

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

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2022**

**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, 2022**

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**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708

PO Box 29584  
Austin, TX 78755-5126  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Audit of the Financial Statements**

**Opinions**

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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2022, 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.

**Basis for Opinions**

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

**Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

### **Required Supplementary Information**

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

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

**Required Supplementary Information (Continued)**

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide*, the supplementary information required by the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are 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 an 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

January 31, 2023

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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, 2022. 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, 2022**

**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 \$17,780,577 as of September 30, 2022. 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, 2022**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Summary of Changes in the Statement of Net Position		
	2022	2021	Change Positive (Negative)
Current and Other Assets	\$ 12,297,057	\$ 6,677,575	\$ 5,619,482
Capital Assets (Net of Accumulated Depreciation)	22,574,150	15,709,225	6,864,925
Total Assets	\$ 34,871,207	\$ 22,386,800	\$ 12,484,407
Deferred Outflows of Resources	\$ 240,527	\$ 258,656	\$ (18,129)
Bonds and Lease Payable	\$ 15,433,552	\$ 7,598,800	\$ (7,834,752)
Other Liabilities	1,371,152	1,071,303	(299,849)
Total Liabilities	\$ 16,804,704	\$ 8,670,103	\$ (8,134,601)
Deferred Inflows of Resources	\$ 526,453	\$ 159,125	\$ (367,328)
Net Position:			
Net Investment in Capital Assets	\$ 12,929,121	\$ 10,334,607	\$ 2,594,514
Restricted	1,083,453	1,132,291	(48,838)
Unrestricted	3,768,003	2,349,330	1,418,673
Total Net Position	\$ 17,780,577	\$ 13,816,228	\$ 3,964,349

The following table provides a summary of the District's operations for the years ended September 30, 2022, and September 30, 2021.

	Summary of Changes in the Statement of Activities		
	2022	2021	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,220,442	\$ 1,115,650	\$ 104,792
Charges for Services	2,771,564	2,673,098	98,466
Grant Revenues	3,521,105		3,521,105
Other Revenues	93,733	186,336	(92,603)
Total Revenues	\$ 7,606,844	\$ 3,975,084	\$ 3,631,760
Expenses for Services	3,642,495	2,921,158	(721,337)
Change in Net Position	\$ 3,964,349	\$ 1,053,926	\$ 2,910,423
Net Position, Beginning of Year	13,816,228	12,762,302	1,053,926
Net Position, End of Year	\$ 17,780,577	\$ 13,816,228	\$ 3,964,349

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of September 30, 2022, were \$10,193,556, an increase of \$4,755,819 from the prior year.

The General Fund fund balance increased by \$1,257,163, primarily due to operating revenues, maintenance tax revenues and grant revenues being higher than operating costs, as well as transfers to the Capital Projects Fund.

The Debt Service Fund fund balance decreased by \$65,685, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$3,564,341, primarily due to the sale of Series 2022 bonds and the transfer of FEMA funds from the General Fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$3,526,496 more than budgeted revenues primarily due to higher than expected property tax, tap connection and inspection fees, penalty and interest revenues and the collections of grant revenues. Actual expenditures were \$159,476 less than budgeted expenditures primarily due to lower than expected personnel and contracted services.

**LONG-TERM DEBT ACTIVITY**

As of September 30, 2022, the District had total bond debt payable of \$14,820,000. The changes in the debt position of the District during the fiscal year ended September 30, 2022, are summarized as follows:

Bond Debt Payable, October 1, 2021	\$ 7,250,000
Add: Bond Sale Series 2022	8,150,000
Less: Bond Principal Paid	<u>580,000</u>
Bond Debt Payable, September 30, 2022	<u>\$ 14,820,000</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. The District's Series 2022 Bonds carry an underlying rating of "A-" issued and an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal. 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, 2022**

**LONG-TERM DEBT ACTIVITY (Continued)**

As of September 30, 2022, the District had total capital lease payable of \$223,441. The changes in the debt position of the District during the fiscal year ended September 30, 2022, are summarized as follows:

Capital Lease Payable, October 1, 2021	\$ 329,759
Less: Capital Lease Principal Paid	<u>106,318</u>
Capital Lease Payable, September 30, 2022	<u>\$ 223,441</u>

**CAPITAL ASSETS**

Capital assets as of September 30, 2022, total \$22,574,150 (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			
	2022	2021	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 105,132	\$ 105,132	\$
Construction in Progress	7,985,994	5,927,353	2,058,641
Capital Assets, Net of Accumulated Depreciation:			
Building	128,990	141,270	(12,280)
Water System	7,784,320	2,531,404	5,252,916
Sewer System	6,168,572	6,468,415	(299,843)
Right-to-Use Equipment	248,018	341,152	(93,134)
Machinery and Equipment	116,233	150,755	(34,522)
Furniture and Fixtures	591	904	(313)
Vehicles	36,300	42,840	(6,540)
	<u>\$ 22,574,150</u>	<u>\$ 15,709,225</u>	<u>\$ 6,864,925</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, 2022**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash	\$ 3,150,970	\$ 995,102
Receivables:		
Property Taxes	55,457	133,978
Penalty and Interest on Delinquent Taxes		
Service Accounts	220,979	
Grants	536,703	
Other		808
Due from Other Funds	47,062	
Prepaid Costs	27,169	75
Net Pension Assets		
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<u>\$ 4,038,340</u>	<u>\$ 1,129,963</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Pension Plan Charges	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	 <u><u>\$ 4,038,340</u></u>	 <u><u>\$ 1,129,963</u></u>

