

HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 114
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
MAY 31, 2018

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August 13, 2018

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Water Control
and Improvement District No. 114
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Harris County Water Control and Improvement District No. 114, as of and for the year ended May 31, 2018, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risk of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Water Control and Improvement District No. 114 as of May 31, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 19 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 20 to 30 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

Notte & Cousins, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Water Control and Improvement District No. 114 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended May 31, 2018.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current and other assets	\$ 5,245,579	\$ 5,437,170	\$ (191,591)
Capital assets	7,245,043	6,489,365	755,678
Total assets	<u>12,490,622</u>	<u>11,926,535</u>	<u>564,087</u>
Long-term liabilities	0	0	0
Other liabilities	472,418	342,221	130,197
Total liabilities	<u>472,418</u>	<u>342,221</u>	<u>130,197</u>
Net position:			
Invested in capital assets, net of related debt	7,245,043	6,489,365	755,678
Restricted	381,363	388,949	(7,586)
Unrestricted	4,391,798	4,706,000	(314,202)
Total net position	<u>\$ 12,018,204</u>	<u>\$ 11,584,314</u>	<u>\$ 433,890</u>

Summary of Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 1,164,433	\$ 1,128,166	\$ 36,267
Charges for services	1,350,038	1,369,003	(18,965)
Sales and Use Taxes	146,216	167,269	(21,053)
Other revenues	54,355	23,109	31,246
Total revenues	<u>2,715,042</u>	<u>2,687,547</u>	<u>27,495</u>
Expenses:			
Service operations	<u>2,281,152</u>	<u>2,140,715</u>	<u>140,437</u>
Change in net position	433,890	546,832	(112,942)
Net position, beginning of year	<u>11,584,314</u>	<u>11,037,482</u>	<u>546,832</u>
Net position, end of year	<u>\$ 12,018,204</u>	<u>\$ 11,584,314</u>	<u>\$ 433,890</u>

Financial Analysis of the District's Funds

The District's General fund balance as of the end of the fiscal year ended May 31, 2018, was \$4,714,821, a decrease of \$303,769 from the prior year. The decrease was primarily due to anticipated capital improvement expenditures.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 19 of this report. The budgetary fund balance as of May 31, 2018, was expected to be \$4,443,435 and the actual end of year fund balance was \$4,714,821.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Land	\$ 91,398	\$ 91,398	\$ 0
Construction in progress	1,188,684	122,156	1,066,528
Water facilities	1,624,600	1,787,147	(162,547)
Sewer facilities	4,340,361	4,488,664	(148,303)
Totals	<u>\$ 7,245,043</u>	<u>\$ 6,489,365</u>	<u>\$ 755,678</u>

Changes to capital assets during the fiscal year ended May 31, 2018, are summarized as follows:

Additions:

Water Plant No. 1 improvements	\$ 1,066,528
Water Plant No. 2 improvements	977
Improvements to regional facilities	<u>59,266</u>
Total additions to capital assets	1,126,771

Decreases:

Depreciation	<u>(371,093)</u>
Net change to capital assets	<u>\$ 755,678</u>

Debt

At May 31, 2018, the District had no outstanding bonds and \$1,420,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$17,956,000 for the 2017 tax year (approximately 4%) primarily due to the increase in average assessed valuations on existing property.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of December 14, 2009. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District by the City. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City, and the City provides only limited services (primarily fireworks ban). Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of the City's portion of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

