a statutory lien, established on January 1, for unpaid taxes on real property against which the taxes are assessed.

Use of Estimates

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

Fund Balance

The District has not established a policy in the use of its unrestricted fund balance. Accordingly, it considered that the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

General Capital Assets

Capital assets, including infrastructure assets, are stated at historical cost of the assets owned by the District, and any contribution by others is recorded at estimated fair market value as of the date of contribution. The District maintains a capitalization threshold of \$2,000. Repairs are not capitalized, and replacements of capital assets are capitalized at cost.

Depreciation is determined by the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are as follows:

	<u>Years</u>
Building	35-40
Furniture and Fixtures	7-10
Machinery and Equipment	5-15
Water Distribution System	30-50
Sewer Collection System	30-50

Land is not depreciated.

Bond Issuance Costs

In the government-wide financial statements, bond premiums, discounts, and issuance costs are deferred and amortized over the term of the related debt. In the fund financial statements, bond premiums and discounts are reported as other financing uses and issuance costs are reported as expenditures.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Resources

It is the District's policy to apply restricted resources first to any expense incurred for purposes of which both restricted and unrestricted assets are available.

NOTE 2 – RECONCILIATION OF THE FUND FINANCIAL STATEMENTS TO THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Total fund balances – governmental funds	\$ 10,169,328
--	---------------

Amounts reported for governmental activities in the Statement of Net Position are different because:

- | | |
|--|--------------|
| • Taxes receivable are reported on full accrual basis in the Statement of Net Position | 129,567 |
| • Capital assets are not reported in the governmental funds | 9,370,268 |
| • Interest on long-term debt is reported on accrual basis in the Statement of Net Position | (159,053) |
| • Bonds, notes, and other long-term debt are not reported in the governmental funds | (10,237,366) |
| • Deferred Outflows are reported in Statement of Net Position | 243,061 |
| • Deferred Inflows are reported in Statement of Net Position | (57,969) |

Net Position of Governmental Activities	<u>\$ 9,457,836</u>
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HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 2 – RECONCILIATION OF THE FUND FINANCIAL STATEMENTS TO THE GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

Reconciliation of the Changes in Fund Balance of Governmental Funds to the Change in Net Position of Governmental Activities

Net Change in Fund Balances	\$ 7,356,558
-----------------------------	--------------

Amounts reported for governmental activities in the Statement of Activities are different because:

- | | |
|---|-----------------|
| • Tax revenue reported on full accrual basis | (23,594) |
| • Capital Outlay reported in the general and capital projects funds, not reported on the Statement of Activities | 1,169,716 |
| • Debt principal payments reported in the debt service fund, not reported on the Statement of Activities | 300,168 |
| • Interest on long-term debt is reported on accrual basis in the Statement of Activities | (144,393) |
| • Depreciation reported in the Statement of Activities on general capital assets not reported in the general fund | (492,012) |
| • Proceeds of bond issue reported in capital projects fund, not reported in Statement of Activities | (7,851,060) |
| • Impact of Deferred Inflows/Outflows on Pension Expense | <u>(24,363)</u> |

Change in Net Position of Governmental Activities	<u>\$ 291,020</u>
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NOTE 3 – CASH AND TEMPORARY INVESTMENTS

State statutes authorize the district to invest and reinvest its funds in certain (a) obligations of the United States or its agencies, (b) obligation of the State of Texas or its agencies, (c) certificates of deposit, (d) repurchase agreements, (e) bankers' acceptance, (f) commercial paper, (g) mutual funds, (h) guaranteed investment contracts, and (i) investment pools.

In accordance with state statutes, the District requires that federal insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$10,648,387 and the bank balance was \$10,658,180. Of the bank balance, \$250,000 was covered by federal depository insurance and \$10,408,180 was covered by collateral held by the depository's agent in the District's name.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

*Notes to Financial Statements
For the Fiscal Year Ended September 30, 2017*

NOTE 3 - CASH AND TEMPORARY INVESTMENTS (Continued)

Custodial Credit Risk

The cash deposits held at financial institutions can be categorized according to three levels of custodial credit risk.

These three levels of risk are as follows:

- Category 1: Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name.
- Category 2: Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3: Deposits which are not collateralized or insured.

Based on these three levels of risk, \$250,000 of the District's cash deposits are classified as Category 1 and \$10,408,180 are classified as Category 2.

Interest Rate Risk

The District's cash deposits held at financial institutions are exposed to certain interest rate risk. The District's cash deposits are as follows:

Account Type	Interest Rate	Fixed / Variable	Maturity	Balance at 09/30/17
Checking	0.05%	Variable	On Demand	\$ 9,822,707
Money Market	0.20%	Variable	On Demand	\$ 610,282
Certificates of Deposit	0.15%	Fixed	14 months or less	\$ 216,581

Foreign Currency Risk

The District is not exposed to foreign currency risk.

Certain Cash and Temporary Investments in the Debt Service Fund have been reported as a restricted asset to document that it is the proceeds of an ad valorem tax to be used for a specific purpose.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Notes to Financial Statements**For the Fiscal Year Ended September 30, 2017***NOTE 4 – SERVICE ACCOUNTS RECEIVABLE**

Amounts due from customers consist of the following:

Service Accounts Receivable	\$ 173,201
Less: Allowance for Uncollectible	-
Net	<u>\$ 173,201</u>

The amount of “allowance for uncollectible” was determined by considering the collection results during the year, customer deposits held by the district, and the amount of delinquent accounts as of September 30, 2017.

NOTE 5 – GENERAL CAPITAL ASSETS

The District, in accordance with provisions of Governmental Accounting Standards Board Statement No. 34, accounts for fixed assets, including infrastructure, and calculates and reports depreciation on these assets. “Phase three” governments, governments with total annual revenues of less than \$10,000,000 such as this District, are encouraged but not required to report major general infrastructure assets retroactively for acquisition in fiscal years ending after June 30, 1980. The District has elected to retroactively report infrastructure assets acquired in fiscal years ended after June 30, 1980.

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the government-wide Statement of Net Position, but are not reported in the fund financial statements.

The following schedule details the changes in fixed assets and depreciation during the year ended.