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>
\$ 6,578,962	\$ 10,725,034	\$	\$ 10,725,034
	189,435		189,435
		68,697	68,697
	220,979		220,979
	536,703		536,703
	808		808
	47,062	(47,062)	
	27,244		27,244
		528,157	528,157
		105,132	105,132
		7,985,994	7,985,994
		14,483,024	14,483,024
<u>\$ 6,578,962</u>	<u>\$ 11,747,265</u>	<u>\$ 23,123,942</u>	<u>\$ 34,871,207</u>
 <u>\$ - 0 -</u>	 <u>\$ - 0 -</u>	 <u>\$ 240,527</u>	 <u>\$ 240,527</u>
 <u>\$ 6,578,962</u>	 <u>\$ 11,747,265</u>	 <u>\$ 23,364,469</u>	 <u>\$ 35,111,734</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, 2022**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 87,515	\$
Accrued Compensated Absences	26,487	
Accrued Interest Payable		
Due to Other Funds		47,062
Due to Taxpayers		14,205
Security Deposits	398,566	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 512,568</u>	<u>\$ 61,267</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 55,457	\$ 133,978
Pension Plan Income		
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 55,457</u>	<u>\$ 133,978</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 27,169	\$ 75
Restricted for Authorized Construction		
Restricted for Debt Service		934,643
Unassigned	<u>3,443,146</u>	
<b>TOTAL FUND BALANCES</b>	<u>\$ 3,470,315</u>	<u>\$ 934,718</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 4,038,340</u>	<u>\$ 1,129,963</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 790,439	\$ 877,954	\$	\$ 877,954
	26,487		26,487
		53,940	53,940
	47,062	(47,062)	
	14,205		14,205
	398,566		398,566
		759,880	759,880
		14,673,672	14,673,672
<u>\$ 790,439</u>	<u>\$ 1,364,274</u>	<u>\$ 15,440,430</u>	<u>\$ 16,804,704</u>
\$	\$ 189,435	\$ (189,435)	\$
		526,453	526,453
<u>\$ - 0 -</u>	<u>\$ 189,435</u>	<u>\$ 337,018</u>	<u>\$ 526,453</u>
\$	\$ 27,244	\$ (27,244)	\$
5,788,523	5,788,523	(5,788,523)	
	934,643	(934,643)	
	3,443,146	(3,443,146)	
<u>\$ 5,788,523</u>	<u>\$ 10,193,556</u>	<u>\$ (10,193,556)</u>	<u>\$ - 0 -</u>
<u>\$ 6,578,962</u>	<u>\$ 11,747,265</u>		
		\$ 12,929,121	\$ 12,929,121
		1,083,453	1,083,453
		3,768,003	3,768,003
		<u>\$ 17,780,577</u>	<u>\$ 17,780,577</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, 2022**

Total Fund Balance - Governmental Funds		\$ 10,193,556
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred inflows and outflows of resources related to the pension plan activities are recorded in the government-wide financial statements.		(285,926)
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Certain assets are not available in the current period and, therefore, are not reported as assets in the governmental funds. These assets at year-end consist of net pension asset.		528,157
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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.		22,574,150
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2021 and prior tax levies became part of recognized revenue in the governmental activities of the District.		258,132
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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	\$ (53,940)	
Bonds Payable	<u>(15,433,552)</u>	<u>(15,487,492)</u>

Total Net Position - Governmental Activities		<u>\$ 17,780,577</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, 2022**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 319,744	\$ 860,915
Service Revenues	2,544,078	
Penalty and Interest	63,218	41,417
Tap Connection and Inspection Fees	109,945	
Grant Revenues	3,521,105	
Investment and Miscellaneous Revenues	24,554	5,165
<b>TOTAL REVENUES</b>	<u>\$ 6,582,644</u>	<u>\$ 907,497</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Personnel Expenditures	\$ 949,385	\$
Professional Fees	71,482	13,065
Contracted Services	178,306	20,771
Purchased Water Services	452,361	
Utilities	115,408	
Repair and Maintenance	130,665	
Depreciation		
Other	338,106	8,990
Capital Outlay		
Debt Service:		
Principal	106,318	580,000
Interest	11,047	350,356
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 2,353,078</u>	<u>\$ 973,182</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<u>\$ 4,229,566</u>	<u>\$ (65,685)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In(Out)	\$ (2,972,403)	\$
Proceeds from Long-Term Debt		
Bond Premium		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ (2,972,403)</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 1,257,163	\$ (65,685)
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - OCTOBER 1, 2021</b>	<u>2,213,152</u>	<u>1,000,403</u>
<b>FUND BALANCES/NET POSITION - SEPTEMBER 30, 2022</b>	<u><u>\$ 3,470,315</u></u>	<u><u>\$ 934,718</u></u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,180,659	\$ 39,783	\$ 1,220,442
	2,544,078		2,544,078
	104,635	12,906	117,541
	109,945		109,945
	3,521,105		3,521,105
64,014	93,733		93,733
<u>\$ 64,014</u>	<u>\$ 7,554,155</u>	<u>\$ 52,689</u>	<u>\$ 7,606,844</u>
\$	\$ 949,385	\$ (151,002)	\$ 798,383
6,423	90,970		90,970
	199,077		199,077
	452,361		452,361
	115,408		115,408
	130,665	83,818	214,483
		690,337	690,337
	347,096		347,096
7,639,080	7,639,080	(7,639,080)	
	686,318	(686,318)	
	361,403	(2,865)	358,538
375,842	375,842		375,842
<u>\$ 8,021,345</u>	<u>\$ 11,347,605</u>	<u>\$ (7,705,110)</u>	<u>\$ 3,642,495</u>
\$ (7,957,331)	\$ (3,793,450)	\$ 7,757,799	\$ 3,964,349
\$ 2,972,403	\$	\$	\$
8,150,000	8,150,000	(8,150,000)	
399,269	399,269	(399,269)	
<u>\$ 11,521,672</u>	<u>\$ 8,549,269</u>	<u>\$ (8,549,269)</u>	<u>\$ - 0 -</u>
\$ 3,564,341	\$ 4,755,819	\$ (4,755,819)	\$
		3,964,349	3,964,349
2,224,182	5,437,737	8,378,491	13,816,228
<u>\$ 5,788,523</u>	<u>\$ 10,193,556</u>	<u>\$ 7,587,021</u>	<u>\$ 17,780,577</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, 2022**

Net Change in Fund Balances - Governmental Funds	\$	4,755,819
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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.		39,783
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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.		12,906
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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.		(690,337)
--	--	-----------

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.		7,555,262
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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.		151,002
--	--	---------

Governmental funds report bond premiums as other financing sources in the year received. However, in the Statement of Net Position bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		(399,269)
--	--	-----------

Governmental funds report principal payments as expenditures. However, in the Statement of Net Position, principal payments are reported as decreases in long-term liabilities.		686,318
---	--	---------

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.		2,865
---	--	-------

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(8,150,000)
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Change in Net Position - Governmental Activities	\$	<u>3,964,349</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, 2022**

**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, 2022**

**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, 2022**

**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, 2022**

**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:

	<u>Years</u>
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, 2022**

**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, 2022**

**NOTE 3. LONG-TERM DEBT**

	Refunding Series 2013	Series 2015
Amount Outstanding – September 30, 2022	\$ 260,000	\$ 6,410,000
Interest Rates	3.00%	3.00% - 3.50%
Maturity Date	February 15, 2023/2023	February 15, 2023/2037
Interest Payment Dates	February 15/ August 15	February 15/ August 15
Callable Dates	February 15, 2022*	February 15, 2026*
		Series 2022
Amount Outstanding – September 30, 2022		\$ 8,150,000
Interest Rates		2.00% - 4.00%
Maturity Date		February 15, 2023/2042
Interest Payment Dates		February 15/ August 15
Callable Dates		February 15, 2031*