Water Supply Issues

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA has constructed and operates a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. The District has not elected this financing option. As a result, the District has elected to pay its share in the NHCRWA System costs over time through payment of levied pumpage fees to the NHCRWA. Noncompliance with the NHCRWA's Groundwater Reduction Plan could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At May 31, 2018, the pumpage fee was \$3.40 and the Authority's surface water usage fee was \$3.85. These fees are expected to increase in the future. The NHCRWA has sold four issues of bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 189,564	\$	\$	\$ 189,564	\$	\$ 189,564
Certificates of deposit, at cost, Note 7	973,989			973,989		973,989
Temporary investments, at cost, Note 7	3,461,642			3,461,642		3,461,642
Receivables:						
Property taxes	47,248			47,248		47,248
Accrued penalty and interest on property taxes				0	11,092	11,092
Service accounts	88,494			88,494		88,494
Sales and Use Taxes, Note 11	33,810			33,810		33,810
Accrued interest	3,214			3,214		3,214
Construction advance, Note 9	36,525			36,525		36,525
Chloramine costs due from regional authority, Note 10	381,363			381,363		381,363
Operating reserve at regional facilities, Note 9	18,638			18,638		18,638
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	1,280,082	1,280,082
Depreciable capital assets				0	5,964,961	5,964,961
Total assets	<u>\$5,234,487</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,234,487</u>	<u>7,256,135</u>	<u>12,490,622</u>
LIABILITIES						
Accounts payable	\$ 202,501	\$	\$	\$ 202,501		202,501
Construction contracts payable	100,017			100,017		100,017
Customer deposits	169,900			169,900		169,900
Total liabilities	<u>472,418</u>	<u>0</u>	<u>0</u>	<u>472,418</u>	<u>0</u>	<u>472,418</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	47,248	0	0	47,248	(47,248)	0
FUND BALANCES / NET POSITION						
Fund balances:						
Nonspendable:						
Operating reserve at regional facilities, Note 9	18,638			18,638	(18,638)	0
Due from regional authority, Note 10	381,363			381,363	(381,363)	0
Committed to construction contracts in progress	42,830			42,830	(42,830)	0
Unassigned	4,276,922			4,276,922	(4,276,922)	0
Total fund balances	<u>4,719,753</u>	<u>0</u>	<u>0</u>	<u>4,719,753</u>	<u>(4,719,753)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$5,239,419</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,239,419</u>		
Net position:						
Invested in capital assets, net of related debt					7,245,043	7,245,043
Restricted for receivables from regional authority					381,363	381,363
Unrestricted					4,391,798	4,391,798
Total net position					<u>\$ 12,018,204</u>	<u>\$ 12,018,204</u>

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

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED MAY 31, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 1,182,452	\$	\$	\$ 1,182,452	\$ (16,412)	\$ 1,166,040
Water service	368,472			368,472		368,472
Sewer service	231,665			231,665		231,665
Surface water fees, Note 10	656,407			656,407		656,407
Penalty and interest	35,753			35,753	(1,607)	34,146
Sales and Use Taxes, Note 11	146,216			146,216		146,216
Interest on surface water chloramine costs, Note 10	23,481			23,481		23,481
Interest on deposits	54,355			54,355		54,355
Other revenues	34,260			34,260		34,260
Total revenues	2,733,061	0	0	2,733,061	(18,019)	2,715,042
EXPENDITURES / EXPENSES						
Service operations:						
Purchased sewer services, Note 9	200,194			200,194		200,194
Professional fees	106,857			106,857		106,857
Contracted services	165,233			165,233		165,233
Utilities	80,408			80,408		80,408
Surface water fees, Note 10	910,202			910,202		910,202
Repairs and maintenance	249,185			249,185		249,185
Other operating expenditures	47,323			47,323		47,323
Administrative expenditures	83,632			83,632		83,632
Depreciation				0	371,093	371,093
Capital outlay / non-capital outlay	1,193,796			1,193,796	(1,126,771)	67,025
Total expenditures / expenses	3,036,830	0	0	3,036,830	(755,678)	2,281,152
Excess (deficiency) of revenues over expenditures	(303,769)	0	0	(303,769)	737,659	433,890
Net change in fund balances / net position	(303,769)	0	0	(303,769)	737,659	433,890
Beginning of year	5,018,590	0	0	5,018,590	6,565,724	11,584,314
End of year	\$ 4,714,821	\$ 0	\$ 0	\$ 4,714,821	\$ 7,303,383	\$ 12,018,204

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

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114NOTES TO THE FINANCIAL STATEMENTSMAY 31, 2018

NOTE 1: REPORTING ENTITY

Harris County Water Control and Improvement District No. 114 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective July 23, 1968. On May 10, 1976, the District was converted to a municipal utility district in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

As more fully described in Note 9, the District is a participant in the Kleinwood Joint Powers Board (the "Board"). Oversight of the Board is exercised by the members of the Kleinwood Joint Powers Board which is comprised of representatives from the participants. Based on the criteria described above, the Board's financial activity has not been included in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Chloramine Credits

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the terms of the North Harris County Regional Water Authority rate order are recorded as either a repayment of the principal amount of the construction costs of the District's chloramine system or interest earned on the principal. The credit is based upon the amortization of the construction costs of the chloramine system at an interest rate of 6% over 30 years.