	Balance 10/01/2016	Additions	Deletions	Balance 09/30/2017	Accumulated Depreciation	Net
Land	\$ 101,882	\$ -		\$ 101,882	\$ -	\$ 101,882
Building	224,827	-		224,827	166,711	58,116
Water System	2,491,203	-		2,491,203	1,442,600	1,048,603
Sewer System	13,515,988	-		13,515,988	7,404,809	6,111,179
Leased Equipment	931,342	-		931,342	217,313	714,029
Machinery and Equipment	327,933	45,718		373,651	217,877	155,774
Furniture and Fixtures	3,500	2,188		5,688	3,526	2,162
Vehicles	120,344	-		120,344	92,151	28,193
Construction in Progress	28,520	1,121,810		1,150,330	-	1,150,330
Subtotal	\$ 17,745,539	\$ 1,169,716		\$ 18,915,255	\$ 9,544,987	\$ 9,370,268
Accumulated Depreciation	(9,052,975)	(492,012)		(9,544,987)		
Total	\$ 8,692,564	\$ 677,704		\$ 9,370,268		

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements *For the Fiscal Year Ended September 30, 2017*

NOTE 6 – LONG-TERM DEBT

Bonds outstanding as of September 30, 2017, consist of the following:

Series 2013 styled as “Unlimited Tax Refunding Bonds”, \$2,215,000 authorized and issued, due in annual installments \$215,000 in 2018, increasing annually to \$260,000 in 2023 with interest of:

2.00% to 3.00% per year.....	\$1,420,000
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Series 2017, styled as “Unlimited Tax Bonds”, \$7,850,000 authorized and issued due in annual installments of \$170,000 in 2018, increasing annually to \$530,000 in 2033 with interest of:

3.00% to 3.50% a year.....	<u>7,850,000</u>
----------------------------	------------------

Total bonds payable.....	<u>\$9,270,000</u>
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Bond Series 2013 and 2017 are tax bonds and all debt service taxes are pledged to pay the requirements of these bonds.

Series 2013 bonds maturing on or after February 15, 2023 may be redeemed in whole or in part, on February 15, 2022, or any date thereafter, at par plus accrued interest to the date fixed for redemption.

Series 2017 bonds maturing on or after February 15, 2027 may be redeemed in whole or in part of February 15, 2026 or any date thereafter, at par plus accrued interest to the date fixed for redemption.

Through the year ended September 30, 2017, the District and its Debt Service Fund were managed and utilized in accordance with the provisions of the bond resolutions.

The District entered into a capital lease for the acquisition and installation of advanced metering infrastructure at a cost of \$931,342 during 2014. The terms of the lease include annual payments of \$117,365 including interest at 3.5%. There is a pre-payment option that begins in June of 2021.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Notes to Financial Statements**For the Fiscal Year Ended September 30, 2017***NOTE 6 – LONG-TERM DEBT (Continued)**

Changes to the general long-term debt for the year ended September 30, 2017 were as follows:

	Balance as of 10/01/16	Issued	Retirements	Balance as of 09/30/17	Due within one year
Series 2013	\$ 1,630,000	\$ -	\$ (210,000)	\$ 1,420,000	\$ 215,000
Series 2017	-	7,850,000	-	7,850,000	170,000
Capital Lease – Meters	811,836	-	(90,168)	721,668	93,189
Subtotal	2,441,836	7,850,000	(300,168)	9,991,668	478,189
Unamortized Issuance Discount	-	(92,317)	-	(92,317)	(12,032)
Unamortized Issuance Premium	66,271	93,377	(9,581)	150,067	21,751
Total	\$ 2,508,107	\$ 7,851,060	\$ (309,749)	\$ 10,049,418	\$ 487,908

Future requirements as follows:

Bonds

Year Ending September 30,	Principal	Interest	Total
2018	\$ 385,000	\$ 424,338	\$ 809,338
2019	530,000	268,820	798,820
2020	545,000	253,820	798,820
2021	560,000	237,245	797,245
2022	580,000	220,145	800,145
2023-2027	2,075,000	889,450	2,964,450
2028-2032	2,110,000	591,494	2,701,494
2033-2037	2,485,000	221,912	2,706,912
Total	\$ 9,270,000	\$ 3,107,224	\$ 12,377,224

Lease-Meters

Year Ending September 30,	Principal	Interest	Total
2018	93,189	24,176	117,365
2019	96,311	21,054	117,365
2020	99,537	17,828	117,365
2021	102,872	14,493	117,365
2022	106,318	11,047	117,365
2023-2024	223,441	11,289	234,730
Total	\$ 721,668	\$ 99,887	\$ 821,555

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements *For the Fiscal Year Ended September 30, 2017*

NOTE 6 – LONG-TERM DEBT (Continued)

In November of 2015 the District's voters approved the issuance of 16,000,000 of tax bonds to pay for improvements to the District's water and sanitary sewer system. The District issued 7,850,000 of these bonds in February of 2017 to fund various improvement projects. The District anticipates issuing the remaining 8,150,000 of the bonds in approximately five years.

NOTE 7 - FUND BALANCE / NET ASSETS

Fund Financial Statements

The classifications of fund balances are as follows:

Non-spendable

This includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. For the District it includes prepaid expenses.

Restricted

This includes amounts where constraints placed on the use of the resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. For the District it includes tax collections for debt service payments.

Committed

This includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Directors. (Not currently used by the District.)

Assigned

This includes amounts that are constrained by the intent of the Board of Directors to be used for specific purposes, but are neither restricted nor committed. For the District it includes funds maintained for sewer treatment plan expansion and other construction projects.

Unassigned

This is the residual classification for the general fund and would also be used to report a negative amount in any governmental fund.

District-wide Financial Statements

The specific restrictions to net assets are as follows:

Restricted for Debt Service

This restriction was created for the purpose of recognizing certain tax revenues to be used for future debt service.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements *For the Fiscal Year Ended September 30, 2017*

NOTE 8 - AD VALOREM TAXES

An election held September 14, 2002 authorized a maintenance tax not to exceed \$0.10 per \$100 valuation on all property subject to taxation within the District. On October 11, 2016, the District levied an ad valorem maintenance tax at the rate \$0.10 per \$100 of assessed valuation which resulted in a tax levy of \$258,494, on the adjusted taxable valuation of \$258,520,203 for the 2016 tax year. This maintenance tax is being used by the general fund to pay expenditures of operating the District.

The District's debt service tax rate for the 2016 tax roll was \$.12 per \$100 of valuation. The adjusted taxable valuation of property within the District on January 1, 2016, was \$258,520,203, which resulted in a levy of \$310,250 for the 2016 tax roll.