\* 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 began in June of 2021. The General Fund provides the resources to pay the lease payments.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 3. LONG-TERM DEBT (Continued)**

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2022:

	October 1, 2021	Additions	Retirements	September 30, 2022
Bonds Payable	\$ 7,250,000	\$ 8,150,000	\$ 580,000	\$ 14,820,000
Capital Lease - Meters	329,759		106,318	223,441
Unamortized Discounts	(58,814)		7,452	(66,266)
Unamortized Premiums	77,855	399,269	20,747	456,377
Total Long-Term Liabilities	<u>\$ 7,598,800</u>	<u>\$ 8,549,269</u>	<u>\$ 714,517</u>	<u>\$ 15,433,552</u>
			Amount Due Within One Year	\$ 759,880
			Amount Due After One Year	14,673,672
			Total Bonds Payable	<u>\$ 15,433,552</u>

As of September 30, 2022, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 650,000	\$ 421,520	\$ 1,071,520
2024	670,000	399,870	1,069,870
2025	695,000	376,145	1,071,145
2026	720,000	351,545	1,071,545
2027	745,000	326,045	1,071,045
2028-2032	4,105,000	1,237,444	5,342,444
2033-2037	4,735,000	615,037	5,350,037
2038-2042	2,500,000	256,602	2,756,602
	<u>\$ 14,820,000</u>	<u>\$ 3,984,208</u>	<u>\$ 18,804,208</u>

As of September 30, 2022, the debt service requirements on the lease payments outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 109,880	\$ 7,485	\$ 117,365
2024	113,561	3,804	117,365
	<u>\$ 223,441</u>	<u>\$ 11,289</u>	<u>\$ 234,730</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 3. LONG-TERM DEBT (Continued)**

As of September 30, 2022, the District does not have any authorized but unissued bonds.

During the year ended September 30, 2022, the District levied ad valorem debt service tax rate of \$0.248 per \$100 of assessed valuation, which resulted in a levy of \$893,824 on the adjusted taxable valuation of \$360,318,456 for the 2021 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.

**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.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**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 \$10,725,034 and the bank balance was \$10,759,978. 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, 2022, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 3,150,970
DEBT SERVICE FUND	995,102
CAPITAL PROJECTS FUND	<u>6,578,962</u>
TOTAL DEPOSITS	<u><u>\$ 10,725,034</u></u>

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.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

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

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

As of September 30, 2022, the District did not own any investments.

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.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2022 is as follows:

	October 1, 2021	Increases	Decreases	September 30, 2022
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 105,132	\$	\$	\$ 105,132
Construction in Progress	5,927,353	7,555,262	5,496,621	7,985,994
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 6,032,485</b>	<b>\$ 7,555,262</b>	<b>\$ 5,496,621</b>	<b>\$ 8,091,126</b>
<b>Capital Assets Subject to Depreciation</b>				
Building	\$ 346,200	\$	\$	\$ 346,200
Water System	4,251,167	5,427,414		9,678,581
Sewer System	15,334,634	69,207		15,403,841
Right-to-Use Equipment	931,342			931,342
Machinery and Equipment	467,642			467,642
Furniture and Fixtures	5,688			5,688
Vehicles	139,050			139,050
<b>Total Capital Assets Subject to Depreciation</b>	<b>\$ 21,475,723</b>	<b>\$ 5,496,621</b>	<b>\$ - 0 -</b>	<b>\$ 26,972,344</b>
<b>Accumulated Depreciation</b>				
Building	\$ 204,930	\$ 12,280	\$	\$ 217,210
Water System	1,719,763	174,498		1,894,261
Sewer System	8,866,219	369,050		9,235,269
Right-to-Use Equipment	590,190	93,134		683,324
Machinery and Equipment	316,887	34,522		351,409
Furniture and Fixtures	4,784	313		5,097
Vehicles	96,210	6,540		102,750
<b>Total Accumulated Depreciation</b>	<b>\$ 11,798,983</b>	<b>\$ 690,337</b>	<b>\$ - 0 -</b>	<b>\$ 12,489,320</b>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 9,676,740</b>	<b>\$ 4,806,284</b>	<b>\$ - 0 -</b>	<b>\$ 14,483,024</b>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 15,709,225</b>	<b>\$ 12,361,546</b>	<b>\$ 5,496,621</b>	<b>\$ 22,574,150</b>

**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, 2022, the District levied a maintenance tax rate of \$0.092 per \$100 of assessed valuation, which resulted in a tax levy of \$331,580 on the adjusted taxable valuation of \$360,318,456 for the 2021 tax year.



**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**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 800 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](http://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.

At September 30, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	<u>5</u>
Inactive employees entitled but not yet receiving benefits	<u>12</u>
Active employees	<u>12</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 8. PENSION PLAN (Continued)**

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 2022 accounting year and the 2021 accounting year. The deposit rate payable by the employee members for calendar years 2021 and 2022 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, 2022, the annual pension cost for the TCDRS plan for its employees was \$94,745 and the actual contributions were \$94,745.

Actuarial Assumptions

The total pension liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumption:

Actuarial valuation date	12/31/21
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment return <sup>1</sup>	7.50%
Projected salary increases <sup>1</sup>	4.70%
Inflation	2.50%
Cost-of-living adjustments	0.00%

<sup>1</sup> Includes inflation at the stated rate

The demographic assumptions were developed from an actual experience investigation of TCDRS over the years 2017-2020. They were recommended by Milliman and adopted by the TCDRS Board of Trustees in December of 2021. All economic assumptions were recommended by Milliman and adopted by the TCDRS Board of Trustees in March of 2021. These assumptions, except where required to be different by GASB 68, are used to determine the total pension liability as of December 31, 2021. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 8. PENSION PLAN (Continued)**

Mortality rates were based on the following:

Depositing members – 135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% of Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate Scale after 2010.

