

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

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Water Control
and Improvement District No. 1
Harris County, Texas

We have audited the accompanying 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, 2020, 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 District'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.

Board of Directors
Harris County Water Control and
Improvement District No. 1

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, 2020, 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, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of District Contributions – Pension 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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 9, 2021

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Management’s discussion and analysis of Harris County Water Control and Improvement District No. 1’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for customer service revenues, tax revenues and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”). The budgetary comparison schedule is included as RSI for the General Fund. Additional schedules related to the pension plan and the other postemployment benefits plan are included as RSI as well.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,700,159 as of September 30, 2020. A portion of the District’s net position reflects its net investment in capital assets (buildings and equipment as well as the water, sewer and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of Government-wide changes in Net Position:

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2020	2019	Change Positive (Negative)
Current and Other Assets	\$ 10,753,594	\$ 10,195,151	\$ 558,443
Capital Assets (Net of Accumulated Depreciation)	10,906,476	11,146,998	(240,522)
Total Assets	\$ 21,660,070	\$ 21,342,149	\$ 317,921
Deferred Outflows of Resources	\$ 88,551	\$ 254,601	\$ (166,050)
Bonds and Lease Payable	\$ 8,271,334	\$ 9,124,840	\$ 853,506
Other Liabilities	606,073	804,476	198,403
Total Liabilities	\$ 8,877,407	\$ 9,929,316	\$ 1,051,909
Deferred Inflows of Resources	\$ 171,055	\$ 41,083	\$ (129,972)
Net Position:			
Net Investment in Capital Assets	\$ 8,112,899	\$ 7,487,061	\$ 625,838
Restricted	1,104,088	934,920	169,168
Unrestricted	3,483,172	3,204,370	278,802
Total Net Position	\$ 12,700,159	\$ 11,626,351	\$ 1,073,808

The following table provides a summary of the District's operations for the years ended September 30, 2020, and September 30, 2019.

	Summary of Changes in the Statement of Activities		
	2020	2019	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,191,039	\$ 1,069,612	\$ 121,427
Charges for Services	2,598,936	2,374,916	224,020
Other Revenues	183,197	349,796	(166,599)
Total Revenues	\$ 3,973,172	\$ 3,794,324	\$ 178,848
Expenses for Services	2,899,364	2,979,056	79,692
Change in Net Position	\$ 1,073,808	\$ 815,268	\$ 258,540
Net Position, Beginning of Year	11,626,351	10,811,083	815,268
Net Position, End of Year	\$ 12,700,159	\$ 11,626,351	\$ 1,073,808

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

The District’s combined fund balances as of September 30, 2020, were \$9,886,290, an increase of \$540,390 from the prior year.

The General Fund fund balance increased by \$772,610, primarily due to operating revenues and maintenance tax revenues being higher than operating and capital costs.

The Debt Service Fund fund balance increased by \$59,662, primarily due to the structure of the District’s outstanding debt.

The Capital Projects Fund fund balance decreased by \$291,882. The District used bond proceeds received in a prior year to pay for current year projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$175,450 more than budgeted revenues primarily due to higher than expected service and property tax revenues. Actual expenditures were \$436,361 less than budgeted expenditures primarily due to lower than expected personnel expenditures.

LONG-TERM DEBT ACTIVITY

As of September 30, 2020, the District had total bond debt payable of \$7,810,000. The changes in the debt position of the District during the fiscal year ended September 30, 2020, are summarized as follows:

Bond Debt Payable, October 1, 2019	\$ 8,355,000
Less: Bond Principal Paid	<u>545,000</u>
Bond Debt Payable, September 30, 2020	<u><u>\$ 7,810,000</u></u>

The District’s Series 2013 Refunding and Series 2017 Bonds carry an underlying rating of “A-” issued and an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual Insurance Corp. These ratings were in effect for the current and prior fiscal years.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

LONG-TERM DEBT ACTIVITY (Continued)

As of September 30, 2020, the District had total capital lease payable of \$432,631. The changes in the debt position of the District during the fiscal year ended September 30, 2020, are summarized as follows:

Capital Lease Payable, October 1, 2019	\$	532,168
Less: Capital Lease Principal Paid		<u>99,537</u>
Bond Debt Payable, September 30, 2020	\$	<u>432,631</u>

CAPITAL ASSETS

Capital assets as of September 30, 2020, total \$10,906,476 (net of accumulated depreciation) and include land, buildings and equipment, furniture and fixtures, vehicles as well as the water, sewer and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2020	2019	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 105,132	\$ 105,132	\$
Construction in Progress	634,224	1,614,765	(980,541)
Capital Assets, Net of Accumulated Depreciation:			
Building	86,730	94,690	(7,960)
Water System	2,626,753	1,335,494	1,291,259
Sewer System	6,832,317	7,244,532	(412,215)
Leased Equipment	434,286	527,761	(93,475)
Machinery and Equipment	185,277	218,345	(33,068)
Furniture and Fixtures	1,217	1,536	(319)
Vehicles	540	4,743	(4,203)
	<u>\$ 10,906,476</u>	<u>\$ 11,146,998</u>	<u>\$ (240,522)</u>

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Water Control and Improvement District No. 1, 125 San Jacinto Avenue, Highlands, TX 77562.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2020**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 3,590,607	\$ 855,958
Investments		222,525
Receivables:		
Property Taxes	40,906	91,367
Penalty and Interest on Delinquent Taxes		
Service Accounts	232,428	
Other	180	496
Net Pension Asset		
Due from Other Funds	51,695	
Prepaid Costs	51,859	75
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 3,967,675	\$ 1,170,421
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Plan Charges	\$ - 0 -	\$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,967,675	\$ 1,170,421