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 4,714,821
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		7,245,043
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	\$ 11,092	
Uncollected property taxes	47,248	58,340
Net position, end of year		\$ 12,018,204

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ (303,769)
The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	\$ 1,126,771	
Depreciation	(371,093)	755,678
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:		
Accrued penalty and interest on property taxes receivable	(1,607)	
Uncollected property taxes	(16,412)	(18,019)
Change in net position		\$ 433,890

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended May 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 91,398	\$	\$	\$ 91,398
Construction in progress	<u>122,156</u>	<u>1,066,528</u>	<u> </u>	<u>1,188,684</u>
Total capital assets not being depreciated	<u>213,554</u>	<u>1,066,528</u>	<u>0</u>	<u>1,280,082</u>
Depreciable capital assets:				
Water system	9,673,859	977		9,674,836
Sewer system	<u>12,582,751</u>	<u>59,266</u>	<u> </u>	<u>12,642,017</u>
Total depreciable capital assets	<u>22,256,610</u>	<u>60,243</u>	<u>0</u>	<u>22,316,853</u>
Less accumulated depreciation for:				
Water system	(7,886,712)	(163,524)		(8,050,236)
Sewer system	<u>(8,094,087)</u>	<u>(207,569)</u>	<u> </u>	<u>(8,301,656)</u>
Total accumulated depreciation	<u>(15,980,799)</u>	<u>(371,093)</u>	<u>0</u>	<u>(16,351,892)</u>
Total depreciable capital assets, net	<u>6,275,811</u>	<u>(310,850)</u>	<u>0</u>	<u>5,964,961</u>
Total capital assets, net	<u>\$ 6,489,365</u>	<u>\$ 755,678</u>	<u>\$ 0</u>	<u>\$ 7,245,043</u>
Changes to capital assets:				
Capital outlay		\$ 1,126,771	\$	
Less depreciation expense for the fiscal year		<u>(371,093)</u>	<u> </u>	
Net increases / decreases to capital assets		<u>\$ 755,678</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES

At May 31, 2018, there were no developer construction commitments or liabilities.

Bonds voted	\$ 12,800,000
Bonds approved for sale, sold and retired	11,380,000
Bonds voted and not issued	1,420,000

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At an election held on May 9, 2009, the voters within the District authorized a maintenance tax not to exceed \$0.30 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On October 9, 2017, the District levied the following ad valorem taxes for the 2017 tax year on the adjusted taxable valuation of \$467,586,551:

	Rate	Amount
Maintenance	\$ 0.2500	\$ 1,168,039

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2017 tax year total property tax levy	\$ 1,168,039
Appraisal district adjustments to prior year taxes	(1,999)
Statement of Activities property tax revenues	\$ 1,166,040

NOTE 7: DEPOSITS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$1,163,553 and the bank balance was \$1,170,298. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$3,461,642.

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At May 31, 2018, the District had physical damage and boiler and machinery coverage of \$11,420,000, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, worker's compensation coverage of \$1,000,000, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$50,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: REGIONAL WASTEWATER FACILITIES

Effective April 9, 1992, the District entered into a forty year agreement (amended June 1, 1993, September 8, 1997, July 25, 2005, September 9, 2013 and March 16, 2018) providing for the ownership, operation, maintenance and expansion of the Kleinwood Regional Wastewater Facility and the creation of the Kleinwood Joint Powers Board (the "Board"). As of May 31, 2018, ownership of the Board is shared by the following participants: Champions Municipal Utility District – 5.30%, Cy-Champ Public Utility District -- 21.45%; Cypress Forest Public Utility District -- 26.50%; Harris County Water Control and Improvement District No. 114 -- 16.00%; Kleinwood Municipal Utility District -- 15.00%; Louetta North Public Utility District -- 12.50% and Klein Independent School District -- 3.25%. The Board is managed and operated by the seven member Board of Members comprised of one member appointed by each of the entities participating in the Board. The Board issues no debt. Each participant records its share of the capital assets of the Board in its financial statements.