Service retirees, beneficiaries and non-depositing members – 135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% of Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Disabled retirees - 160% of the Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

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, 2022**

**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, 2022**

**NOTE 8. PENSION PLAN (Continued)**

Therefore, we have used a discount rate of 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, 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 January 2022 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 based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. Milliman relies on the expertise of Cliffwater in this assessment.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	11.50%	3.80%
Global Equities	2.50%	4.10%
International Equities-Development	5.00%	3.80%
International Equities-Emerging	6.00%	4.30%
Investment-Grade Bonds	3.00%	-0.85%
Strategic Credit	9.00%	1.77%
Direct Lending	16.00%	6.25%
Distressed Debt	4.00%	4.50%
REIT Equities	2.00%	3.10%
Master Limited Partnerships (MLPs)	2.00%	3.85%
Private Real Estate Partnerships	6.00%	5.10%
Private Equity	25.00%	6.80%
Hedge Funds	6.00%	1.55%
Cash Equivalents	2.00%	-1.05%

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**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, 2020	\$ 3,684,058	\$ 3,675,756	\$ 8,302
Changes for the year:			
Service Costs	86,427		86,427
Interest on the Total Pension Liability	280,209		280,209
Effect of Economic/Demographic Gains or Losses	30,250		30,250
Effect of Assumptions Changes or Inputs	(3,196)		(3,196)
Refund of Contributions	(4,043)	(4,043)	
Benefit Payments	(166,121)	(166,121)	
Administrative Expenses		(2,400)	2,400
Member Contributions		43,306	(43,306)
Net investment income		802,758	(802,758)
Employer Contributions		86,613	(86,613)
Other		(128)	128
Balances of December 31, 2021	<u>\$ 3,907,584</u>	<u>\$ 4,435,741</u>	<u>\$ (528,157)</u>

Sensitivity Analysis - The following presents the net pension liability of the District, calculated using the discount rate of 7.60%, 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 (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.60%	7.60%	8.60%
Total pension liability	\$ 4,414,054	\$ 3,907,584	\$ 3,479,524
Fiduciary net position	<u>4,435,741</u>	<u>4,435,741</u>	<u>4,435,741</u>
Net pension liability	<u>\$ (21,687)</u>	<u>\$ (528,157)</u>	<u>\$ (956,217)</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 8. PENSION PLAN (Continued)**

As of December 31, 2021, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of resources	Deferred Outflows of resources
Differences between expected and actual experience	\$ 19,796	\$ 42,446
Changes in assumptions	2,397	124,169
Net difference between projected and actual earnings	504,260	
Contributions paid to TCDRS subsequent to the measurement date		73,912
Total	<u>\$ 526,453</u>	<u>\$ 240,527</u>

The District made plan contributions subsequent to the measurement date and prior to the District fiscal year-end of \$73,912, 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:	
2022	\$ (67,232)
2023	(117,386)
2024	(68,150)
2025	(107,070)
2026	-0-
Thereafter	-0-

**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 \$89,632 as of September 30, 2022, 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. PUBLIC ASSISTANCE GRANT**

On October 25, 2019, the Department of Public Safety/Texas Department of Emergency Management (TDEM) awarded Public Assistance to the District in the amount of \$4,069,615 for the design and construction of wastewater treatment plant improvements. The grant pays 90% of eligible costs up to a maximum of \$3,662,654. The District is responsible for the other 10% plus any amounts over the original estimated project cost, or at least \$406,961 in matching funds. As of September 30, 2022, the District has been awarded TEDM grant monies totaling \$3,662,654, of which \$3,521,105 relates to the current year.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 11. PURCHASE WATER AGREEMENT**

The District entered into an agreement with the Baytown Area Water Authority (“BAWA”) in September, 1993, to purchase at lease 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 \$3.12 per thousand gallons at September 30, 2022. The District’s cost for such water during the current year was \$452,361. 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, PAYABLES AND TRANSFERS**

As of September 30, 2022, the Debt Service Fund recorded a payable to the General Fund in the amount of \$47,062 for maintenance tax collections. During the current fiscal year, the General Fund recorded transfers totaling \$3,002,403 to the Capital Projects Fund for grant revenues to be applied toward the wastewater treatment plant improvements. The Capital Projects Fund transferred \$30,000 to the General Fund to reimburse for bond issuance costs paid in the prior fiscal year.



**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**NOTE 14. GROUP TERM LIFE INSURANCE**

The District participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees.

The GTLF is a separate trust administered by the TCDRS board of trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report is available at [www.tcdrs.org](http://www.tcdrs.org). TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System; P.O. Box 2034, Austin, TX 78768-2034, or by calling 800~823-7782.

*Funding Policy:* Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The District's contribution to the GTLF for the years ending September 30, 2022, 2021, and 2020 were \$812, \$717 and \$662, respectively, which equaled the contractually required contribution.

**NOTE 15. BOND SALE**

On January 12, 2022, the District closed on the sale of its Unlimited Tax Bonds, Series 2022 in the amount of \$8,150,000. Proceeds from the bond sale will be used to fund construction and engineering costs associated with the following: wastewater treatment plant improvements, phases 1 and 2; sanitary sewer improvements; and waterline improvements, phases 1 and 2. Additional bond proceeds will be used to pay for issuance costs of the bonds.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2022**

**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, 2022**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Property Taxes	\$ 332,738	\$ 319,744	\$ (12,994)
Service Revenues	2,604,735	2,544,078	(60,657)
Tap Connection and Inspection Fees	57,275	109,945	52,670
Penalty and Interest	58,000	63,218	5,218
Grant Revenues		3,521,105	3,521,105
Investment and Miscellaneous Revenues	<u>3,400</u>	<u>24,554</u>	<u>21,154</u>
<b>TOTAL REVENUES</b>	<u>\$ 3,056,148</u>	<u>\$ 6,582,644</u>	<u>\$ 3,526,496</u>
<b>EXPENDITURES</b>			
Service Operations:			
Personnel Expenditures	\$ 1,124,064	\$ 949,385	\$ 174,679
Professional Fees	78,500	71,482	7,018
Contracted Services	262,978	178,306	84,672
Purchased Water Services	362,170	452,361	(90,191)
Utilities	164,751	115,408	49,343
Repair and Maintenance	159,060	130,665	28,395
Other	361,031	338,106	22,925
Debt Service: Payments AMI Meters		<u>117,365</u>	<u>(117,365)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,512,554</u>	<u>\$ 2,353,078</u>	<u>\$ 159,476</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 543,594</u>	<u>\$ 4,229,566</u>	<u>\$ 3,685,972</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In(Out)	<u>\$ (600,000)</u>	<u>\$ (2,972,403)</u>	<u>\$ (2,372,403)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (56,406)</u>	<u>\$ 1,257,163</u>	<u>\$ 1,313,569</u>
<b>FUND BALANCE - OCTOBER 1, 2021</b>	<u>2,213,152</u>	<u>2,213,152</u>	
<b>FUND BALANCE - SEPTEMBER 30, 2022</b>	<u>\$ 2,156,746</u>	<u>\$ 3,470,315</u>	<u>\$ 1,313,569</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
SEPTEMBER 30, 2022**

