

Trail of the Lakes Regional Sewage Treatment Plant

Harris County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2017



Trail of the Lakes Regional Sewage Treatment Plant

September 30, 2017

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Independent Auditor's Report

Participants

Trail of the Lakes Regional Sewage Treatment Plant
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and general fund of Trail of the Lakes Regional Sewage Treatment Plant (the Plant), which are comprised of a statement of net position as of September 30, 2017, and a statement of activities for the year then ended; as well as the accompanying financial statements of the general fund, which for governmental funds are comprised of a balance sheet as of September 30, 2017, and a statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, which collectively comprise the Plant's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 1, the financial statements of the Plant present only the financial position and the changes in financial position of Trail of the Lakes Regional Sewage Treatment Plant and do not purport to, and do not, present fairly the financial position of Trail of the Lakes Municipal Utility District as of September 30, 2017, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary information listed in the table of contents 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.

BKD, LLP

Houston, Texas
February 7, 2018

Trail of the Lakes Regional Sewage Treatment Plant
Statement of Net Position and Governmental Fund Balance Sheet
September 30, 2017

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 30,614	\$ -	\$ 30,614
Due from participants:			
Harris County Municipal Utility District No. 290	52,076	-	52,076
Capital assets (net of accumulated depreciation):			
Infrastructure	-	4,708,400	4,708,400
Total assets	\$ 82,690	\$ 4,708,400	\$ 4,791,090
Liabilities			
Accounts payable	\$ 59,340	\$ -	\$ 59,340
Due to participants:			
Trail of the Lakes Municipal Utility District	3,350	-	3,350
Total liabilities	62,690	0	62,690
Fund Balance/Net Position			
Fund balance:			
Committed, wastewater collection and treatment	20,000	(20,000)	0
Total liabilities and fund balance	\$ 82,690		
Net position:			
Net investment in capital assets		4,708,400	4,708,400
Restricted for plant operations		20,000	20,000
Total net position		\$ 4,728,400	\$ 4,728,400

Trail of the Lakes Regional Sewage Treatment Plant
Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balance
Year Ended September 30, 2017

	General Fund	Adjustments	Statement of Activities
Revenues			
Harris County Municipal Utility District No. 290	\$ 380,654	\$ -	\$ 380,654
Trail of the Lakes Municipal Utility District	344,102	-	344,102
Investment income	70	-	70
	<u>724,826</u>	<u>0</u>	<u>724,826</u>
Expenditures/Expenses			
Service operations:			
Audit fees	2,900	-	2,900
Legal fees	1,940	-	1,940
Engineering fees	20,248	-	20,248
Postage and office supplies	1,397	-	1,397
Garbage collection	2,874	-	2,874
Utilities	122,800	-	122,800
Repairs and maintenance	203,725	-	203,725
Insurance	16,721	-	16,721
Permit fees	12,898	-	12,898
Chemicals	93,742	-	93,742
Laboratory fees	22,324	-	22,324
Bookkeeping	5,700	-	5,700
Operator fees	62,635	-	62,635
Sludge disposal	154,444	-	154,444
Miscellaneous	478	-	478
Depreciation	-	274,857	274,857
	<u>724,826</u>	<u>274,857</u>	<u>999,683</u>
Excess of Revenues Over Expenditures	-	-	
Change in Net Position		274,857	(274,857)
Fund Balance/Net Position			
Beginning of year	<u>20,000</u>	<u>-</u>	<u>5,003,257</u>
End of year	<u>\$ 20,000</u>	<u>\$ 0</u>	<u>\$ 4,728,400</u>

Trail of the Lakes Regional Sewage Treatment Plant

Notes to Financial Statements

September 30, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

On June 27, 2001, Trail of the Lakes Municipal Utility District (the District), Harris County Municipal Utility District No. 290 (District No. 290) and Harris County Municipal Utility District No. 292 (District No. 292) entered into a 50-year agreement for the purpose of sharing the costs of constructing and operating a regional wastewater treatment plant, Trail of the Lakes Regional Sewage Treatment Plant (the Plant). The agreement was amended January 29, 2007, to provide for expansion of the Plant and to revise each district's share of ownership capacity as the result of the dissolution of District No. 292. The District is the operator of the Plant.

The Plant is governed by the District's Board of Directors (the Board). The Board sets the policies of the Plant. The accounting and reporting policies of the Plant conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The financial statements of the Plant present only the financial position and the changes in financial position of the Plant and do not present the financial statements of the District. The following is a summary of the significant accounting and reporting policies of the Plant:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the Plant. There are no component units that are legally separate entities for which the Plant is considered to be financially accountable. Accountability is defined as the Plant's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the Plant must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the Plant.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the Plant reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. 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 with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the Plant. Governmental activities generally are financed through charges for services. The statement of activities reflects the revenues and expenses of the Plant.