The State of Texas Constitution limits the District's property tax rate for all purposes to \$2.50 per \$100 of assessed valuation. The assessed valuation is 100% of appraised value.

Taxes receivable as of September 30, 2017, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Taxes Receivables	\$ 40,115	\$ 57,510	\$ 97,525
Less: Allowance for Uncollectables	<u>(8,023)</u>	<u>(11,482)</u>	<u>(19,505)</u>
Net	<u>\$ 32,092</u>	<u>\$ 45,928</u>	<u>\$ 78,020</u>
Penalty and Interest Receivable			64,433
Less: Allowance for Uncollectables			<u>(12,886)</u>
Net			<u>51,547</u>
Total			<u>\$ 129,567</u>

The amount of "allowance for uncollectable" was determined by considering the prior collection results, the value of underlying assets, and the amount of delinquent accounts as of September 30, 2017.

NOTE 9 – WATER AND SEWER SERVICE RATES AND CUSTOMERS

The following water and sewer rates were effective from October 1, 2016 through September 30, 2017:

Water Service - In District

For 2,000 gallons (minimum)	\$ 15.50
More than 2,000 gallons (per 1,000 gal.)	4.30

Water Service - Out of District

Approximately 150% of In-District rates.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 9 – WATER AND SEWER SERVICE RATES AND CUSTOMERS (Continued)

Sewer Service - In District

For first 2,000 gallons of water used	15.50
More than 2,000 gallons (per 1,000 gal.)	3.20

Sewer Service - Out of District

Approximately 150% of In-District rates.

Note: Residential sewer rates reach the maximum of \$73.10 at 20,000 gallons.

NOTE 10 - COMMITMENTS AND CONTINGENCIES AND DEPENDENCY

The District entered into an agreement with the Bay Area Water Authority (“BAWA”) in September, 1993, to purchase at least 350,000 gallons of water per day at a minimum cost of one dollar (\$1.00) per one thousand (1,000) gallons and that such purchases shall begin no later than December 31, 1994. The cost of the water has increased periodically and was \$2.78 per thousand gallons at September 30, 2017. The District's cost for such water during the current year was \$492,121. The District currently purchases approximately 80% of its water from BAWA and would likely incur an interruption in service and/or a significant increase in costs if BAWA ceased to provide the water.

Compensated absences payable recorded in the accompanying financial statements relates to earned vacation time. Accumulated compensated absences related to sick time amounting to approximately \$75,371 as of September 30, 2017, are not recorded in the accompanying financial statements since such compensation is not fully vested and is dependent upon the occurrence of future employee illnesses, the probability of which cannot be measured.

The District entered into a contract in August 2016 to construct certain sanitary sewer system improvements at a cost of \$546,660. Construction began on this project around October 1, 2016, with an expected completion date of winter of 2018.

The District entered into a contract during March of 2017 to construct certain improvements at the sanitary sewer improvements at a cost of \$239,997. Construction began on this project in the summer of 2017 with an expected completion date of early 2018.

The District entered into a contract during September of 2017 to construct certain improvements at the water plant improvements at a cost of \$1,246,486. Construction began on this project in the fall of 2017 with an expected completion date in 2018.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

*Notes to Financial Statements
For the Fiscal Year Ended September 30, 2017*

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM

Plan Description. Harris County Water Control and Improvement District No. 1 provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 735 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a

calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy. The employer has elected the annually determined contribution rate (Variable Rates) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 14.0% for the months of the accounting year in 2016 and 14.0% for the months of the accounting year in 2017.

The deposit rate payable by the employee members for calendar years 2016 and 2017 is the rate of 7.0% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements For the Fiscal Year Ended September 30, 2017

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Funding Status and Funding Progress. As of December 31, 2016, the most recent actuarial valuation date, the plan was 95.3% funded. The actuarial accrued liability for benefits was \$3,007,588, and the actuarial value of assets was \$2,867,012, resulting in an unfunded actuarial accrued liability (UAAL) of \$140,576. The covered payroll (annual payroll of active employees covered by the plan) was \$533,818, and the ratio of the UAAL to the covered payroll was 26.3%.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend

information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Annual Pension Cost. For the employer's accounting year ended September 30, 2017 the annual pension cost for the TCDRS plan for its employees was \$73,648 and the actual contributions were \$112,102.

The required contribution was determined as part of the December 31, 2016 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2016 including (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2016 was 3.4 years.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements For the Fiscal Year Ended September 30, 2017

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Trend Information for the Retirement Plan

Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2015	\$ 68,789	100%	\$ -
2016	\$ 70,334	100%	\$ -
2017	\$ 73,648	100%	\$ -

Actuarial Valuation Information

Actuarial Valuation Date	12/31/14	12/31/15	12/31/16
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization Period	4.1 years	2.7 years	3.4 years
Asset Valuation Method	SAF; 5 year smoothed value Fund Value	SAF; 5 year smoothed value Fund Value	SAF; 5 year smoothed value Fund Value
<u>Assumptions:</u>			
Investment Return ¹	8.00%	8.00%	8.00%
Projected Salary Increases ¹	4.90%	4.90%	4.90%
Inflation	3.00%	3.00%	3.00%
Cost of Living Adjustments			

Membership Information

Members	Dec. 31, 2015	Dec. 31, 2016
Number of inactive employees entitled to but not yet receiving benefits:	7	7
Number of active employees:	11	11
Average monthly salary*:	\$3,999	\$3,797
Average age*:	42.33	42.80
Average length of service in years*:	12.13	12.77

Inactive employees (or their beneficiaries) Receiving Benefits

Number of benefit recipients:	1	2
Average monthly benefit:	\$1,711	\$2,722

* Averages reported for all active and inactive employees. Average service includes all proportionate service

¹ Includes inflation at the stated rate

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Notes to Financial Statements
For the Fiscal Year Ended September 30, 2017***NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)****Net Pension Liability / (Asset)**

	December 31, 2015	December 31, 2016
Total pension liability	\$ 2,771,493	\$ 2,983,723
Fiduciary net position	2,566,232	2,795,775
Net pension liability / (asset)	205,261	187,948
Fiduciary net position as a % of total pension liability	92.59%	93.70%
Pensionable covered payroll ¹	517,942	504,363
Net pension liability as a % of covered payroll	39.63%	37.26%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

Discount Rate

	2015	2016
Discount rate ²	8.10%	8.10%
Long-term expected rate of return, net of investment expense	8.10%	8.10%
Municipal bond rate ³	Does not apply	Does not apply

Other Key Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009-December 31, 2012, except where required to be different by GASB 68.