Each participant is responsible only for its share of the operating costs of the Board which are allocated and billed monthly based upon each participant's pro rata share of capacity and equivalent single family connections serviced by the Board. Capital costs are allocated and billed based upon percentage of ownership. The District has contributed \$18,638 as its share of the Board's operating reserve. During the year ended May 31, 2018, the District incurred costs of \$200,194 for operations and \$49,771 for capital costs and advanced \$41,458 for the District's share of construction costs of a reclaimed water system. At that date, \$36,525 of the construction advance had not been expended.

The following summary financial data of the Board's General Fund is presented for the Board's fiscal year ended May 31, 2018:

	<u>Board Total</u>	<u>District's Share</u>
Total assets	\$ 481,972	
Total liabilities	<u>(365,485)</u>	
Total fund balance	116,487	\$ 18,638
Operating reserves	<u>(116,487)</u>	<u>(18,638)</u>
Undesignated fund balance	<u>\$ 0</u>	<u>\$ 0</u>
Total revenues	\$ 1,344,016	\$ 249,965
Total expenditures	<u>(1,344,016)</u>	<u>(249,965)</u>
Excess revenues (expenditures)	0	0
Fund balance, beginning of year	<u>116,487</u>	<u>18,638</u>
Fund balance, end of year	<u>\$ 116,487</u>	<u>\$ 18,638</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10: REGIONAL WATER AUTHORITY FEES

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2000. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of May 31, 2018, the Authority had established a well pumpage fee of \$3.40 per 1,000 gallons of water pumped from each regulated well and a surface water usage fee of \$3.85 per 1,000 gallons of surface water received from the Authority. The District's total surface water fees payable to the Authority for the fiscal year ended May 31, 2018, were \$910,202. The District billed its customers \$656,407 during the fiscal year to pay for the fees charged by the Authority.

Effective January 1, 2010, the Authority adopted a rate order which provided for the reimbursement to the District for costs incurred by the District to modify its system to accept surface water from the Authority. Such "Chloramine Credit" will be determined by the Authority upon completion and operation of the District's Chloramine System. The Chloramine Credit is credited monthly to the amounts payable to the Authority for water used by the District over a 30-year period at 6% interest. During the fiscal year ended May 31, 2011, the Authority determined that the allowable costs of construction were \$427,630.

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the Authority's rate order are recorded as either a repayment of the principal amount of the construction costs of the District's chloramine system or interest earned on the principal.

During the fiscal year ended May 31, 2018, the District received chloramine credits of \$31,067. Of this amount, \$7,586 was a repayment of principal and \$23,481 was interest.

A summary of the amortization of the remaining scheduled chloramine credits is as follows:

Credits Due During Fiscal Years Ending May 31	Principal	Interest	Total
2019	\$ 8,061	\$ 23,006	\$ 31,067
2020	8,566	22,501	31,067
2021	9,102	21,964	31,066
2022	9,673	21,394	31,067
2023	10,278	20,789	31,067
2024-2028	61,894	93,440	155,334
2029-2033	83,866	71,468	155,334
2034-2038	113,635	41,699	155,334
2039-2041	76,288	6,557	82,845
	<u>\$ 381,363</u>	<u>\$ 322,818</u>	<u>\$ 704,181</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

On December 14, 2009, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Fire Code provisions banning fireworks. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of the City's portion of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$146,216 from the City for the fiscal year ended May 31, 2018. \$33,810 of this amount was receivable at that date.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED MAY 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 1,107,288	\$ 1,107,288	\$ 1,182,452	\$ 75,164
Water service	475,000	475,000	368,472	(106,528)
Sewer service	235,000	235,000	231,665	(3,335)
Surface water fees	730,250	730,250	656,407	(73,843)
Penalty and interest	20,000	20,000	35,753	15,753
Sales and Use Taxes	185,000	185,000	146,216	(38,784)
Interest on surface water chloramine costs	0	0	23,481	23,481
Interest on deposits	20,000	20,000	54,355	34,355
Other revenues	7,750	7,750	34,260	26,510
TOTAL REVENUES	2,780,288	2,780,288	2,733,061	(47,227)
EXPENDITURES				
Service operations:				
Purchased sewer services	205,000	205,000	200,194	(4,806)
Professional fees	93,850	93,850	106,857	13,007
Contracted services	118,700	118,700	165,233	46,533
Utilities	85,500	85,500	80,408	(5,092)
Surface water fees	862,500	862,500	910,202	47,702
Repairs and maintenance	325,000	325,000	249,185	(75,815)
Other operating expenditures	48,500	48,500	47,323	(1,177)
Administrative expenditures	90,080	90,080	83,632	(6,448)
Capital outlay	1,526,313	1,526,313	1,193,796	(332,517)
TOTAL EXPENDITURES	3,355,443	3,355,443	3,036,830	(318,613)
EXCESS REVENUES (EXPENSES)	(575,155)	(575,155)	(303,769)	271,386
FUND BALANCE, BEGINNING OF YEAR	5,018,590	5,018,590	5,018,590	0
FUND BALANCE, END OF YEAR	\$ 4,443,435	\$ 4,443,435	\$ 4,714,821	\$ 271,386