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 5,537,514	\$ 9,984,079 222,525	\$	\$ 9,984,079 222,525
	132,273		132,273
	232,428	46,053	46,053
	676		232,428 676
	51,695	83,626	83,626
	51,934	(51,695)	51,934
		105,132	105,132
		634,224	634,224
		10,167,120	10,167,120
<u>\$ 5,537,514</u>	<u>\$ 10,675,610</u>	<u>\$ 10,984,460</u>	<u>\$ 21,660,070</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 88,551</u>	<u>\$ 88,551</u>
<u>\$ 5,537,514</u>	<u>\$ 10,675,610</u>	<u>\$ 11,073,011</u>	<u>\$ 21,748,621</u>

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2020**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 153,916	\$
Accrued Compensated Absences	16,710	
Accrued Interest Payable		
Due to Other Funds		51,695
Security Deposits	344,984	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 515,610	\$ 51,695
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 40,906	\$ 121,352
Pension Plan Income		
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 40,906	\$ 121,352
 FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 51,859	\$
Restricted for Authorized Construction		
Restricted for Debt Service		997,374
Unassigned	3,359,300	
TOTAL FUND BALANCES	\$ 3,411,159	\$ 997,374
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,967,675	\$ 1,170,421
 NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 59,757	\$ 213,673 16,710	\$	\$ 213,673 16,710
	51,695	30,706 (51,695)	30,706
	344,984		344,984
		662,872	662,872
		7,608,462	7,608,462
<u>\$ 59,757</u>	<u>\$ 627,062</u>	<u>\$ 8,250,345</u>	<u>\$ 8,877,407</u>
\$	\$ 162,258	\$ (132,273)	\$ 29,985
		141,070	141,070
<u>\$ - 0 -</u>	<u>\$ 162,258</u>	<u>\$ 8,797</u>	<u>\$ 171,055</u>
\$	\$ 51,859	\$ (51,859)	\$
5,477,757	5,477,757	(5,477,757)	
	997,374	(997,374)	
	3,359,300	(3,359,300)	
<u>\$ 5,477,757</u>	<u>\$ 9,886,290</u>	<u>\$ (9,886,290)</u>	<u>\$ - 0 -</u>
<u>\$ 5,537,514</u>	<u>\$ 10,675,610</u>		
		\$ 8,112,899	\$ 8,112,899
		1,104,088	1,104,088
		3,483,172	3,483,172
		<u>\$ 12,700,159</u>	<u>\$ 12,700,159</u>

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

Total Fund Balance - Governmental Funds	\$	9,886,290
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Net Pension Assets, Deferred inflows and outflows of resources related to the pension plan activities are recorded in the government-wide financial statements.		31,107
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		10,906,476
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2019 and prior tax levies became part of recognized revenue in the governmental activities of the District.		178,326
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (30,706)	
Bonds Payable	<u>(8,271,334)</u>	<u>(8,302,040)</u>

Total Net Position - Governmental Activities	\$	<u>12,700,159</u>
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The accompanying notes to the financial statements are an integral part of this report.

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**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 316,809	\$ 842,665
Service Revenues	2,467,106	
Penalty and Interest	61,182	42,230
Tap Connection and Inspection Fees	24,680	
Investment and Miscellaneous Revenues	<u>117,225</u>	<u>15,907</u>
TOTAL REVENUES	<u>\$ 2,987,002</u>	<u>\$ 900,802</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Personnel Expenditures	\$ 792,542	\$
Professional Fees	40,517	13,491
Contracted Services	191,265	24,438
Purchased Water Services	541,230	
Utilities	109,779	
Repair and Maintenance	117,944	
Depreciation		
Other	236,261	4,391
Capital Outlay	67,489	
Debt Service:		
Principal	99,537	545,000
Interest	<u>17,828</u>	<u>253,820</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 2,214,392</u>	<u>\$ 841,140</u>
NET CHANGE IN FUND BALANCES	\$ 772,610	\$ 59,662
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - OCTOBER 1, 2019	<u>2,638,549</u>	<u>937,712</u>
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2020	<u>\$ 3,411,159</u>	<u>\$ 997,374</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,159,474	\$ 31,565	\$ 1,191,039
	2,467,106		2,467,106
	103,412	3,738	107,150
	24,680		24,680
<u>50,065</u>	<u>183,197</u>		<u>183,197</u>
<u>\$ 50,065</u>	<u>\$ 3,937,869</u>	<u>\$ 35,303</u>	<u>\$ 3,973,172</u>
\$	\$ 792,542	\$ (16,896)	\$ 775,646
8,805	62,813		62,813
	215,703		215,703
	541,230		541,230
	109,779		109,779
	117,944		117,944
		641,153	641,153
	240,652		240,652
333,142	400,631	(400,631)	
	644,537	(644,537)	
	<u>271,648</u>	<u>(77,204)</u>	<u>194,444</u>
<u>\$ 341,947</u>	<u>\$ 3,397,479</u>	<u>\$ (498,115)</u>	<u>\$ 2,899,364</u>
\$ (291,882)	\$ 540,390	\$ (540,390)	\$
		1,073,808	1,073,808
<u>5,769,639</u>	<u>9,345,900</u>	<u>2,280,451</u>	<u>11,626,351</u>
<u>\$ 5,477,757</u>	<u>\$ 9,886,290</u>	<u>\$ 2,813,869</u>	<u>\$ 12,700,159</u>