Valuation date	Dec. 31, 2015	Dec. 31, 2016
Measurement date	Dec. 31, 2015	Dec. 31, 2016
Reporting date	September 30, 2016	September 30, 2017

The mortality assumptions were developed by Milliman, Inc. and adopted in 2015, and first used in the December 31, 2015 actuarial valuation. The assumptions used for funding calculations are the same as those used for financial reporting.

¹ Payroll is calculated based on contributions as reported to TCDRS.

² This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus .10% adjustment to be gross of administrative expenses as required by GASB 68.

³ The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2017 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. For more details:

Asset Class	Benchmark	Target Allocation ¹	Geometric Real Rate of Return (Expected minus Inflation) ²
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ³	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities-Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities—Emerging	MSCI World Ex USA (net)	7.00%	5.70%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	10.00%	8.15%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships(MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁴	6.00%	7.20%
Hedge Funds	Funds Composite Index	20.00%	3.85%

¹ Target asset allocation adopted at the April 2015 TCDRS Board meeting.

² Geometric real rates of return in addition to assumed inflation of 1.7%, per Cliffwater's 2015 capital market assumptions.

³ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁴ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

*Notes to Financial Statements
For the Fiscal Year Ended September 30, 2017*

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Depletion of Plan Assets / GASB Discount Rate

This discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investment.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under TCDRS Act.

1. TCDRS has a funding policy where Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements For the Fiscal Year Ended September 30, 2017

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purpose of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Changes in Net Pension Liability / (Asset)

Changes in Net Pension Liability / (Asset)	Total Pension Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	\$2,771,493	\$2,566,232	\$205,261
Changes for the year:			
Service cost	63,845		63,845
Interest on total pension liability ¹	224,728		224,728
Effect of plan changes	0		0
Effect of economic/demographic gains or losses	(18,480)		(18,480)
Effect of assumptions changes or inputs	0		0
Refund of contributions	0	0	0
Benefit payments	(57,864)	(57,864)	
Administrative expenses		(2,063)	2,063
Member contributions		35,305	(35,305)
Net investment income		189,763	(189,763)
Employer contributions		70,611	(70,611)
Other ²	0	(6,211)	6,211
Balances as of December 31, 2016	\$2,983,723	\$2,795,775	\$187,948

¹ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

² Relates to allocation of system-wide items.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements For the Fiscal Year Ended September 30, 2017

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Sensitivity Analysis

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the Harris County Water Control and Improvement District No.1 net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1 % Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$3,329,765	\$2,983,723	\$2,692,176
Fiduciary net position	<u>2,795,775</u>	<u>2,795,775</u>	<u>2,795,775</u>
Net pension liability / (asset)	530,990	187,948	(103,559)

Pension Expense / (Income)

	January 1, 2016 to December 31, 2016
Service Cost	\$ 63,845
Interest on total pension liability ¹	224,728
Effect of plan changes	0
Administrative changes	2,063
Member contributions	(35,305)
Expected investment return net of investment expenses	(209,445)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(16,220)
Recognition of assumption changes or inputs	2,967
Recognition of investments gains or losses	59,767
Other ²	<u>6,211</u>
Pension expense / (income)	<u>\$ 98,612</u>

¹ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

² Relates to allocation of system-wide items.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements *For the Fiscal Year Ended September 30, 2017*

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

Deferred Inflows / Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 57,969	\$ 0
Changes of assumptions	0	11,870
Net differences between projected and actual earnings	0	176,216
Contributions made subsequent to measurement date	N/A	54,975

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:

2017	46,515
2018	46,515
2019	45,588
2020	(3,221)
2021	(2,640)
Thereafter	(2,640)

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements

For the Fiscal Year Ended September 30, 2017

NOTE 11 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Schedule of Deferred Inflows and Outflows of Resources

Expense / (Income) Calculation				Balances of Deferred Inflows & Outflows as of 12/31/2016	
Original Amount (a)	Date Established (b)	Original Recognition Period (c)	Amount Recognized for 2016 (a) + (c)	Inflows	Outflows
Investment (gains) or losses					
\$ 19,681	12/31/2016	5.0	\$ 3,936	\$ 0	\$ 15,745
244,042	12/31/2015	5.0	48,808	0	146,425
35,114	12/31/2014	5.0	7,023	0	14,046
Economic/demographic (gains) or losses					
(18,480)	12/31/2016	7.0	(2,640)	15,840	0
(44,905)	12/31/2015	6.0	(7,484)	29,937	0
(30,480)	12/31/2014	5.0	(6,096)	12,192	0
Assumptions changes or inputs					
0	12/31/2016	7.0	0	0	0
17,805	12/31/2015	6.0	2,967	0	11,870
0	12/31/2014	5.0	0	0	0
Employer Contributions made subsequent to measurement date					
54,975	12/31/2016	N/A	0	0	54,975
51,338	12/31/2015	N/A	0	0	51,338
53,516	12/31/2014	N/A	53,516	0	0

NOTE 12 – INSURANCE

At September 30, 2017, the District had property coverage of \$8,392,229 with TML. The District also had \$3,000,000 of liability insurance with Allied World Specialty Insurance Co. The Districts worker's compensation coverage was with Accident Fund National Insurance Co.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to Financial Statements *For the Fiscal Year Ended September 30, 2017*

NOTE 13 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

All the tax revenues are collected by and deposited into the Debt Service Fund. The portion of these tax revenues that is for maintenance and operations is transferred from the Debt Service Fund to the General Fund once the receivable records have been processed. The interfund balance below relates to these tax revenues.

Interfund balances are September 30, 2016, consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 32,958	\$ -
Debt Service Fund	-	32,958
Total	<u>\$ 32,958</u>	<u>\$ 32,958</u>

Also, the District's General Fund transferred certain funds to the Capital Projects Fund during the year to pay the cost of various construction projects.

NOTE 14 - MANAGEMENT'S REVIEW

The District's management reviews operations subsequent to year end to identify events which may require adjustments to or disclosure in these financials. This review has been performed through January 23, 2018, the date the financials were available for issuance.