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

MAY 31, 2018

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

- TSI-1. Services and Rates
- TSI-2. General Fund Expenditures
- TSI-3. Temporary Investments
- TSI-4. Taxes Levied and Receivable
- TSI-5. Long-Term Debt Service Requirements by Years
Not Applicable.
- TSI-6. Changes in Long-Term Bonded Debt
Not Applicable.
- TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
Debt Service Fund not applicable.
- TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

SCHEDULE OF SERVICES AND RATES

MAY 31, 2018

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$10.00	10,000	N	\$1.25 1.50 2.00 3.00	10,001 to 20,000 20,001 to 40,000 40,001 to 60,000 Over 60,000
WASTEWATER:	\$10.00	N/A	Y	N/A	
SURCHARGE:	\$2.52 per 1,000 gallons of water used. – NHCRWA surface water fees.				

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$10.00 Wastewater: \$10.00 Surcharge: \$25.20

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

SCHEDULE OF SERVICES AND RATES (Continued)

MAY 31, 2018

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	0	0	1.0	0
< or = 3/4"	1,767	1,767	1.0	1,767
1"	20	20	2.5	50
1-1/2"	8	8	5.0	40
2"	22	22	8.0	176
3"	0	0	15.0	0
4"	0	0	25.0	0
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>1,817</u>	<u>1,817</u>		<u>2,033</u>
Total Wastewater	<u>1,748</u>	<u>1,748</u>	1.0	<u>1,748</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 284,733
 Gallons billed to customers (unaudited): 266,136

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 93%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

EXPENDITURES

FOR THE YEAR ENDED MAY 31, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Purchased sewer services	\$ 200,194	\$ 0	\$ 0	\$ 200,194
Professional fees:				
Auditing	8,850			8,850
Legal	50,055			50,055
Financial advisor	625			625
Engineering	47,327			47,327
	<u>106,857</u>	<u>0</u>	<u>0</u>	<u>106,857</u>
Contracted services:				
Bookkeeping	18,828			18,828
Operation and billing	108,457			108,457
Tax assessor-collector	27,480			27,480
Central appraisal district	8,468			8,468
Sales and Use Tax consultant	2,000			2,000
	<u>165,233</u>	<u>0</u>	<u>0</u>	<u>165,233</u>
Utilities	<u>80,408</u>	<u>0</u>	<u>0</u>	<u>80,408</u>
Surface water fees:				
Ground water pumpage fees	349,079			349,079
Purchased surface water	561,123			561,123
	<u>910,202</u>	<u>0</u>	<u>0</u>	<u>910,202</u>
Repairs and maintenance	<u>249,185</u>	<u>0</u>	<u>0</u>	<u>249,185</u>
Other operating expenditures:				
Chemicals	24,121			24,121
Laboratory costs	3,862			3,862
Sewer inspections	6,533			6,533
Reconnection costs	8,240			8,240
TCEQ assessment	3,028			3,028
Other	1,539			1,539
	<u>47,323</u>	<u>0</u>	<u>0</u>	<u>47,323</u>
Administrative expenditures:				
Director's fees	11,700			11,700
Office supplies and postage	39,952			39,952
Insurance	24,418			24,418
Permit fees	4,432			4,432
Other	3,130			3,130
	<u>83,632</u>	<u>0</u>	<u>0</u>	<u>83,632</u>
CAPITAL OUTLAY				
Authorized expenditures	<u>1,193,796</u>	<u>0</u>	<u>0</u>	<u>1,193,796</u>
TOTAL EXPENDITURES	<u>\$ 3,036,830</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,036,830</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED MAY 31, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues	\$ 2,758,271	\$	\$	\$ 2,758,271
Principal payment on receivable from regional water authority	7,586			7,586
Increase in customer deposits	<u>7,695</u>			<u>7,695</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>2,773,552</u>	<u>0</u>	<u>0</u>	<u>2,773,552</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	1,815,616			1,815,616
Construction advance	41,458			41,458
Capital outlay	<u>1,093,779</u>			<u>1,093,779</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>2,950,853</u>	<u>0</u>	<u>0</u>	<u>2,950,853</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	(177,301)	0	0	(177,301)
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>4,802,496</u>	<u>0</u>	<u>0</u>	<u>4,802,496</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 4,625,195</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,625,195</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114
SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS
MAY 31, 2018