	Year Ended December 31, 2021	Year Ended December 31, 2020
<b>Total Pension Liability</b>		
Service Cost	\$ 86,427	\$ 75,880
Interest (on the Total Pension Liability)	280,209	265,734
Effect on plan changes		
Changes of assumptions	(3,196)	204,525
Effect of economic/demographic gains or losses	30,250	16,286
Benefit payments, including refunds of employee contributions	<u>(170,164)</u>	<u>(163,126)</u>
Net change in total pension liability	\$ 223,526	\$ 399,299
Total pension liability, beginning	<u>3,684,058</u>	<u>3,284,759</u>
Total pension liability, ending (a)	<u>\$ 3,907,584</u>	<u>\$ 3,684,058</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 86,613	\$ 84,034
Contributions - employee	43,306	42,017
Net investment income	802,758	347,901
Benefit payments, including refunds of employee contributions	(170,164)	(163,126)
Administrative Expense	(2,400)	(2,690)
Other	<u>(128)</u>	<u>(763)</u>
Net Change in plan fiduciary net position	\$ 759,985	\$ 307,373
Plan Fiduciary net position, beginning	<u>3,675,756</u>	<u>3,368,383</u>
Plan Fiduciary net position, ending (b)	<u>\$ 4,435,741</u>	<u>\$ 3,675,756</u>
<b>Net Pension Liability/(Asset), Ending = (a) - (b)</b>	<u>\$ (528,157)</u>	<u>\$ 8,302</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	113.52%	99.77%
<b>Covered-employee payroll</b>	\$ 618,663	\$ 600,244
<b>Net pension liability as a percentage of covered employee payroll</b>	-85.37%	1.38%

Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
\$ 71,067 253,296	\$ 63,713 238,888	\$ 58,679 235,573	\$ 63,845 224,728	\$ 52,449 209,775 (13,223) 17,805
(14,478)	23,307	(53,297)	(18,480)	(44,905)
<u>(159,229)</u>	<u>(151,706)</u>	<u>(273,511)</u>	<u>(57,864)</u>	<u>(24,058)</u>
\$ 150,656	\$ 174,202	\$ (23,822)	\$ 212,229	\$ 197,843
<u>3,134,103</u>	<u>2,959,901</u>	<u>2,983,723</u>	<u>2,771,494</u>	<u>2,573,651</u>
<u>\$ 3,284,759</u>	<u>\$ 3,134,103</u>	<u>\$ 2,959,901</u>	<u>\$ 2,983,723</u>	<u>\$ 2,771,494</u>
\$ 76,300 38,150 481,997	\$ 74,473 37,236 (56,989)	\$ 74,328 37,164 405,479	\$ 70,611 35,305 189,763	\$ 72,512 36,256 (34,211)
(159,229)	(151,706)	(273,511)	(57,864)	(24,058)
(2,567)	(2,357)	(2,018)	(2,063)	(1,835)
<u>(1,064)</u>	<u>(886)</u>	<u>(2,191)</u>	<u>(6,210)</u>	<u>(18,941)</u>
\$ 433,587	\$ (100,229)	\$ 239,251	\$ 229,542	\$ 29,723
<u>2,934,796</u>	<u>3,035,025</u>	<u>2,795,774</u>	<u>2,566,232</u>	<u>2,536,509</u>
<u>\$ 3,368,383</u>	<u>\$ 2,934,796</u>	<u>\$ 3,035,025</u>	<u>\$ 2,795,774</u>	<u>\$ 2,566,232</u>
<u>\$ (83,624)</u>	<u>\$ 199,307</u>	<u>\$ (75,124)</u>	<u>\$ 187,949</u>	<u>\$ 205,262</u>
102.55%	93.64%	102.54%	93.70%	92.59%
\$ 505,004	\$ 531,949	\$ 530,913	\$ 504,363	\$ 517,942
-16.56%	37.47%	-14.15%	37.26%	39.63%

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF DISTRICT CONTRIBUTIONS – PENSION  
SEPTEMBER 30, 2022**

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
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	\$ 48,260	\$ 84,034	\$ (35,774)	\$ 600,244	14.00%
2021	\$ 43,554	\$ 86,613	\$ (43,059)	\$ 618,663	14.00%
2022	\$ 94,745	\$ 94,745	\$ - 0 -	\$ 676,743	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.
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**Methods and assumptions used to determine contribution rates:**

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	3.1 years (based on contribution rate calculated in 12/31/2021 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation.
Investment Rate of Return	7.50%, 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	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 Healthy General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale of 2010.
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. 2019: New inflation, mortality and other 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. 2020: No changes in plan provisions were reflected in the schedule. 2021: 2020: 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 *GOVERNMENT AUDITING STANDARDS***

**SEPTEMBER 30, 2022**

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708

PO Box 29584  
Austin, TX 78755-5126  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Harris County Water Control and Improvement District ("the District") as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, 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.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



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

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

January 31, 2023

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708

PO Box 29584  
Austin, TX 78755-5126  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control  
over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited Harris County Water Control and Improvement District's (the "District") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 30, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

### **Auditor's Responsibility for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control Over Compliance**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston Texas

January 31, 2023

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
Department of Homeland Security Federal Emergency Management Agency Disaster Grants			
Public Assistance Program pass through Texas Department of Emergency Management	97.036	Federal Award ID Number DR-4332-TX	<u>\$ 3,521,105</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal award includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**NOTE 2. PUBLIC ASSISTANCE GRANT**

On October 25, 2019, the Department of Public Safety/Texas Department of Emergency Management (TDEM) awarded Public Assistance to the District in the amount of \$4,069,615 for the design and construction of wastewater treatment plant improvements. The grant pays 90% of eligible costs up to a maximum of \$3,662,654. The District is responsible for the other 10% plus any amounts over the original estimated project cost, or at least \$406,961 in matching funds. As of September 30, 2022, the District has been awarded TEDM grant monies totaling \$3,662,654, of which \$3,521,105 relates to the current year.

**NOTE 3. MATCHING COSTS**

Matching Costs, the nonfederal share of certain program costs, are not included on the Schedule.