REQUIRED SUPPLEMENTARY INFORMATION

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Required Supplementary Information**Budgetary Comparison Schedule**General Fund**For the Fiscal Year Ended September 30, 2017*

	Original Budget	Actual Amounts	Variance with Fund Budget Positive or (Negative)
Revenues			
Service Revenues	\$ 237,500	\$ 261,371	\$ 23,871
Property Taxes	2,164,175	2,316,906	152,731
Tap Fees	13,000	47,260	34,260
Penalty and Interest	43,500	78,691	35,191
Miscellaneous	90,200	118,276	28,076
Total Revenues	<u>2,548,375</u>	<u>2,822,504</u>	<u>274,129</u>
Expenditures/expenses			
Service operations			
Purchased Water and Sewer Service	670,382	492,121	178,261
Payroll	876,374	804,814	71,560
Professional Fees	53,440	49,660	3,780
Purchased and Contracted Services	173,000	171,985	1,015
Consumable Supplies and Materials	215,820	169,212	46,608
Recurring Operating Expenses	268,710	240,868	27,842
Capital Outlay	48,284	54,075	(5,791)
Debt Service			
Principal			-
Interest and Fiscal Charges			-
Total Expenditures	<u>2,306,010</u>	<u>1,982,735</u>	<u>323,275</u>
Excess of Revenues Over Expenditures	<u>242,365</u>	<u>839,769</u>	<u>597,404</u>
Other Financing Sources (Uses)			
Operating Transfers In			-
Operating Transfers Out	(242,365)	(242,365)	-
Total Other Financing Sources (Uses)	<u>(242,365)</u>	<u>(242,365)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	597,404	597,404
Fund Balance			
Beginning of Year	1,168,339	1,168,339	-
End of Year	<u>\$ 1,168,339</u>	<u>\$ 1,765,743</u>	<u>\$ 597,404</u>

The accompanying notes are an integral part of this required supplementary schedule.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Schedule of Changes in Net Pension Liability and Related Ratios For the Fiscal Year Ended September 30, 2017

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Pension Liability										
Service Cost	\$ 63,845	\$ 52,449	\$ 56,482	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest on total pension liability	224,728	209,775	194,199	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of plan changes	-	(13,223)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of assumption changes or inputs	-	17,805	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of economic/demographic (gains) or losses	(18,480)	(44,905)	(30,480)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(57,864)	(24,058)	(32,126)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Change in total pension liability	212,230	197,842	188,075	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, beginning	2,771,493	2,573,651	2,385,577	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, ending (a)	\$2,983,723	\$ 2,771,493	\$ 2,573,651	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary Net Position										
Employer Contributions	\$ 70,611	\$ 72,512	\$ 64,203	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Member Contributions	35,305	36,256	32,102	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investment income net of investment expenses	189,763	(34,211)	156,905	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefity payments/refunds of contributions	(57,864)	(24,058)	(32,126)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expenses	(2,063)	(1,835)	(1,868)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other	(6,211)	(18,941)	581	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in fiduciary net position	229,542	29,723	219,796	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, beginning	2,566,232	2,536,509	2,316,713	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, ending (b)	2,795,775	2,566,232	2,536,509	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability/(asset), ending = (a) - (b)	\$ 187,948	\$ 205,261	\$ 37,142	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position as a % of total pension liability	93.70%	92.59%	98.56%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pensionable covered payroll	504,363	517,942	458,595	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a % of covered payroll	37.26%	39.63%	8.10%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Schedule of Employer Contributions**For the Fiscal Year Ended September 30, 2017*

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2007	\$ 35,261	\$ 35,261	\$ 0	\$ 448,048	7.9%
2008	32,900	32,900	-	480,296	6.9%
2009	50,542	50,542	-	496,488	10.2%
2010	58,251	66,518	(8,267)	475,130	14.0%
2011	52,239	64,097	(11,858)	457,837	14.0%
2012	63,037	67,887	(4,849)	484,904	14.0%
2013	64,320	118,635	(54,314)	490,247	24.2%
2014	64,020	64,203	(183)	458,595	14.0%
2015	56,870	72,512	(15,642)	517,942	14.0%
2016	52,202	70,611	(18,409)	504,363	14.0%

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

*Notes to the Required Supplementary Information
For the Fiscal Year Ended September 30, 2017*

Note 1 – Budget Variances

Expenditures in the General Fund were less than the budget by approximately \$323,000. All categories of expenditures were under budget, except capital outlay. Revenues exceeded the amount budgeted by approximately \$274,000.

Note 2 – Actuarial Methods and Assumptions Used for GASB Calculations

Following are the key assumptions and methods used in the GASB analysis.

Valuation Date:	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
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Methods and assumptions used to determine contribution rate:

Actuarial Cost Method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining Amortization Period	3.4 years (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5- year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule	2015 – No changes in plan provisions 2016 – No changes in plan provisions

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Notes to the Required Supplementary Information

For the Fiscal Year Ended September 30, 2017

Note 3 – Actuarial Methods and Assumptions Used for Funding Valuation

Following is a description of the assumptions used in the December 31, 2016 actuarial valuation analysis for Harris County Water Control and Improvement District No.1.

Economic Assumptions

TCDRS system-wide economic assumptions:

Real rate of return	5.0%
Inflation	3.0%
Long-term investment return	8.0%

The assumed long-term investment return of 8% is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 8% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

Employer-Specific economic assumptions:

Growth in membership	0.0%
Payroll growth	0.5%

The payroll growth assumption is for the aggregate covered payroll of an employer.

TEXAS SUPPLEMENTARY INFORMATION

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Services and Rates**For the Fiscal Year Ended September 30, 2017***1. Services Provided by the District:**

<input checked="" type="checkbox"/>	Retail Water	<input type="checkbox"/>	Wholesale Water	<input type="checkbox"/>	Drainage
<input checked="" type="checkbox"/>	Retail Sewer	<input type="checkbox"/>	Wholesale Sewer	<input type="checkbox"/>	Irrigation
<input 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 type="checkbox"/>	Roads
<input type="checkbox"/>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<input type="checkbox"/>	Other: _____				

2. Retail Service Providers**a. Retail Rates for a 5/8" Meter (or equivalent):**

	Minimum Charge	Minimum Usage	Flat Rate (Yes or No)	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 15.50	2,000	No	\$ 4.30	3,000 Or More
WASTEWATER:	\$ 15.50	2,000	No	\$ 3.20	3,000 Or 20,000
SURCHARGE:	\$			\$	to

OTHER FEES:	Regular Water Tap.....	\$ 450.00
	Regular Sewer Tap.....	475.00
	Inspection Fee (Water or Sewer)	Variable
	Building Inspection.....	30.00

District employs winter averaging for wastewater usage: Yes ☒ No ☐

Total water and wastewater charges per 10,000 gallons usage (including surcharges):

Water \$ 49.90 Wastewater \$ 41.10

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Services and Rates**For the Fiscal Year Ended September 30, 2017***b. Water and Wastewater Retail Connections:**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			X 1.0	
<3/4"	2399	2248	X 1.0	2248
1"	23	23	X 2.5	58
1 1/2"	13	13	X 5.0	65
2"	33	33	X 8.0	264
3"	1	1	X 15.0	15
4"	2	2	X 25.0	50
6"	3	3	X 50.0	150
8"	6	2	X 80.0	160
10"			X 115.0	
Total Water	2480	2325		3010
Total Wastewater	2618	2488	X 1.0	2488

3. Total Water Consumption During the Fiscal Year (rounded to the nearest thousand):
 (You may omit this information if your district does not provide water)

Gallons pumped into system:	<u>244,468,800</u>	Water Accountability Ratio
Gallons billed to customers:	<u>204,250,000</u>	(Gallons billed/ Gallons Pumped)
		<u>84%</u>

4. Standby Fees: (authorized only under TWC Section 49.231)
 (You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes ☐ No ☒

If yes, date of the most recent Commission Order: N/A.

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

If yes, Date of the most recent Commission Order: N/A.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Services and Rates*For the Fiscal Year Ended September 30, 2017

5. **Location of District** (required for first audit year or when information changes, otherwise this information may be omitted):

County(ies) in which district is located: Harris

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

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

City(ies) in which District is located. _____

Is the District located within a city's extra territorial jurisdiction (ETJ)? ☒ Entirely ☐ Partly ☐ Not at all

ETJ's in which District is located. Baytown

Are Board members appointed by an office outside the District? Yes ☐ No ☒

If Yes, by whom ? N/A

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*General Fund Expenditures*For the Fiscal Year Ended September 30, 2017

Personnel Expenditures (including benefits)	\$	793,414
Professional Fees:		
Auditing		18,440
Legal		13,119
Engineering		18,101
Financial Advisor		
Purchased Services for Resale:		
Bulk Water and Sewer Service Purchases		492,121
Tap Connection Expenses		
Contracted Services:		
Bookkeeping		
General Manager		
Appraisal District		
Tax Collector		
Other Contracted Services		157,897
Utilities		117,652
Repairs and Maintenance		163,828
Administrative Expenditures:		
Directors' Fees		11,400
Office Supplies		10,868
Insurance		44,361
Other Administrative Expenses		32,952
Capital Outlay:		
Acquisition of Fixed Assets		54,075
Solid Waste Disposal		
Fire Fighting		
Parks and Recreation		
Other Expenditures		54,507
TOTAL EXPENDITURES	\$	1,982,735

Number of Persons Employed by the District:

<u>11</u>	Full Time
<u>0</u>	Part Time

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Temporary Investments**For the Fiscal Year Ended September 30, 2017*

	<u>Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at September 30</u>	<u>Accrued Interest Receivable at September 30</u>
Debt Service Fund					
Certificate of Deposit - TDSF	14199	0.15%	7/15/2018	\$ 111,107	\$ 7
Certificate of Deposit - TDSF	14740	0.15%	1/15/2018	105,474	6
Total Debt Service Fund				<u>216,581</u>	<u>13</u>
 TOTAL ALL FUNDS				 <u>\$ 216,581</u>	 <u>\$ 13</u>

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Taxes Levied and Receivable**For the Fiscal Year Ended September 30, 2017*

	Maintenance Taxes	Debt Service Taxes	Total
RECEIVABLE, BEGINNING OF YEAR	\$ 44,596	\$ 67,514	\$ 112,110
Additions and corrections to prior year taxes	(1,605)	(3,394)	(4,999)
Adjusted receivable, beginning of year	42,991	64,120	107,111
2016 ORIGINAL TAX ROLL	258,494	310,250	568,744
Adjustments			-
Net 2016 Tax Roll	258,494	310,250	568,744
Total taxes to be accounted for	301,485	374,370	675,855
Less Collections:			
Current Year	247,395	296,875	544,270
Prior Years	13,975	20,085	34,060
	261,370	316,960	578,330
RECEIVABLE, END OF YEAR	40,115	57,410	97,525
Less Allowance for Uncollectables:	(8,023)	(11,482)	(19,505)
Net Receivables	\$ 32,092	\$ 45,928	\$ 78,020
RECEIVABLE, BY YEARS			
2016	11,644	13,973	\$ 25,617
2015	5,638	6,765	12,403
2014	3,817	4,581	8,398
2013	3,350	4,020	7,370
2012	3,132	4,072	7,204
2011	3,494	5,240	8,734
2010	3,045	4,568	7,613
2009	1,070	1,605	2,675
2008	1,189	1,783	2,972
2007	1,125	2,026	3,151
2006	875	1,574	2,449
2005	688	1,273	1,961
2004	491	1,080	1,571
2003	557	835	1,392
2002 and prior		4,015	4,015
RECEIVABLE, END OF YEAR	\$ 40,115	\$ 57,410	\$ 97,525

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Taxes Levied and Receivable*For the Fiscal Year Ended September 30, 2017

<u>PROPERTY VALUATIONS:</u>	LAST FOUR YEARS			
	2016	2015	2014	2013
Land	\$ 54,800,866	\$ 49,687,380	\$ 46,069,580	\$ 45,617,826
Improvements	198,927,358	193,348,660	181,183,305	176,956,540
Personal Property	67,361,866	74,415,791	79,451,840	71,040,070
TOTAL PROPERTY VALUATIONS	\$ 321,090,090	\$ 317,451,831	\$ 306,704,725	\$ 293,614,436
 <u>TAX RATES PER \$100 VALUATIONS:</u>				
Maintenance Tax Rates	0.1000	0.1000	0.1000	0.1000
Debt Service Tax Rates	0.1200	0.1200	0.1200	0.1200
TOTAL TAX RATES PER \$100 VALUATION	0.2200	0.2200	0.2200	0.2200
 TAX ROLLS	 \$ 568,745	 \$ 553,950	 \$ 543,801	 \$ 512,040
 PERCENT OF TAXES COLECTED TO TAXES LEVIED				
	95.70%	97.76%	98.46%	98.56%

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Long-Term Debt Service Requirements**(Series 2013) - By Years*September 30, 2017