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 481432	1.25%	12/11/18	\$ 243,989	\$ 1,429
No. 83209429	2.00%	4/13/19	245,000	644
No. 0107362846	1.87%	3/19/19	245,000	916
No. 1002676250	1.90%	11/11/18	<u>240,000</u>	<u>225</u>
			<u>\$ 973,989</u>	<u>\$ 3,214</u>
TexPool				
No. 2572100001	Market	On demand	<u>\$ 3,461,642</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 4,435,631</u>	<u>\$ 3,214</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED MAY 31, 2018

	<u>Maintenance Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 63,660
Additions and corrections to prior year taxes	<u>(1,999)</u>
Adjusted receivable, beginning of year	61,661
2017 ADJUSTED TAX ROLL	<u>1,168,039</u>
Total to be accounted for	1,229,700
Tax collections: Current tax year	(1,144,147)
Prior tax years	<u>(38,305)</u>
RECEIVABLE, END OF YEAR	<u>\$ 47,248</u>
RECEIVABLE, BY TAX YEAR	
2007 and prior	\$ 943
2008	341
2009	1,028
2010	1,013
2011	1,606
2012	1,799
2013	2,644
2014	4,181
2015	3,639
2016	6,162
2017	<u>23,892</u>
RECEIVABLE, END OF YEAR	<u>\$ 47,248</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED MAY 31, 2018

ADJUSTED PROPERTY VALUATIONS AS OF MAY 1 OF TAX YEAR	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 91,088,166	\$ 90,532,496	\$ 89,066,847	\$ 77,957,106
Improvements	388,152,218	371,674,254	336,748,767	306,021,662
Personal property	17,432,655	18,372,992	17,011,083	16,075,267
Less exemptions	<u>(29,086,488)</u>	<u>(30,949,554)</u>	<u>(26,350,571)</u>	<u>(25,331,524)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 467,586,551</u>	 <u>\$ 449,630,188</u>	 <u>\$ 416,476,126</u>	 <u>\$ 374,722,511</u>
 MAINTENANCE TAX RATES PER \$100 VALUATION	 <u>\$ 0.25000</u>	 <u>\$ 0.25000</u>	 <u>\$ 0.25000</u>	 <u>\$ 0.30000</u>
 TAX ROLLS	 <u>\$ 1,168,039</u>	 <u>\$ 1,124,483</u>	 <u>\$ 1,041,695</u>	 <u>\$ 1,124,512</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>98.0 %</u>	 <u>99.5 %</u>	 <u>99.7 %</u>	 <u>99.6 %</u>

*Maximum tax rate approved by voters on May 9, 2009: \$0.30

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED MAY 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
REVENUES										
Property taxes	\$ 1,182,452	\$ 1,102,218	\$ 1,035,082	\$ 1,118,829	\$ 1,042,980	43.2 %	41.3 %	41.5 %	44.0 %	40.9 %
Water service	368,472	384,027	388,607	371,549	420,383	13.5	14.4	15.6	14.6	16.5
Sewer service	231,665	238,521	233,596	233,079	232,864	8.5	9.0	9.4	9.2	9.1
Surface water fees	656,407	665,246	580,040	542,167	572,538	24.0	25.0	23.3	21.1	22.4
Penalty and interest	35,753	25,341	25,855	27,116	28,585	1.3	1.0	1.0	1.1	1.1
Tap connection and inspection fees	0	0	0	32,950	32,350	0.0	0.0	0.0	1.3	1.3
Sales and Use Taxes	146,216	167,269	161,284	155,351	157,899	5.3	6.3	6.5	6.1	6.2
Interest on surface water chloramine costs	23,481	23,927	24,349	24,745	25,118	0.9	0.9	1.0	1.0	1.0
Interest on deposits and investments	54,355	23,109	12,802	7,424	7,823	2.0	0.9	0.5	0.3	0.3
Other revenues	34,260	31,941	29,685	31,819	31,783	1.3	1.2	1.2	1.3	1.2
TOTAL REVENUES	2,733,061	2,661,599	2,491,300	2,545,029	2,552,323	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased sewer services	200,194	164,098	179,912	186,019	188,264	7.3	6.2	7.2	7.3	7.4
Professional fees	106,857	93,041	100,269	92,611	76,898	3.9	3.5	4.0	3.6	3.0
Contracted services	165,233	152,697	150,375	148,613	140,354	6.0	5.7	6.0	5.8	5.5
Utilities	80,408	82,958	73,824	79,783	72,655	2.9	3.1	3.0	3.1	2.8
Surface water fees	910,202	814,613	697,339	611,257	664,705	33.3	30.6	28.1	24.2	26.1
Repairs and maintenance	249,185	278,439	194,372	200,382	270,187	9.1	10.5	7.8	7.9	10.6
Other operating expenditures	47,323	46,418	34,144	41,611	28,792	1.7	1.7	1.4	1.6	1.1
Administrative expenditures	83,632	75,692	78,440	78,774	78,453	3.1	2.8	3.1	3.1	3.1
Capital outlay	1,193,796	553,611	376,963	56,380	638,831	43.8	20.9	15.1	2.2	25.0
TOTAL EXPENDITURES	3,036,830	2,261,567	1,885,638	1,495,430	2,159,139	111.1	85.0	75.7	58.8	84.6
EXCESS REVENUES (EXPENDITURES)	\$ (303,769)	\$ 400,032	\$ 605,662	\$ 1,049,599	\$ 393,184	(11.1) %	15.0 %	24.3 %	41.2 %	15.4 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,817	1,817	1,817	1,817	1,815					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,748	1,748	1,748	1,748	1,747					

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSMAY 31, 2018

Complete District Mailing Address: Harris County Water Control and Improvement District No. 114
c/o Young & Brooks
10000 Memorial Drive, Suite 260
Houston, Texas 77024

District Business Telephone No.: 713-951-0800

Submission date of the most recent District Registration Form: December 26, 2017

Limit on Fees of Office that a Director may receive during a fiscal year: \$6,000

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Steve Fitzgerald 8306 Pheasant Glen Drive Spring, Texas 77379	Elected 11/08/17- 11/02/21	\$ 3,150	\$ 0	President
James P. Sibley 8311 Vintage Wood Circle Spring, Texas 77379	Elected 11/03/15- 11/05/19	1,950	0	Vice President
Steve Feldman 8413 Crescent Wood Spring, Texas 77379	Elected 11/03/15- 11/05/19	2,100	0	Secretary
Renee Alfaro 8011 Twining Oaks Lane Spring, Texas 77379	Elected 11/08/17- 11/02/21	1,200	0	Assistant Secretary
Robert Robertson 8014 Ash Valley Drive Klein, Texas 77379	Appointed 01/18/18- 11/05/19	750	0	Assistant Secretary

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 114BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)MAY 31, 2018CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Young & Brooks 10000 Memorial Drive, Suite 260 Houston, Texas 77024	8/15/69	\$ 50,055	Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	Prior to 6/01/83	20,949	Bookkeeper
Mary Jarmon 3401 Louisiana, Suite 400 Houston, Texas 77002	10/20/03	0	Investment Officer
Eagle Water Management, Inc. P. O. Box 11750 Spring, Texas 77391-1750	11/19/07	365,718	Operator
AEI Engineering, Inc. 11450 Compaq Center Dr., Suite 660 Houston, Texas 77070	4/15/91	123,936	Engineer
Kenneth R. Byrd P.O. Box 73109 Houston, Texas 77273	2/18/74	35,611	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	8,468	Central Appraisal District
RBC Capital Markets, L.L.C. 2800 Post Oak Blvd., Suite 4325 Houston, Texas 77056	12/18/89	625	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	5/19/08	8,850	Independent Auditor

See accompanying independent auditor's report.