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Net Change in Fund Balances - Governmental Funds	\$	540,390
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		31,565
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		3,738
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(641,153)
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Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		400,631
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This adjustment accounts for the current year activity related to the pension plan and other postemployment benefit plan as well as the associated deferred inflows and outflows of resources.		16,896
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Governmental funds report principal payments as expenditures. However, in the Statement of Net Position, principal payments are reported as decreases in long-term liabilities.		644,537
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		77,204
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Change in Net Position - Governmental Activities	\$	<u>1,073,808</u>
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The accompanying notes to the financial statements are an integral part of this report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 1. CREATION OF DISTRICT

Harris County Water Control and Improvement District No. 1 of Harris County, Texas (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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- * Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- * Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- * Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, tax revenues and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

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

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

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Individual capital items, including infrastructure assets are capitalized, if they have an original cost greater than \$2,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	35-40
Furniture and Fixtures	7-10
Machinery and Equipment	5-15
Water Distribution System	30-50
Sewer Collection System	30-50

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pension and Other Postemployment Benefits

The Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established for the directors. A plan has been established for the District’s employees other than directors. (See Note 8).

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 3. LONG-TERM DEBT

	Refunding Series 2013	Series 2015
Amount Outstanding – September 30, 2020	\$ 750,000	\$ 7,060,000
Interest Rates	3.00%	3.00% - 3.50%
Maturity Date	February 15, 2021/2023	February 15, 2021/2037
Interest Payment Dates	February 15/ August 15	February 15/ August 15
Callable Dates	February 15, 2022*	February 15, 2026*

* Or any date thereafter at a price of par plus unpaid accrued interest in whole or in part, at the option of the District.

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. The General Fund provides the resources to pay the lease payments.

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2020:

	October 1, 2019	Additions	Retirements	September 30, 2020
Bonds Payable	\$ 8,355,000	\$	\$ 545,000	\$ 7,810,000
Capital Lease - Meters	532,168		99,537	432,631
Unamortized Discounts	(72,936)		(7,061)	(65,875)
Unamortized Premiums	111,301		16,723	94,578
Total Long-Term Liabilities	<u>\$ 8,925,533</u>	<u>\$ -0-</u>	<u>\$ 654,199</u>	<u>\$ 8,271,334</u>
		Amount Due Within One Year		\$ 662,872
		Amount Due After One Year		7,608,462
		Total Bonds Payable		<u>\$ 8,271,334</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 3. LONG-TERM DEBT (Continued)

As of September 30, 2020, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
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
2026-2030	1,985,000	714,550	2,699,550
2031-2035	2,325,000	383,358	2,708,358
2036-2037	1,045,000	36,838	1,081,838
	<u>\$ 7,810,000</u>	<u>\$ 2,160,246</u>	<u>\$ 9,970,246</u>

As of September 30, 2020, the debt service requirements on the lease payments outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 102,872	\$ 14,493	\$ 117,365
2022	106,318	11,047	117,365
2023	109,880	7,485	117,365
2024	113,561	3,804	117,365
	<u>\$ 432,631</u>	<u>\$ 36,829</u>	<u>\$ 469,460</u>

As of September 30, 2020, the District had authorized but unissued bonds in the amount of \$8,150,000 for water, sanitary sewer and drainage bonds.

During the year ended September 30, 2020, the District levied ad valorem debt service tax rate of \$0.26216 per \$100 of assessed valuation, which resulted in a levy of \$849,007 on the adjusted taxable valuation of \$323,850,604 for the 2019 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the costs of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond order states that the District is required by the Securities and Exchange Commission to provide annual continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on each 5th year anniversary of each issue.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$10,206,604 and the bank balance was \$10,252,690. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2020, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 3,590,607	\$	\$ 3,590,607
DEBT SERVICE FUND	855,958	222,525	1,078,483
CAPITAL PROJECTS FUND	<u>5,537,514</u>	<u></u>	<u>5,537,514</u>
TOTAL DEPOSITS	<u>\$ 9,984,079</u>	<u>\$ 222,525</u>	<u>\$ 10,206,604</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth.

The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

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

The District records its investments in certificates of deposit at acquisition cost

As of September 30, 2020, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>DEBT SERVICE FUND</u>		
Certificates of Deposit	<u>\$ 222,525</u>	<u>\$ 222,525</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by investing in certificates of deposit with balances covered in accordance with Texas statutes.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by investing in certificates of deposits with maturities of approximately one year or less.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Restrictions

All cash and investments of the Debt Service Fund are restricted for payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for purchases of capital assets.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 is as follows:

	October 1, 2019	Increases	Decreases	September 30, 2020
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 105,132	\$	\$	\$ 105,132
Construction in Progress	1,614,765	400,631	1,381,172	634,224
Total Capital Assets Not Being Depreciated	<u>\$ 1,719,897</u>	<u>\$ 400,631</u>	<u>\$ 1,381,172</u>	<u>\$ 739,356</u>
Capital Assets Subject to Depreciation				
Building	\$ 280,235	\$	\$	\$ 280,235
Water System	2,878,443	1,372,724	\$	4,251,167
Sewer System	15,326,186	8,448		15,334,634
Leased Equipment	931,342			931,342
Machinery and Equipment	467,642			467,642
Furniture and Fixtures	5,688			5,688
Vehicles	120,344			120,344
Total Capital Assets Subject to Depreciation	<u>\$ 20,009,880</u>	<u>\$ 1,381,172</u>	<u>\$ - 0 -</u>	<u>\$ 21,391,052</u>
Accumulated Depreciation				
Building	\$ 185,545	\$ 7,960	\$	\$ 193,505
Water System	1,542,949	81,465		1,624,414
Sewer System	8,081,654	420,663		8,502,317
Leased Equipment	403,581	93,475		497,056
Machinery and Equipment	249,297	33,068		282,365
Furniture and Fixtures	4,152	319		4,471
Vehicles	115,601	4,203		119,804
Total Accumulated Depreciation	<u>\$ 10,582,779</u>	<u>\$ 641,153</u>	<u>\$ - 0 -</u>	<u>\$ 11,223,932</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 9,427,101</u>	<u>\$ 740,019</u>	<u>\$ - 0 -</u>	<u>\$ 10,167,120</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 11,146,998</u>	<u>\$ 1,140,650</u>	<u>\$ 1,381,172</u>	<u>\$ 10,906,476</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 7. MAINTENANCE TAX