Trail of the Lakes Regional Sewage Treatment Plant

Notes to Financial Statements

September 30, 2017

The fund financial statements provide information about the Plant's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the Plant.

The Plant presents the following major governmental fund:

General Fund – The general fund accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is participant fees.

Fund Balance – Governmental Fund

The fund balance for the Plant's governmental fund can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the Plant's Board.

Assigned – Amounts intended to be used by the Plant for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The Plant considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The Plant applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Trail of the Lakes Regional Sewage Treatment Plant

Notes to Financial Statements

September 30, 2017

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The Plant considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the Plant. Expenditures are recorded when the related fund liability is incurred.

Pension Costs

The Plant does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the Plant as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Financial Statements
September 30, 2017

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives, as follows:

	Years
Wastewater collection and treatment facilities	10-45

Net Position/Fund Balance

Fund balances and net position are reported as restricted when contractual constraints are placed on them.

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ <u>4,708,400</u>
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Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balance in the governmental funds statement of revenues, expenditures and changes in fund balance because:

Change in fund balance.	\$ -
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation in the current period.	<u>(274,857)</u>
Change in net position of governmental activities.	<u>\$ (274,857)</u>

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Financial Statements
September 30, 2017

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Plant's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At September 30, 2017, none of the Plant's bank balances were exposed to custodial credit risk.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended September 30, 2017, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, depreciable:			
Wastewater collection and treatment facilities	\$ 7,853,066	\$ -	\$ 7,853,066
Less accumulated depreciation:			
Wastewater collection and treatment facilities	<u>(2,869,809)</u>	<u>(274,857)</u>	<u>(3,144,666)</u>
Total governmental activities, net	<u>\$ 4,983,257</u>	<u>\$ (274,857)</u>	<u>\$ 4,708,400</u>

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Financial Statements
September 30, 2017

Note 4: Sharing of Costs

Operating Costs

Under the terms of the amended agreement, the District owns 52 percent of the current sewage treatment plant capacity of 1.75 million gallons per day and District No. 290 owns 48 percent.

Participants are billed monthly for fixed costs based on ownership and variable costs based on the ratio of each participant's number of connections to total connections served by the Plant.

Operating Reserve

The District and District No. 290 have each remitted \$10,000 as an operating reserve.

Note 5: Insurance Coverage

At September 30, 2017, the Plant had real and personal property insurance coverage in the amount of \$11,000,000.

Note 6: Risk Management

The Plant is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Plant carries commercial insurance. The Plant has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Required Supplementary Information

Trail of the Lakes Regional Sewage Treatment Plant
Budgetary Comparison Schedule – General Fund
Year Ended September 30, 2017

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Harris County Municipal Utility District No. 290	\$ 343,536	\$ 357,936	\$ 380,654	\$ 22,718
Trail of the Lakes Municipal Utility District	372,164	387,764	344,102	(43,662)
Investment income	-	-	70	70
Total revenues	<u>715,700</u>	<u>745,700</u>	<u>724,826</u>	<u>(20,874)</u>
Expenditures				
Service operations:				
Audit fees	2,800	2,800	2,900	(100)
Legal fees	1,000	1,000	1,940	(940)
Engineering fees	5,000	5,000	20,248	(15,248)
Postage and office supplies	1,300	1,300	1,397	(97)
Garbage collection	-	-	2,874	(2,874)
Utilities	136,500	136,500	122,800	13,700
Repairs and maintenance	170,000	170,000	203,725	(33,725)
Insurance	14,500	14,500	16,721	(2,221)
Permit fees	13,000	43,000	12,898	30,102
Chemicals	91,000	91,000	93,742	(2,742)
Laboratory fees	31,000	31,000	22,324	8,676
Bookkeeping	5,700	5,700	5,700	-
Operator fees	62,400	62,400	62,635	(235)
Sludge disposal	180,000	180,000	154,444	25,556
Security expense	1,500	1,500	-	1,500
Miscellaneous	-	-	478	(478)
Total expenditures	<u>715,700</u>	<u>745,700</u>	<u>724,826</u>	<u>20,874</u>
Excess of Revenues Over Expenditures	-	-	-	-
Fund Balance, Beginning of Year	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	-
Fund Balance, End of Year	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 0</u>

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Required Supplementary Information
September 30, 2017

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the Plant's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The District's Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during fiscal 2017.

The Plant prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.