**NOTE 4. INDIRECT COSTS**

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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**Section I — Summary of Auditor's Results**

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***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  
\_\_\_\_\_ yes   X   no
- Significant deficiencies(s) identified that are not considered to be material weaknesses?  
\_\_\_\_\_ yes   X   None reported
- Noncompliance material to financial statements noted?  
\_\_\_\_\_ yes   X   no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?  
\_\_\_\_\_ yes   X   no
- Significant deficiencies(s) identified that are not considered to be material weakness(es)?  
yes   X   None reported
- Type of auditor's report issued on compliance for major programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 of Uniform Guidance \_\_\_\_\_ yes   X   no

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

---

Identification of major programs:

*CFDA Number(s) Name of Federal Program or Cluster*

**97.036            Department of Homeland Security's Disaster Grants Public Assistance**

---

Dollar threshold used to distinguish

between type A and type B programs:    \$750,000

Audited Qualified as low-risk auditee?           yes      X   no



**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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**Section II — Financial Statement Findings**

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None

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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**Section III — Federal Award Findings and Questioned Costs**

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None

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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None

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

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

**SEPTEMBER 30, 2022**



**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

**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"	<u>2,542</u>	<u>2,330</u>	x 1.0	<u>2,330</u>
1"	<u>24</u>	<u>24</u>	x 2.5	<u>60</u>
1½"	<u>10</u>	<u>10</u>	x 5.0	<u>50</u>
2"	<u>38</u>	<u>38</u>	x 8.0	<u>304</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	<u>4</u>	<u>4</u>	x 50.0	<u>200</u>
8"	<u>2</u>	<u>2</u>	x 80.0	<u>160</u>
10"			x 115.0	
Total Water Connections	<u>2,623</u>	<u>2,411</u>		<u>3,169</u>
Total Wastewater Connections	<u>2,748</u>	<u>2,573</u>	x 1.0	<u>2,573</u>

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

Gallons pumped into system:	96,088,000	Water Accountability Ratio: 76% (Gallons billed/Gallons pumped and purchased)
Gallons purchased:	144,998,000	<u>From: Baytown Area Water Authority</u>
Total gallons pumped and purchased	241,086,000	
Gallons billed to customers and used for maintenance:	184,019,000	

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

**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, 2022**

PERSONNEL EXPENDITURES (Including Benefits)	<u>\$ 949,385</u>
PROFESSIONAL FEES:	
Auditing	\$ 20,000
Engineering	34,419
Attorney	<u>17,063</u>
TOTAL PROFESSIONAL FEES	<u>\$ 71,482</u>
PURCHASED WATER SERVICE	<u>\$ 452,361</u>
CONTRACTED SERVICES	
Contract Labor	<u>\$ 178,306</u>
UTILITIES	<u>\$ 115,408</u>
REPAIRS AND MAINTENANCE	<u>\$ 130,665</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 9,450
Insurance	107,371
Office Supplies and Postage	24,086
Travel and Meetings	<u>591</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 141,498</u>
OTHER EXPENDITURES:	
Chemicals	\$ 51,212
Fuels and Lubricants	35,019
Regulatory Assessment	82,012
Other	<u>28,365</u>
TOTAL OTHER EXPENDITURES	<u>\$ 196,608</u>
DEBT SERVICE:	
Capital Lease Principal	106,318
Capital Lease Interest	<u>11,047</u>
TOTAL DEBT SERVICE	<u>\$ 117,365</u>
TOTAL EXPENDITURES	<u>\$ 2,353,078</u>

Number of persons employed by the District      12 Full-Time      -0- Part-Time

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, 2022**

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
OCTOBER 1, 2021	\$	44,949	\$	104,703
Adjustments to Beginning				
Balance		<u>(1,328)</u>		<u>(3,634)</u>
	\$	43,621	\$	101,069
Original 2021 Tax Levy	\$	303,027	\$	816,856
Adjustment to 2021 Tax Levy		<u>28,553</u>		<u>76,968</u>
		331,580		893,824
TOTAL TO BE				
ACCOUNTED FOR		\$ 375,201		\$ 994,893
TAX COLLECTIONS:				
Prior Years	\$	8,189	\$	21,072
Current Year		<u>311,555</u>		<u>839,843</u>
		319,744		860,915
TAXES RECEIVABLE -				
SEPTEMBER 30, 2022		<u>\$ 55,457</u>		<u>\$ 133,978</u>
TAXES RECEIVABLE BY				
YEAR:				
2021	\$	20,025	\$	53,981
2020		9,376		26,654
2019		6,755		18,100
2018		3,626		9,560
2017		2,729		8,573
2016		1,881		2,257
2015		1,627		1,953
2014		1,155		1,386
2013		1,107		1,329
2012		933		1,213
2011		1,818		2,727
2010		1,884		2,827
2009		487		730
2008		375		563
2007		474		853
2006		413		743
2005 and prior		<u>792</u>		<u>1,529</u>
TOTAL	\$	<u>55,457</u>	\$	<u>134,978</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, 2022**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
PROPERTY VALUATIONS:				
Land	\$ 118,493,938	\$ 106,174,716	\$ 106,856,706	\$ 86,645,569
Improvements	254,137,768	235,571,221	220,443,540	210,001,125
Personal Property	70,714,787	67,228,274	73,849,291	73,065,450
Exemptions	<u>(83,028,037)</u>	<u>(79,596,784)</u>	<u>(77,298,933)</u>	<u>(72,089,870)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 360,318,456</u>	<u>\$ 329,377,427</u>	<u>\$ 323,850,604</u>	<u>\$ 297,622,274</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.248	\$ 0.249	\$ 0.26216	\$ 0.261
Maintenance	<u>0.092</u>	<u>0.091</u>	<u>0.09784</u>	<u>0.099</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.340</u>	<u>\$ 0.340</u>	<u>\$ 0.36000</u>	<u>\$ 0.360</u>
ADJUSTED TAX LEVY*	<u>\$ 1,225,404</u>	<u>\$ 1,115,631</u>	<u>\$ 1,165,862</u>	<u>\$ 1,071,440</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>93.96 %</u>	<u>96.77 %</u>	<u>97.87 %</u>	<u>98.77 %</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, 2022**

S E R I E S - 2 0 1 3 R E F U N D I N G			
Due During Fiscal Years Ending September 30	Principal Due February 15	Interest Due February 15/ August 15	Total
2023	\$ 260,000	\$ 3,900	\$ 263,900
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
	<u>\$ 260,000</u>	<u>\$ 3,900</u>	<u>\$ 263,900</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
LONG-TERM DEBT SERVICE REQUIREMENTS  
SEPTEMBER 30, 2022**