At an election held September 14, 2002, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. During the year ended September 30, 2020, the District levied a maintenance tax rate of \$0.09784 per \$100 of assessed valuation, which resulted in a tax levy of \$316,855 on the adjusted taxable valuation of \$323,850,604 for the 2019 tax year.

NOTE 8. PENSION PLAN

Plan Description

The District provides retirement 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 more than 780 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 on the TCDRS website (www.tcdrs.org).

Benefits Provided

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing the 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 deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by the District.

Benefit amounts are determined by the sum of the employee’s deposits to the plan, with interest, and employer-financed monetary credit. The level of these monetary credits is adopted by the governing body of the District 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 8. PENSION PLAN (Continued)

At September 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	<u>4</u>
Inactive employees entitled but not yet receiving benefits	<u>7</u>
Active employees	<u>13</u>

Contributions

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 2020 accounting year and the 2019 accounting year. The deposit rate payable by the employee members for calendar years 2019 and 2020 is 7.0% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

For the District's accounting year ended September 30, 2020, the annual pension cost for the TCDRS plan for its employees was \$84,224 and the actual contributions were \$84,224.

Actuarial Assumptions

The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumption:

Actuarial valuation date	12/31/19
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment return ¹	8.10%
Projected salary increases ¹	4.90%
Inflation	2.75%
Cost-of-living adjustments	0.00%

¹ Includes inflation at the stated rate

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 8. PENSION PLAN (Continued)

All actuarial assumptions that determined the total pension liability as of December 31, 2019 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

Mortality rates were based on the following:

Depositing members – 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate Scale after 2014.

Service retirees, beneficiaries and non-depositing members – 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Disabled retirees - 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Depletion of Plan Assets/ GASB Discount Rate

The 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 investments.
- 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.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 8. PENSION PLAN (Continued)

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 the 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 the TCDRS Act.

Depletion of Plan Assets/ GASB Discount Rate (Continued)

- 1) TCDRS has a funding policy where the 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) An increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the 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.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 8. PENSION PLAN (Continued)

Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

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 April 2020 information for a 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 2017. See Millian's TCDRS Investigation of Experience report for period January 1, 2013 – December 31, 2016 for more details.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	14.50%	5.20%
Private Equity	20.00%	8.20%
Global Equities	2.50%	5.50%
International Equities-Development	7.00%	5.20%
International Equities-Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	-0.20%
Strategic Credit	12.00%	3.14%
Direct Lending	11.00%	7.16%
Distressed Debt	4.00%	6.90%
REIT Equities	3.00%	4.50%
Master Limited Partnerships (MLPs)	2.00%	8.40%
Private Real Estate Partnerships	6.00%	5.50%
Hedge Funds	8.00%	2.30%

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 8. PENSION PLAN (Continued)

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances of December 31, 2018	\$ 3,134,103	\$ 2,934,796	\$ 199,307
Changes for the year:			
Service Costs	71,067		71,067
Interest on the Total Pension Liability	253,296		253,296
Effect of Economic/Demographic Gains or Losses	(14,478)		(14,478)
Benefit Payments	(159,229)	(159,229)	
Administrative Expenses		(2,567)	2,567
Member Contributions		38,150	(38,150)
Net investment income		481,997	(481,997)
Employer Contributions		76,300	(76,300)
Other		(1,064)	1,064
Balances of December 31, 2019	<u>\$ 3,284,759</u>	<u>\$ 3,368,383</u>	<u>\$ (83,624)</u>

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 District 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	\$ 3,698,063	\$ 3,284,759	\$ 2,933,645
Fiduciary net position	<u>3,368,383</u>	<u>3,368,383</u>	<u>3,368,383</u>
Net pension liability	<u>\$ 329,680</u>	<u>\$ (86,624)</u>	<u>\$ (\$434,738)</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 8. PENSION PLAN (Continued)

As of December 31, 2019, the deferred inflows and outflows of resources are as follows:

	<u>Deferred Inflows of resources</u>	<u>Deferred Outflows of resources</u>
Differences between expected and actual experience	\$ 54,463	\$ 16,647
Changes in assumptions		7,332
Net difference between projected and actual earnings	86,607	
Contributions paid to TCDRS subsequent to the measurement date		<u>64,572</u>
Total	<u>\$ 141,070</u>	<u>\$ 88,551</u>

The District made plan contributions subsequent to the measurement date and prior to the District fiscal year-end of \$64,572, which are recorded as deferred outflows of resources. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year ended December 31:	
2020	\$ (35,530)
2021	(34,946)
2022	2,175
2023	(47,979)
2024	1,259
Thereafter	(2,070)

NOTE 9. COMPENSATED ABSENCES

Compensated absences payable recorded in the accompanying financial statements relates to earned vacation time. Accumulated compensated absences related to sick time amounting to approximately \$78,899 as of September 30, 2020, are not recorded in the accompanying financial statement since such compensation is not fully vested and is dependent upon the occurrence of future employee illnesses, the probability of which cannot be measured.

NOTE 10. GRANT FUNDS

The District has applied for a grant of almost \$3,900,000 related to certain wastewater treatment plant improvements. This grant was approved in October of 2019 and the District anticipates construction related to this grant beginning in 2020 with the project being completed in 2021 or 2022.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 11. PURCHASE WATER AGREEMENT

The District entered into an agreement with the Baytown 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 purchase shall begin no later than December 31, 1994. The cost of the water has increased periodically and was \$2.86 per thousand gallons at September 30, 2020. The District’s cost for such water during the current year was \$541,230. 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.

NOTE 12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions, windstorm and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML’s management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 13. INTERFUND RECEIVABLES AND PAYABLES

As of September 30, 2020, the Debt Service Fund recorded a payable to the General Fund in the amount of \$51,695 for maintenance tax collections.

NOTE 14. ECONOMIC UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which could have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

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

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2020

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 301,152	\$ 316,809	\$ 15,657
Service Revenues	2,401,000	2,467,106	66,106
Tap Connection and Inspection Fees	8,200	24,680	16,480
Penalty and Interest	56,000	61,182	5,182
Investment and Miscellaneous Revenues	<u>45,200</u>	<u>117,225</u>	<u>72,025</u>
TOTAL REVENUES	<u>\$ 2,811,552</u>	<u>\$ 2,987,002</u>	<u>\$ 175,450</u>
EXPENDITURES			
Service Operations:			
Personnel Expenditures	\$ 1,047,052	\$ 792,542	\$ 254,510
Professional Fees	69,650	40,517	29,133
Contracted Services	221,200	191,265	29,935
Purchased Water Services	501,500	541,230	(39,730)
Utilities	146,662	109,779	36,883
Repair and Maintenance	96,210	117,944	(21,734)
Other	322,114	236,261	85,853
Capital Outlay	129,000	67,489	61,511
Debt Service: Payments AMI Meters	<u>117,365</u>	<u>117,365</u>	
TOTAL EXPENDITURES	<u>\$ 2,650,753</u>	<u>\$ 2,214,392</u>	<u>\$ 436,361</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 160,799</u>	<u>\$ 772,610</u>	<u>\$ 611,811</u>
OTHER FINANCING SOURCES(USES)			
Transfers In(Out)	<u>\$ (250,000)</u>	<u>\$ -0-</u>	<u>\$ 250,000</u>
NET CHANGE IN FUND BALANCE	\$ (89,201)	\$ 772,610	\$ 861,811
FUND BALANCE - OCTOBER 1, 2019	<u>2,638,549</u>	<u>2,638,549</u>	
FUND BALANCE - SEPTEMBER 30, 2020	<u>\$ 2,549,348</u>	<u>\$ 3,411,159</u>	<u>\$ 861,811</u>

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2020**

	Year Ended December 31, 2019	Year Ended December 31, 2018
Total Pension Liability		
Service Cost	\$ 71,067	\$ 63,713
Interest (on the Total Pension Liability)	253,296	238,888
Effect on plan changes		
Changes of assumptions		
Effect of economic/demographic gains or losses	(14,478)	23,307
Benefit payments, including refunds of employee contributions	<u>(159,229)</u>	<u>(151,706)</u>
Net change in total pension liability	\$ 150,656	\$ 174,202
Total pension liability, beginning	<u>3,134,103</u>	<u>2,959,901</u>
Total pension liability, ending (a)	<u>\$ 3,284,759</u>	<u>\$ 3,134,103</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 76,300	\$ 74,473
Contributions - employee	38,150	37,236
Net investment income	481,997	(56,989)
Benefit payments, including refunds of employee contributions	(159,229)	(151,706)
Administrative Expense	(2,567)	(2,357)
Other	<u>(1,064)</u>	<u>(886)</u>
Net Change in plan fiduciary net position	\$ 433,587	\$ (100,229)
Plan Fiduciary net position, beginning	<u>2,934,796</u>	<u>3,035,025</u>
Plan Fiduciary net position, ending (b)	<u>\$ 3,368,383</u>	<u>\$ 2,934,796</u>
Net Pension Liability/(Asset), Ending = (a) - (b)	<u>\$ (83,624)</u>	<u>\$ 199,307</u>
Plan fiduciary net position as a percentage of the total pension liability	102.55%	93.64%
Covered-employee payroll	\$ 505,004	\$ 531,949
Net pension liability as a percentage of covered employee payroll	-16.56%	37.47%

Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
\$ 58,679	\$ 63,845	\$ 52,449
235,573	224,728	209,775
8,734		(13,223)
(53,297)	(18,480)	17,805
<u>(273,511)</u>	<u>(57,864)</u>	<u>(24,058)</u>
\$ (23,822)	\$ 212,229	\$ 197,843
<u>2,983,723</u>	<u>2,771,494</u>	<u>2,573,651</u>
<u>\$ 2,959,901</u>	<u>\$ 2,983,723</u>	<u>\$ 2,771,494</u>
\$ 74,328	\$ 70,611	\$ 72,512
37,164	35,305	36,256
405,479	189,763	(34,211)
(273,511)	(57,864)	(24,058)
(2,018)	(2,063)	(1,835)
<u>(2,191)</u>	<u>(6,210)</u>	<u>(18,941)</u>
\$ 239,251	\$ 229,542	\$ 29,723
<u>2,795,774</u>	<u>2,566,232</u>	<u>2,536,509</u>
<u>\$ 3,035,025</u>	<u>\$ 2,795,774</u>	<u>\$ 2,566,232</u>
<u>\$ (75,124)</u>	<u>\$ 187,949</u>	<u>\$ 205,262</u>
102.54%	93.70%	92.59%
\$ 530,913	\$ 504,363	\$ 517,942
-14.15%	37.26%	39.63%