Due During Fiscal Year Ending September 30	SERIES 2013 - TAX REFUNDING BONDS		
	Principal Due on 02/15	Interest Due on 02/15-08/15	Total
2018	215,000	36,050	251,050
2019	225,000	31,650	256,650
2020	230,000	25,950	255,950
2021	240,000	18,900	258,900
2022	250,000	11,550	261,550
2023	260,000	3,900	263,900
TOTALS:	<u>\$ 1,420,000</u>	<u>\$ 128,000</u>	<u>\$ 1,548,000</u>

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Long-Term Debt Service Requirements**(Series 2017) - By Years*September 30, 2017

Due During Fiscal Year Ending September 30	SERIES 2017		
	Principal Due on 02/15	Interest Due on 02/15-08/15	Total
2018	170,000	388,288	558,288
2019	305,000	237,170	542,170
2020	315,000	227,870	542,870
2021	320,000	218,345	538,345
2022	330,000	208,595	538,595
2023	340,000	198,545	538,545
2024	350,000	188,195	538,195
2025	365,000	177,470	542,470
2026	375,000	166,370	541,370
2027	385,000	154,970	539,970
2028	395,000	143,270	538,270
2029	410,000	131,195	541,195
2030	420,000	118,745	538,745
2031	435,000	105,920	540,920
2032	450,000	92,364	542,364
2033	465,000	77,776	542,776
2034	480,000	62,060	542,060
2035	495,000	45,238	540,238
2036	515,000	27,563	542,563
2037	530,000	9,275	539,275
TOTALS:	<u>\$ 7,850,000</u>	<u>\$ 2,979,224</u>	<u>\$ 10,829,224</u>

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Long-Term Debt Service Requirements**(All Bonded Debt Series) - By Years*September 30, 2017

Due During Fiscal Year Ending September 30	ANNUAL REQUIREMENTS FOR ALL SERIES		
	Principal Due on 02/15	Interest Due on 02/15-08/15	Total
2018	385,000	424,338	809,338
2019	530,000	268,820	798,820
2020	545,000	253,820	798,820
2021	560,000	237,245	797,245
2022	580,000	220,145	800,145
2023	600,000	202,445	802,445
2024	350,000	188,195	538,195
2025	365,000	177,470	542,470
2026	375,000	166,370	541,370
2027	385,000	154,970	539,970
2028	395,000	143,270	538,270
2029	410,000	131,195	541,195
2030	420,000	118,745	538,745
2031	435,000	105,920	540,920
2032	450,000	92,364	542,364
2033	465,000	77,776	542,776
2034	480,000	62,060	542,060
2035	495,000	45,238	540,238
2036	515,000	27,563	542,563
2037	530,000	9,275	539,275
TOTALS:	<u>\$ 9,270,000</u>	<u>\$ 3,107,224</u>	<u>\$ 12,377,224</u>

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Changes in Long-term Bonded Debt
For the Fiscal Year Ended September 30, 2017

	Bond Issues	
	Series 2013	Series 2017
Interest Rate	2.00-3.00%	3.00-3.50%
Interest Payable Dates	2/15;8/15	2/15;8/15
Maturity Dates	2/15/14 to 2/15/23	2/15/18 to 2/15/37
Debt Outstanding at Beginning of Current Period	\$ 1,630,000	\$ -
Debt Proceeds During Current Period	-	7,850,000
Retirement: Principal	<u>210,000</u>	<u>-</u>
Debt Outstanding at End of Current Period	<u>\$ 1,420,000</u>	<u>\$ 7,850,000</u>
Retirement: Interest	\$ 40,300	\$ -

PAYING AGENTS

2013 Bank of Texas, NA
 100 Congress Ave, Suite 250
 Austin, TX 78701

2017 BOKF, NA
 100 Congress, Suite 250
 Austin, TX 78701

BOND AUTHORITY

	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 19,000,000
Amount Issued	\$ 10,850,000
Remaining to be Issued	\$ 8,150,000
Debt Service Fund Cash and Temporary Investments balance as of September 30, 2017	\$ 970,570
Average annual Debt Service (principal and interest) for remaining term of all debt	\$ 618,861

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1
Comparative Schedule of Revenues and Expenditures - General Fund and Debt Service Fund - Five Years
Each of the Five Years Ended September 30, 2017

	Amount					Percent of Fund Total Revenues				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
General Fund										
Revenues										
Taxes	\$ 261,371	\$ 258,168	\$ 246,183	\$ 231,835	\$ 240,493	9.26%	9.66%	9.75%	9.68%	10.30%
Service Revenues	2,316,906	2,263,867	2,167,106	2,066,308	2,005,305	82.09%	84.71%	85.86%	86.30%	85.88%
Tap Fees	47,260	40,820	32,115	30,625	17,175	1.67%	1.53%	1.27%	1.28%	0.74%
Penalty and interest	78,691	72,882	61,502	59,567	59,557	2.79%	2.73%	2.44%	2.49%	2.55%
Miscellaneous	118,276	36,829	17,129	5,864	12,606	4.19%	1.38%	0.68%	0.24%	0.54%
Total Revenues	2,822,504	2,672,566	2,524,035	2,394,199	2,335,136	100.00%	100.00%	100.00%	100.00%	100.00%
Expenditures										
Purchased water and sewer	492,121	505,500	594,693	603,424	551,420	17.44%	18.91%	23.56%	25.20%	23.61%
Payroll	804,814	737,706	710,005	748,897	737,992	28.51%	27.60%	28.13%	31.28%	31.60%
Professional Fees	49,660	149,705	37,475	43,171	26,960	1.76%	5.60%	1.48%	1.80%	1.15%
Purchased and Contracted Services	171,985	141,852	148,032	130,772	109,508	6.09%	5.31%	5.86%	5.46%	4.69%
Consumable Supplies and Materials	169,212	183,645	144,725	174,969	136,084	6.00%	6.87%	5.73%	7.31%	5.83%
Recurring Operating Expenses	240,868	242,489	221,136	219,399	216,568	8.53%	9.07%	8.76%	9.16%	9.27%
Capital Outlay	54,075	127,078	43,864	34,372	51,181	1.92%	4.75%	1.74%	1.44%	2.19%
Total Expenditures	1,982,735	2,087,975	1,899,930	1,955,004	1,829,713	70.25%	78.13%	75.27%	81.66%	78.36%
Excess Revenues	\$ 839,769	\$ 584,591	\$ 624,105	\$ 439,195	\$ 505,423	29.75%	21.87%	24.73%	18.34%	21.64%
Debt Service Fund										
Revenues										
Property Taxes	\$ 316,960	\$ 313,403	\$ 299,174	\$ 281,124	\$ 316,733	91.01%	90.18%	92.64%	86.94%	92.52%
Penalties and Interest	31,299	21,794	22,999	19,693	23,791	8.99%	6.27%	7.12%	6.09%	6.95%
Miscellaneous		12,327	779	22,520	1,814	0.00%	3.55%	0.24%	6.96%	0.53%
Total Revenues	348,259	347,524	322,952	323,337	342,338	100.00%	100.00%	100.00%	100.00%	100.00%
Expenditures										
Principal	300,168	287,246	279,418	190,000	165,000	86.19%	82.66%	86.52%	58.76%	48.20%
Interest and Fiscal Charges	52,126	74,919	81,697	52,600	79,452	14.97%	21.56%	25.30%	16.27%	23.21%
Other Expenditures	34,583	36,115	31,491	33,172	132,406	9.93%	10.39%	9.75%	10.26%	38.68%
Total Expenditures	386,877	398,280	392,606	275,772	376,858	111.09%	114.61%	121.57%	85.29%	110.08%
Excess Revenues (Expenditures)	\$ (38,618)	\$ (50,756)	\$ (69,654)	\$ 47,565	\$ (34,520)	-11.09%	-14.61%	-21.57%	14.71%	-10.08%
Total Active Retail Water and Wastewater Connections	2325	2307	2284	2269	2412					

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1*Board Members, Key Personnel and Consultants*September 30, 2017

District Mailing Address:

HARRIS COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
125 San Jacinto Avenue
Highlands, TX 77562

District Business Telephone Number:

(281) 426-2115

Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): 5/30/2017Limit on fees of office that a Director may receive during a fiscal year: \$7,200

	Term of Office or Date Hired	Fees & Expense Reimbursements FYE 09/30/17	Title at Year End	Resident of District
<u>Board Members</u>				
Ray Mullins	05/15 - 05/19	2,700	President	Yes
Bobby Birdsong	05/15 - 05/19	2,550	Vice President	Yes
Harvey Little	05/17 - 05/21	2,700	Secretary	Yes
Kenneth Boudreaux	05/17 - 05/21	2,400	Director	Yes
John Wright III	06/17-05/21	1,050	Director	Yes
<u>Key Administrative Personnel</u>				
Mark Taylor	12/14/10	102,691	General Manager	N/A
<u>Consultants</u>				
Jon Pfennig, PC	11/01/99	12,319	Legal Counsel	N/A
Ratliff & Jentho, CPAs	01/31/85	18,440	Auditor	N/A
San Jacinto Tax Service	1983	13,265	Tax Assessor	N/A
Harris County Appraisal District	01/01/82	5,243	Central Appraisal	N/A
LJA Engineering	01/01/90	147,092	Engineer	N/A
Linebarger, Goggan, Blair & Sampson, LLC	5/10/2016	12,908	Tax Attorney	N/A
<u>Investment Officer</u>				
Ray Mullins	2016	N/A	President	N/A

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

*Schedule of Securities Pledged for
Funds on Deposit in Excess of FDIC Coverage
September 30, 2017*

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>FACE IDENTIFICATION</u>	<u>INTEREST AMOUNT</u>	<u>MATURITY</u>
FNMA	5,000,000	3135G0RT2	0.875%	12/20/2017
KEY BANK NA CD	200,000	49306SYB6	1.750%	5/18/2020
FFCB	1,900,000	3133EF4D6	1.620%	4/20/2021
U S TREASURY NOTE	2,132,563	912828TY6	1.625%	11/15/2022
FFCB	300,000	3133EGXQ3	1.875%	10/11/2024
CADENCE FINANCIAL CORP	1,000,000	12738AADF3	6.500%	3/11/2025
FHLB	220,000	3130A9UZ2	2.250%	11/16/2026
ARLINGTON, TX ISD GO PSF	300,000	041826N95	5.000%	2/15/2027
FORT WORTH, TX ISD GO PSF	300,000	3494603P8	5.000%	2/15/2027
PORT ARTHUR, TX ISD GO PSF	260,000	733505PR6	4.000%	2/15/2027
ALDINE, TX ISD GO PSF	16,254	014393VK5	5.000%	2/15/2029
LAURENS CNTY SC SD #56 GO	395,000	519102JS7	3.000%	3/1/1930
FORT WAYNE IN CMNTY SCH BL	275,000	349242EP8	4.000%	7/15/1931
SPRING, TX ISD GO PSF	213,750	8500004S6	3.500%	8/15/1931
PITTSBURG, TX ISD GO PSF	200,000	724751HH8	3.000%	2-165-36
GNMA #AA6452	<u>287,402</u>	36178EEZ8	3.000%	5/15/1943
	<u><u>\$ 12,999,969</u></u>			

REPORT ON INTERNAL CONTROL

**HARRIS COUNTY WATER CONTROL AND
IMPROVEMENTS DISTRICT NO. 1**

To Management and the
Board of Directors
Harris County Water Control and Improvement District No. 1
Highlands, TX 77562

In planning and performing our audit of the financial statements of the governmental activities, and each major fund of Harris County Water Control and Improvement District No. 1 ("the District") as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the District's internal control to be significant deficiencies:

* * * * *

AUDIT FINDING

The District currently does not separate the duties of office personnel so that person receiving cash or checks have no responsibility for recording such receipts. This could result in fraudulent transactions not being discovered in a timely manner.

RECOMMENDATION

In a District with only three employees in the office, it would be impossible to properly segregate the duties from an internal control standpoint. Should the size of the office staff increase, consideration should be given to proper segregation of duties. The District should continue having someone other than the bookkeeper, such as a board member, review the bank statements each month since there is a lack of segregation of duties.

* * * * *

AUDIT FINDING

Internal control over financial reporting and selection of sound accounting principles are an important responsibility of management. During our audit, we found that the District has not developed policies and procedures for the selection of accounting policies, preparation of financial statements, and disclosures in accordance with generally accepted accounting principles. This could result in errors in financial reporting.

RECOMMENDATION

We recommend that management develop policies and procedures to enhance the controls over the selection of accounting principles and the preparation of financial statements and disclosures in accordance with generally accepted accounting principles.

* * * * *

This communication is intended solely for the information and use of management, the Board of Directors, the Texas Commission on Environmental Quality, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Ratliff & Jentho
Certified Public Accountants