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
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
2038			
2039			
2040			
2041			
2042			
	<u>\$ 6,410,000</u>	<u>\$ 1,698,956</u>	<u>\$ 8,108,956</u>

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
LONG-TERM DEBT SERVICE REQUIREMENTS  
SEPTEMBER 30, 2022**

S E R I E S - 2 0 2 2			
Due During Fiscal Years Ending September 30	Principal Due February 15	Interest Due February 15/ August 15	Total
2023	50,000	219,075	269,075
2024	320,000	211,675	531,675
2025	330,000	198,675	528,675
2026	345,000	185,175	530,175
2027	360,000	171,075	531,075
2028	370,000	156,475	526,475
2029	385,000	141,375	526,375
2030	400,000	127,675	527,675
2031	415,000	115,450	530,450
2032	425,000	104,975	529,975
2033	430,000	96,425	526,425
2034	440,000	87,725	527,725
2035	450,000	78,825	528,825
2036	460,000	69,725	529,725
2037	470,000	60,425	530,425
2038	480,000	50,925	530,925
2039	490,000	40,919	530,919
2040	500,000	140,177	640,177
2041	510,000	18,406	528,406
2042	520,000	6,175	526,175
	<u>\$ 8,150,000</u>	<u>\$ 2,281,352</u>	<u>\$ 10,431,352</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, 2022**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2023	\$ 650,000	\$ 421,520	\$ 1,071,520
2024	670,000	399,870	1,069,870
2025	695,000	376,145	1,071,145
2026	720,000	351,545	1,071,545
2027	745,000	326,045	1,071,045
2028	765,000	299,745	1,064,745
2029	795,000	272,570	1,067,570
2030	820,000	246,420	1,066,420
2031	850,000	221,370	1,071,370
2032	875,000	197,339	1,072,339
2033	895,000	174,201	1,069,201
2034	920,000	149,785	1,069,785
2035	945,000	124,063	1,069,063
2036	975,000	97,288	1,072,288
2037	1,000,000	69,700	1,069,700
2038	480,000	50,925	530,925
2039	490,000	40,919	530,919
2040	500,000	140,177	640,177
2041	510,000	18,406	528,406
2042	520,000	6,175	526,175
	<u>\$ 14,820,000</u>	<u>\$ 3,984,208</u>	<u>\$ 18,804,208</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, 2022**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2021
Harris County Water Control and Improvement District No. 1 Unlimited Tax Refunding Bonds - Series 2013	\$ 2,215,000	\$ 510,000
Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2017	7,850,000	6,740,000
Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2022	8,150,000	
<b>TOTAL</b>	<u>\$ 18,215,000</u>	<u>\$ 7,250,000</u>

Bond Authority:	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 19,000,000
Amount Issued	<u>19,000,000</u>
Remaining to be Issued	<u>\$ - 0 -</u>

Debt Service Fund cash and investment balances as of September 30, 2022: \$ 995,102

Average annual debt service payment (principal and interest) for remaining term  
of all debt: \$ 940,210

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, 2022</u>	<u>Paying Agent</u>	
	<u>Principal</u>	<u>Interest</u>			
\$	\$ 250,000	\$ 11,550	\$ 260,000	Bank of Texas, NA Austin, TX	
	330,000	208,595	6,410,000	BOKF, NA Austin, TX	
<u>8,150,000</u>		<u>130,211</u>	<u>8,150,000</u>	BOKF, NA Dallas, TX	
<u>\$ 8,150,000</u>	<u>\$ 580,000</u>	<u>\$ 350,356</u>	<u>\$ 14,820,000</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		
	2022	2021	2020*
<b>REVENUES</b>			
Property Taxes	\$ 319,744	\$ 294,559	\$ 316,809
Service Revenues	2,544,078	2,516,216	2,467,106
Tap Connection and Inspection Fees	109,945	48,411	24,680
Penalty and Interest	63,218	62,530	61,182
Grant Revenues	3,521,105		
Investment and Miscellaneous Revenues	24,554	179,892	179,368
<b>TOTAL REVENUES</b>	<u>\$ 6,582,644</u>	<u>\$ 3,101,608</u>	<u>\$ 3,049,145</u>
<b>EXPENDITURES</b>			
Personnel	\$ 949,385	\$ 918,143	\$ 792,542
Professional Fees	71,482	80,615	40,517
Contracted Services	115,408	110,105	109,779
Purchased Water Services	452,361	431,176	541,230
Utilities	178,306	178,716	191,265
Repair and Maintenance	130,665	119,613	117,944
Other	338,106	253,291	236,261
Capital Outlay		111,743	67,489
Debt Service:			
Principal	106,318	102,871	99,537
Interest	11,047	14,493	17,828
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,353,078</u>	<u>\$ 2,320,766</u>	<u>\$ 2,214,392</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 4,229,566</u>	<u>\$ 780,842</u>	<u>\$ 834,753</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	\$ (2,972,403)	\$ (2,040,992)	\$
Insurance Proceeds			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ (2,972,403)</u>	<u>\$ (2,040,992)</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 1,257,163	\$ (1,260,150)	\$ 834,753
<b>BEGINNING FUND BALANCE</b>	<u>2,213,152</u>	<u>3,473,302</u>	<u>2,638,549</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 3,470,315</u>	<u>\$ 2,213,152</u>	<u>\$ 3,473,302</u>