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF DISTRICT CONTRIBUTIONS – PENSION
SEPTEMBER 30, 2020**

Fiscal Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2011	\$ 52,239	\$ 64,097	\$ (11,858)	\$ 457,837	14.00%
2012	\$ 63,037	\$ 67,887	\$ (4,850)	\$ 484,904	14.00%
2013	\$ 64,320	\$ 118,635	\$ (54,315)	\$ 490,247	24.20%
2014	\$ 64,020	\$ 64,203	\$ (183)	\$ 458,595	14.00%
2015	\$ 56,870	\$ 72,512	\$ (15,642)	\$ 517,942	14.00%
2016	\$ 52,202	\$ 70,611	\$ (18,409)	\$ 504,363	14.00%
2017	\$ 49,003	\$ 74,328	\$ (25,325)	\$ 530,913	14.00%
2018	\$ 51,014	\$ 74,473	\$ (23,459)	\$ 531,949	14.00%
2019	\$ 41,965	\$ 76,300	\$ (34,335)	\$ 545,004	14.00%
2020	\$ 84,224	\$ 84,224	\$ -0-	\$ 601,600	14.00%

Valuation Date Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	0.5 years (based on contribution rate calculated in 12/31/2019 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of administrative and 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	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale of 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the schedule. 2016: No changes in plan provisions were reflected in the schedule.. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the schedule. 2019: No changes in plan provisions were reflected in the schedule.

*Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.

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

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

SEPTEMBER 30, 2020

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective September 10, 2019.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 15.50	2,000	N	\$ 5.50	2,001 and over
WASTEWATER:	\$ 15.50	2,000	N	\$ 4.10	2,000 to 18,000

District employs winter averaging for wastewater usage? _____ X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$59.50 Wastewater: \$48.30 Total: \$107.80

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	2,458	2,301	x 1.0	2,301
1"	23	23	x 2.5	58
1½"	11	11	x 5.0	55
2"	36	35	x 8.0	280
3"	1	1	x 15.0	15
4"	2	2	x 25.0	50
6"	4	4	x 50.0	200
8"	2	2	x 80.0	160
10"			x 115.0	
Total Water Connections	<u>2,537</u>	<u>2,379</u>		<u>3,119</u>
Total Wastewater Connections	<u>2,711</u>	<u>2,541</u>	x 1.0	<u>2,541</u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped into system:	64,793,000	Water Accountability Ratio: 71% (Gallons billed/Gallons pumped and purchased)
Gallons purchased:	189,405,000	From: <u>Baytown Area Water Authority</u>
Total gallons pumped and purchased	254,198,000	
Gallons billed to customers:	176,883,000	
Flushing and Maintenance	2,753,000	
Total gallons billed and used for maintenance	179,636,000	

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

Cities in which District is located:

N/A

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

Entirely Partly Not at all

ETJ's in which District is located:

Baytown, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

PERSONNEL EXPENDITURES (Including Benefits)	\$ 792,542
PROFESSIONAL FEES:	
Auditing	\$ 23,150
Engineering	2,174
Attorney	<u>15,193</u>
TOTAL PROFESSIONAL FEES	\$ 40,517
PURCHASED WATER SERVICE	\$ 541,230
CONTRACTED SERVICES	
Contract Labor	<u>\$ 191,265</u>
UTILITIES	<u>\$ 109,779</u>
REPAIRS AND MAINTENANCE	<u>\$ 117,944</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 8,400
Insurance	59,868
Office Supplies and Postage	<u>26,311</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 94,579</u>
CAPITAL OUTLAY	<u>\$ 67,489</u>
OTHER EXPENDITURES:	
Chemicals	\$ 41,686
Fuels and Lubricants	17,988
Regulatory Assessment	48,137
Tools/Equipment	1,554
Other	<u>32,317</u>
TOTAL OTHER EXPENDITURES	<u>\$ 141,682</u>
DEBT SERVICE:	
Capital Lease Principal	99,537
Capital Lease Interest	<u>17,828</u>
TOTAL DEBT SERVICE	<u>\$ 117,365</u>
TOTAL EXPENDITURES	<u><u>\$ 2,214,392</u></u>

Number of persons employed by the District 11 Full-Time -0- Part-Time

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
INVESTMENTS
SEPTEMBER 30, 2020**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXX4199	0.015%	07/15/21	\$ 113,693	\$
Certificate of Deposit	XXX4740	1.400%	01/15/21	108,832	
TOTAL DEBT SERVICE FUND				<u>\$ 222,525</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
OCTOBER 1, 2019	\$	40,619	\$	85,266
Adjustments to Beginning				
Balance		<u>241</u>	\$	<u>(241)</u>
		\$	40,860	\$
				85,025
Original 2019 Tax Levy	\$	316,855	\$	849,007
Adjustment to 2019 Tax Levy		<u>316,855</u>		<u>849,007</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	357,715	\$
				934,032
TAX COLLECTIONS:				
Prior Years	\$	15,484	\$	35,271
Current Year		<u>301,325</u>		<u>807,394</u>
		316,809		842,665
TAXES RECEIVABLE -				
SEPTEMBER 30, 2020		<u>\$</u>	<u>40,906</u>	<u>\$</u>
				<u>91,367</u>
TAXES RECEIVABLE BY				
YEAR:				
2019	\$	15,530	\$	41,613
2018		5,950		15,687
2017		4,182		13,137
2016		2,710		3,252
2015		2,136		2,563
2014		1,502		1,802
2013		1,376		1,651
2012		1,091		1,419
2011		1,934		2,902
2010		1,943		2,914
2009		462		693
2008		443		664
2007		489		881
2006		381		686
2005		327		604
2004		<u>450</u>		<u>899</u>
TOTAL		<u>\$</u>	<u>40,906</u>	<u>\$</u>
				<u>91,367</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
PROPERTY VALUATIONS:				
Land	\$ 106,856,706	\$ 86,645,569	\$ 76,867,649	\$ 54,800,866
Improvements	220,443,540	210,001,125	202,596,233	198,927,358
Personal Property	73,849,291	73,065,450	65,112,390	67,361,866
Exemptions	<u>(77,298,933)</u>	<u>(72,089,870)</u>	<u>(68,048,973)</u>	<u>(62,569,887)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 323,850,604</u>	<u>\$ 297,622,274</u>	<u>\$ 276,527,299</u>	<u>\$ 258,520,203</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.26216	\$ 0.261	\$ 0.311	\$ 0.120
Maintenance	<u>0.09784</u>	<u>0.099</u>	<u>0.099</u>	<u>0.100</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.36000</u>	<u>\$ 0.360</u>	<u>\$ 0.410</u>	<u>\$ 0.220</u>
ADJUSTED TAX LEVY*	<u>\$ 1,165,862</u>	<u>\$ 1,071,440</u>	<u>\$ 1,132,142</u>	<u>\$ 568,570</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>95.10 %</u>	<u>97.98 %</u>	<u>98.47 %</u>	<u>98.95 %</u>

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

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2020**

SERIES - 2013 REFUNDING

<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due February 15</u>	<u>Interest Due February 15/ August 15</u>	<u>Total</u>
2021	\$ 240,000	\$ 18,900	\$ 258,900
2022	250,000	11,550	261,550
2023	260,000	3,900	263,900
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 750,000</u>	<u>\$ 34,350</u>	<u>\$ 784,350</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2020**

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending September 30	Principal Due February 15	Interest Due February 15/ August 15	Total
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
	<u>\$ 7,060,000</u>	<u>\$ 2,125,896</u>	<u>\$ 9,185,896</u>

See accompanying independent auditor's report.

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**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2020**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
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
	<u>\$ 7,810,000</u>	<u>\$ 2,160,246</u>	<u>\$ 9,970,246</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
ANALYSIS OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2019
Harris County Water Control and Improvement District No. 1 Unlimited Tax Refunding Bonds - Series 2013	\$ 2,215,000	\$ 980,000
Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2017	<u>7,850,000</u>	<u>7,375,000</u>
TOTAL	<u>\$ 10,065,000</u>	<u>\$ 8,355,000</u>

Bond Authority:	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 19,000,000
Amount Issued	<u>10,850,000</u>
Remaining to be Issued	<u>\$ 8,150,000</u>

Debt Service Fund cash and investment balances as of September 30, 2020: \$ 1,078,483

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 586,485

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2020</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 230,000	\$ 25,950	\$ 750,000	Bank of Texas, NA Austin, TX
	315,000	227,870	7,060,000	BOKF, NA Austin, TX
<u>\$ - 0 -</u>	<u>\$ 545,000</u>	<u>\$ 253,820</u>	<u>\$ 7,810,000</u>	

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 316,809	\$ 294,308	\$ 273,430
Service Revenues	2,467,106	2,340,721	2,376,554
Tap Connection and Inspection Fees	24,680	34,195	40,445
Penalty and Interest	61,182	128,629	94,396
Grant Revenue			89,534
Investment and Miscellaneous Revenues	117,225	16,708	14,164
TOTAL REVENUES	\$ 2,987,002	\$ 2,814,561	\$ 2,888,523
EXPENDITURES			
Personnel	\$ 792,542	\$ 806,152	\$ 781,502
Professional Fees	40,517	49,968	71,033
Contracted Services	109,779	196,057	129,560
Purchased Water Services	541,230	538,739	546,274
Utilities	191,265	120,625	104,912
Repair and Maintenance	117,944	210,877	237,998
Other	236,261	154,877	150,060
Capital Outlay	67,489	116,443	55,408
Debt Service:			
Principal	99,537		
Interest	17,828		
TOTAL EXPENDITURES	\$ 2,214,392	\$ 2,193,738	\$ 2,076,747
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 772,610	\$ 620,823	\$ 811,776
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$	\$ (317,365)	\$ (637,365)
Insurance Proceeds			394,937
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ (317,365)	\$ (242,428)
NET CHANGE IN FUND BALANCE	\$ 772,610	\$ 303,458	\$ 569,348
BEGINNING FUND BALANCE	2,638,549	2,335,091	1,765,743
ENDING FUND BALANCE	\$ 3,411,159	\$ 2,638,549	\$ 2,335,091

See accompanying independent auditor's report.

		Percentage of Total Revenues						
2017	2016	2020	2019	2018	2017	2016		
\$ 261,371	\$ 258,168	10.7 %	10.5 %	9.5 %	9.3 %	9.7 %		
2,316,906	2,263,867	82.6	83.1	82.2	82.0	84.7		
47,260	40,820	0.8	1.2	1.4	1.7	1.5		
78,691	72,882	2.0	4.6	3.3	2.8	2.7		
				3.1				
118,276	36,829	3.9	0.6	0.5	4.2	1.4		
<u>\$ 2,822,504</u>	<u>\$ 2,672,566</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 793,414	\$ 726,306	26.5 %	28.6 %	27.1 %	28.1 %	27.2 %		
49,660	149,705	1.4	1.8	2.5	1.8	5.6		
157,897	141,852	3.7	7.0	4.5	5.6	5.3		
492,121	505,500	18.1	19.1	18.9	17.4	18.9		
117,652	127,522	6.4	4.3	3.6	4.2	4.8		
163,828	80,412	3.9	7.5	8.2	5.8	3.0		
154,089	229,600	7.9	5.5	5.2	5.5	8.6		
54,075	127,078	2.3	4.1	1.9	1.9	4.8		
		3.3						
		0.6						
<u>\$ 1,982,736</u>	<u>\$ 2,087,975</u>	<u>74.1 %</u>	<u>77.9 %</u>	<u>71.9 %</u>	<u>70.3 %</u>	<u>78.2 %</u>		
\$ 839,768	\$ 584,591	25.9 %	22.1 %	28.1 %	29.7 %	21.8 %		
\$ (242,365)	\$ (442,365)							
<u>\$ (242,365)</u>	<u>\$ (442,365)</u>							
\$ 597,403	\$ 142,226							
1,168,340	1,026,114							
<u>\$ 1,765,743</u>	<u>\$ 1,168,340</u>							

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 842,665	\$ 772,547	\$ 837,706
Penalty and Interest	42,230	67,206	33,699
Investment and Miscellaneous Revenues	15,907	275	6
TOTAL REVENUES	\$ 900,802	\$ 840,028	\$ 871,411
EXPENDITURES			
Tax Collectoin Expenditures	\$ 41,520	\$ 57,699	\$ 42,800
Debt Service Principal	545,000	626,311	478,189
Debt Service Interest and Fees	254,620	290,674	449,314
TOTAL EXPENDITURES	\$ 841,140	\$ 974,684	\$ 970,303
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 59,662	\$ (134,656)	\$ (98,892)
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ - 0 -	\$ 117,365	\$ 117,365
NET CHANGE IN FUND BALANCE	\$ 59,662	\$ (17,291)	\$ 18,473
BEGINNING FUND BALANCE	937,712	955,003	936,530
ENDING FUND BALANCE	\$ 997,374	\$ 937,712	\$ 955,003
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,379	2,373	2,345
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,541	2,534	2,507

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2017	2016	2020	2019	2018	2017	2016
\$ 316,960	\$ 313,403	93.5 %	92.0 %	96.1 %	91.0 %	90.2 %
31,299	21,794	4.7	8.0	3.9	9.0	6.3
	12,327	1.8				3.5
<u>\$ 348,259</u>	<u>\$ 347,524</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 34,583	\$ 36,115	4.6 %	6.9 %	4.9 %	9.9 %	10.4 %
300,168	287,246	60.5	74.6	54.9	86.2	82.7
52,126	74,919	28.3	34.6	51.6	15.0	21.6
<u>\$ 386,877</u>	<u>\$ 398,280</u>	<u>93.4 %</u>	<u>116.1 %</u>	<u>111.4 %</u>	<u>111.1 %</u>	<u>114.7 %</u>
<u>\$ (38,618)</u>	<u>\$ (50,756)</u>	<u>6.6 %</u>	<u>(16.1) %</u>	<u>(11.4) %</u>	<u>(11.1) %</u>	<u>(14.7) %</u>
<u>\$ 117,365</u>	<u>\$ 117,365</u>					
\$ 78,747	\$ 66,609					
857,783	791,174					
<u>\$ 936,530</u>	<u>\$ 857,783</u>					
<u>2,325</u>	<u>2,307</u>					
<u>2,488</u>	<u>2,470</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2020**

District Mailing Address - Harris County Water Control and Improvement
District No. 1
125 San Jacinto Avenue
Highlands, Texas 77562

District Telephone Number - (281) 426-2115

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of office for the year ended <u>September 30, 2020</u>	Expense reimbursements for the year ended <u>September 30, 2020</u>	<u>Title</u>
Leon R. Mullins	05/2019 05/2023 (Elected)	\$ 1,500	\$ -0-	President/ Investment Officer
Bobby Birdsong	05/2019 05/2023 (Elected)	\$ 1,800	\$ -0-	Vice President
Harvey Little	05/2017 05/2021 (Elected)	\$ 1,650	\$ -0-	Secretary
Kenneth Boudreaux	05/2017 05/2021 (Elected)	\$ 1,650	\$ -0-	Director
John H. Wright, III	05/2017 05/2021 (Elected)	\$ 1,800	\$ -0-	Director

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

Submission date of most recent District Registration Form: February 4, 2020

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

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2020**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2020</u>	<u>Title</u>
Johnson Petrov LLP	08/10/11	\$ 15,193	General Counsel
Ratliff & Jentho, CPAs	01/31/85	\$ 23,150	Former Auditor
McCall Gibson Swedlund Barfoot PLLC	10/13/20	\$ -0-	Auditor
San Jacinto Tax Service.	1983	\$ 15,247	Tax Assessor
LJA Engineering	01/01/90	\$ 253,192	Engineer
Linebarger, Goggan, Blair & Sampson, LLC	05/10/16	\$ 13,491	Delinquent Tax Attorney
SAMCO Capital Markets, Inc.	02/08/16	\$ 2,250	Financial Advisor
Mark Taylor	2010	\$ -0-	Investment Officer

See accompanying independent auditor's report.