\*As Adjusted

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2019	2018	2022	2021	2020*	2019	2018
\$ 294,308	\$ 273,430	4.9 %	9.5 %	10.4 %	10.4 %	9.4 %
2,340,721	2,376,554	38.6	81.1	80.9	83.2	82.3
34,195	40,445	1.7	1.6	0.8	1.2	1.4
128,629	94,396	1.0	2.0	2.0	4.6	3.3
	89,534	53.4				3.1
16,708	14,164	0.4	5.8	5.9	0.6	0.5
<u>\$ 2,814,561</u>	<u>\$ 2,888,523</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 806,152	\$ 781,502	14.4 %	29.6 %	26.0 %	28.6 %	27.1 %
49,968	71,033	1.1	2.6	1.3	1.8	2.5
196,057	129,560	1.8	3.5	3.6	7.0	4.5
538,739	546,274	6.9	13.9	17.8	19.1	18.9
120,625	104,912	2.7	5.8	6.3	4.3	3.6
210,877	237,998	2.0	3.9	3.9	7.5	8.2
154,877	150,060	5.1	8.2	7.7	5.5	5.2
116,443	55,408		3.6	2.2	4.1	1.9
		1.6	3.3	3.3		
		<u>0.2</u>	<u>0.5</u>	<u>0.6</u>		
<u>\$ 2,193,738</u>	<u>\$ 2,076,747</u>	<u>35.8 %</u>	<u>74.9 %</u>	<u>72.7 %</u>	<u>77.9 %</u>	<u>71.9 %</u>
<u>\$ 620,823</u>	<u>\$ 811,776</u>	<u>64.2 %</u>	<u>25.1 %</u>	<u>27.3 %</u>	<u>22.1 %</u>	<u>28.1 %</u>
\$ (317,365)	\$ (637,365)					
	394,937					
<u>\$ (317,365)</u>	<u>\$ (242,428)</u>					
\$ 303,458	\$ 569,348					
2,335,091	1,765,743					
<u>\$ 2,638,549</u>	<u>\$ 2,335,091</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		
	2022	2021	2020*
<b>REVENUES</b>			
Property Taxes	\$ 860,915	\$ 803,712	\$ 842,665
Penalty and Interest	41,417	36,203	42,230
Investment and Miscellaneous Revenues	5,165	2,094	15,907
<b>TOTAL REVENUES</b>	<u>\$ 907,497</u>	<u>\$ 842,009</u>	<u>\$ 900,802</u>
<b>EXPENDITURES</b>			
Tax Collectoin Expenditures	\$ 42,026	\$ 40,935	\$ 41,520
Debt Service Principal	580,000	560,000	545,000
Debt Service Interest and Fees	351,156	238,045	254,620
<b>TOTAL EXPENDITURES</b>	<u>\$ 973,182</u>	<u>\$ 838,980</u>	<u>\$ 841,140</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (65,685)</u>	<u>\$ 3,029</u>	<u>\$ 59,662</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (65,685)	\$ 3,029	\$ 59,662
<b>BEGINNING FUND BALANCE</b>	<u>1,000,403</u>	<u>997,374</u>	<u>937,712</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 934,718</u>	<u>\$ 1,000,403</u>	<u>\$ 997,374</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>2,411</u>	<u>2,399</u>	<u>2,379</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>2,573</u>	<u>2,561</u>	<u>2,541</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2019	2018	2022	2021	2020*	2019	2018
\$ 772,547	\$ 837,706	94.8 %	95.5 %	93.5 %	92.0 %	96.1 %
67,206	33,699	4.6	4.3	4.7	8.0	3.9
275	6	0.6	0.2	1.8		
<u>\$ 840,028</u>	<u>\$ 871,411</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 57,699	\$ 42,800	4.6 %	4.9 %	4.6 %	6.9 %	4.9 %
626,311	478,189	63.9	66.5	60.5	74.6	54.9
290,674	449,314	38.7	28.3	28.3	34.6	51.6
<u>\$ 974,684</u>	<u>\$ 970,303</u>	<u>107.2 %</u>	<u>99.7 %</u>	<u>93.4 %</u>	<u>116.1 %</u>	<u>111.4 %</u>
<u>\$ (134,656)</u>	<u>\$ (98,892)</u>	<u>(7.2) %</u>	<u>0.3 %</u>	<u>6.6 %</u>	<u>(16.1) %</u>	<u>(11.4) %</u>
<u>\$ 117,365</u>	<u>\$ 117,365</u>					
\$ (17,291)	\$ 18,473					
955,003	936,530					
<u>\$ 937,712</u>	<u>\$ 955,003</u>					
<u>2,373</u>	<u>2,345</u>					
<u>2,534</u>	<u>2,507</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2022**

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

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of office for the year ended <u>September 30, 2022</u></b>	<b>Expense reimbursements for the year ended <u>September 30, 2022</u></b>	<b><u>Title</u></b>
Leon R. Mullins	05/2019 05/2023 (Elected)	\$     2,100	\$     -0-	President/ Investment Officer
John H. Wright, III	05/2021 05/2025 (Elected)	\$     2,250	\$     -0-	Vice President
Harvey Little	05/2021 05/2025 (Elected)	\$     2,250	\$     -0-	Secretary
Kenneth Boudreaux	05/2021 05/2025 (Elected)	\$     1,950	\$     -0-	Treasurer
Michael Angelle, Sr.	09/2022 05/2023 (Appointed)	\$       150	\$     -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: September 22, 2022

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, 2022**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2022</u>	<u>Title</u>
Johnson Petrov LLP	01/01/18	\$ 17,063	General Counsel
	06/15/21	\$ 98,707	Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	10/13/20	\$ 20,000	Auditor
San Jacinto Tax Service.	1983	\$ 10,942	Tax Assessor
LJA Engineering	01/01/90	\$ 549,122	Engineer
Linebarger, Goggan, Blair & Sampson, LLC	05/10/16	\$ 13,065	Delinquent Tax Attorney
SAMCO Capital Markets, Inc.	02/08/16	\$ 91,300	Financial Advisor
Mark Taylor	2010	\$ -0-	Investment Officer

See accompanying independent auditor's report.



**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708

PO Box 29584  
Austin, TX 78755-5126  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

January 31, 2023

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

We have audited the financial statements of the governmental activities and each major fund of Harris County Water Control and Improvement District No. 1, (the "District") for the year ended September 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 10, 2021. Professional standards also require that we communicate to you the following information related to our audit. For the purposes of this letter, the term "management" refers to the Board of Directors and/or District consultants.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies used by the District, including new accounting policies, if any, that have been adopted and implemented during the current fiscal year, are discussed in Note 2. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. The financial statement disclosures are neutral, consistent, and clear.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were management's estimate of depreciable lives of capital assets. Depreciation of infrastructure assets is based on industry wide accepted estimated useful lives taken on a straight-line basis, or on the life of the applicable contract in the case of intangible assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The District's bookkeeper and Board of Directors will be provided with all such adjustments.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 11, 2022.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to perform the following non-attest services for the District: (1) preparation of financial statements and related notes and schedules in conformity with accounting principles generally accepted in the United States of America and (2) preparation of capital assets. These services were performed based on information provided by you. We performed these services in accordance with applicable professional standards. The non-attest services we performed are limited to those specifically defined and did not result in assuming management responsibilities.

We applied certain limited procedures to the Management's Discussion and Analysis and the budgetary comparison schedule for the General Fund, which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information required by the Texas Commission on Environmental Quality, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Our audit also included reporting required by Government Auditing Standards.

Restriction on Use

This information is intended solely for the use of the Board of Directors of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas