

# **Cypress-Klein Utility District**

Harris County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2017



**Cypress-Klein Utility District**  
**December 31, 2017**

**Contents**

<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Basic Financial Statements</b>	
Statement of Net Position and Governmental Funds Balance Sheet .....	9
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.....	11
Notes to Financial Statements.....	13
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund.....	27
Budgetary Comparison Schedule – Special Revenue Fund.....	28
Notes to Required Supplementary Information .....	29
<b>Other Information</b>	
Other Schedules Included Within This Report .....	30
Schedule of Services and Rates .....	31
Schedule of General Fund Expenditures.....	32
Schedule of Temporary Investments .....	33
Analysis of Taxes Levied and Receivable .....	34
Schedule of Long-term Debt Service Requirements by Years .....	36
Changes in Long-term Bonded Debt .....	37
Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years.....	38
Board Members, Key Personnel and Consultants.....	40

## Independent Auditor's Report

Board of Directors  
Cypress-Klein Utility District  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities, and each major fund of Cypress-Klein Utility District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District'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 each major fund of the District as of December 31, 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.

***Other Matters***

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules 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.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

**BKD, LLP**

Houston, Texas  
June 6, 2018

# **Cypress-Klein Utility District**

## **Management's Discussion and Analysis**

### **December 31, 2017**

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

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, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, 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, liabilities, and deferred inflows and outflows of resources of 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 assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' 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. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 year.

**Cypress-Klein Utility District**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

Although the statement of activities looks different from a commercial enterprise's statement of income, 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 Funds**

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes 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, sewer and drainage 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 assets, liabilities, and deferred inflows and outflows of resources 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 is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to 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.

**Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

**Cypress-Klein Utility District**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

**Financial Analysis of the District as a Whole**

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

**Summary of Net Position**

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 2,866,589	\$ 2,622,921
Capital assets	<u>1,662,505</u>	<u>1,848,697</u>
Total assets	<u>4,529,094</u>	<u>4,471,618</u>
Deferred outflows of resources	<u>3,975</u>	<u>11,771</u>
Total assets and deferred outflows of resources	<u>\$ 4,533,069</u>	<u>\$ 4,483,389</u>
Long-term liabilities	\$ 361,194	\$ 738,343
Other liabilities	<u>393,033</u>	<u>270,027</u>
Total liabilities	<u>754,227</u>	<u>1,008,370</u>
Deferred inflows of resources	<u>300,866</u>	<u>389,508</u>
Net position:		
Net investment in capital assets	1,305,286	1,122,125
Restricted	171,228	181,691
Unrestricted	<u>2,001,462</u>	<u>1,781,695</u>
Total net position	<u>\$ 3,477,976</u>	<u>\$ 3,085,511</u>

The total net position of the District increased by \$392,465, or about 13 percent. The majority of the increase in net position is related to service and property taxes revenues in excess of services operations and depreciation expenses.

**Cypress-Klein Utility District**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

**Summary of Changes in Net Position**

	<b>2017</b>	<b>2016</b>
Revenues:		
Property taxes	\$ 391,236	\$ 409,165
Charges for services	1,851,549	1,807,819
Other revenues	231,364	79,961
	<hr/>	<hr/>
Total revenues	2,474,149	2,296,945
	<hr/>	<hr/>
Expenses:		
Services	1,847,929	1,961,427
Depreciation	228,057	264,157
Debt service	5,698	13,388
	<hr/>	<hr/>
Total expenses	2,081,684	2,238,972
	<hr/>	<hr/>
Change in net position	392,465	57,973
Net position, beginning of year	3,085,511	3,027,538
	<hr/>	<hr/>
Net position, end of year	<u>\$ 3,477,976</u>	<u>\$ 3,085,511</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended December 31, 2017, were \$1,866,144, an increase of \$207,055 from the prior year.

The general fund's fund balance increased by \$225,294 primarily due to service revenues exceeding service operation expenditures and insurance proceeds received for damages incurred by Hurricane Harvey.

The special revenue fund's fund balance remained the same, as all expenditures were billed to participants.

The debt service fund's fund balance decreased by \$18,239 due to principal and interest requirements and contracted services expenditures being greater than tax revenues generated.



**Cypress-Klein Utility District**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to regional water fee revenues, purchased services, professional fees and repairs and maintenance expenditures being greater than anticipated while water service revenues, regional water fee and capital outlay expenditures were less than anticipated. In addition, insurance proceeds received were not included in the current year budget. The fund balance as of December 31, 2017, was expected to be \$1,527,481 and the actual end-of-year fund balance was \$1,715,943.

**Capital Assets and Related Debt**

Capital Assets

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

**Capital Assets (Net of Accumulated Depreciation)**

	<b>2017</b>	<b>2016</b>
Construction in progress	\$ 16,587	\$ -
Water facilities	699,586	814,772
Wastewater facilities	940,038	1,026,372
Buildings and improvements	6,294	7,553
Total capital assets	\$ 1,662,505	\$ 1,848,697

During the current year, the following were additions to capital assets:

Construction in progress related to water plant elevated storage tank repairs and sanitary sewer rehabilitation, Phase 2A	\$ 16,587
Sanitary sewer rehabilitation, Phase 2	25,278
	\$ 41,865

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2017, are summarized as follows.

**Cypress-Klein Utility District**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

Long-term debt payable, beginning of year	\$ 738,343
Decreases in long-term debt	<u>(377,149)</u>
Long-term debt payable, end of year	<u>\$ 361,194</u>

At December 31, 2017, the District had no unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry an underlying rating of "A1" by Moody's Investors Service. The Series 2012 bonds carry an "A2" rating by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

**Other Relevant Factors**

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 City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

**Cypress-Klein Utility District**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**December 31, 2017**

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 1,424,078	\$ 89,166	\$ 205,411	\$ 1,718,655	\$ -	\$ 1,718,655
Certificates of deposit	245,000	-	-	245,000	-	245,000
Short-term investments	173,556	-	46,163	219,719	-	219,719
Receivables:						
Property taxes	-	-	157,353	157,353	-	157,353
Service accounts	129,374	-	-	129,374	-	129,374
Accrued penalty and interest	-	-	-	-	6,906	6,906
Accrued interest	1,014	-	-	1,014	-	1,014
Interfund receivable	-	141,609	-	141,609	(141,609)	-
Due from participants	-	7,997	-	7,997	-	7,997
Due from the others	79,108	15,944	-	95,052	-	95,052
Due from the Authority	-	-	-	-	285,519	285,519
Capital assets (net of accumulated depreciation):						
Construction in progress	-	-	-	-	16,587	16,587
Infrastructure	-	-	-	-	1,639,624	1,639,624
Buildings	-	-	-	-	6,294	6,294
<b>Total assets</b>	<b>2,052,130</b>	<b>254,716</b>	<b>408,927</b>	<b>2,715,773</b>	<b>1,813,321</b>	<b>4,529,094</b>
<b>Deferred Outflows of Resources</b>						
Deferred amount on debt refundings	0	0	0	0	3,975	3,975
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,052,130</b>	<b>\$ 254,716</b>	<b>\$ 408,927</b>	<b>\$ 2,715,773</b>	<b>\$ 1,817,296</b>	<b>\$ 4,533,069</b>

**Cypress-Klein Utility District**  
**Statement of Net Position and Governmental Funds Balance Sheets (Continued)**  
**December 31, 2017**

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 91,044	\$ 165,716	\$ 1,890	\$ 258,650	\$ -	\$ 258,650
Accrued interest payable	-	-	-	-	1,183	1,183
Customer deposits	101,920	-	-	101,920	-	101,920
Other liabilities	1,614	29,666	-	31,280	-	31,280
Interfund payable	141,609	-	-	141,609	(141,609)	-
Long-term liabilities:						
Due within one year	-	-	-	-	361,194	361,194
Total liabilities	<u>336,187</u>	<u>195,382</u>	<u>1,890</u>	<u>533,459</u>	<u>220,768</u>	<u>754,227</u>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	<u>0</u>	<u>0</u>	<u>316,170</u>	<u>316,170</u>	<u>(15,304)</u>	<u>300,866</u>
<b>Fund Balances/Net Position</b>						
Fund balances:						
Restricted, unlimited tax bonds	-	-	90,867	90,867	(90,867)	-
Committed, water production and distribution	-	59,334	-	59,334	(59,334)	-
Unassigned	<u>1,715,943</u>	<u>-</u>	<u>-</u>	<u>1,715,943</u>	<u>(1,715,943)</u>	<u>-</u>
Total fund balances	<u>1,715,943</u>	<u>59,334</u>	<u>90,867</u>	<u>1,866,144</u>	<u>(1,866,144)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,052,130</u>	<u>\$ 254,716</u>	<u>\$ 408,927</u>	<u>\$ 2,715,773</u>		
Net position:						
Net investment in capital assets					1,305,286	1,305,286
Restricted for plant operations					59,334	59,334
Restricted for debt service					111,894	111,894
Unrestricted					<u>2,001,462</u>	<u>2,001,462</u>
Total net position					<u>\$ 3,477,976</u>	<u>\$ 3,477,976</u>

**Cypress-Klein Utility District**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended December 31, 2017**

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ -	\$ -	\$ 386,166	\$ 386,166	\$ 5,070	\$ 391,236
Water service	571,526	-	-	571,526	-	571,526
Sewer service	552,757	-	-	552,757	-	552,757
Regional water fee	539,290	-	-	539,290	-	539,290
Bulk water sales	-	795,193	-	795,193	(607,217)	187,976
Penalty and interest	21,275	-	3,519	24,794	1,489	26,283
Tap connection and inspection fees	5,650	-	-	5,650	-	5,650
Investment income	12,731	15,689	814	29,234	(5,229)	24,005
Other income	375	-	-	375	175,051	175,426
	<u>1,703,604</u>	<u>810,882</u>	<u>390,499</u>	<u>2,904,985</u>	<u>(430,836)</u>	<u>2,474,149</u>
<b>Expenditures/Expenses</b>						
Service operations:						
Purchased services	614,115	113,575	-	727,690	(614,115)	113,575
Regional water fees	5,972	604,709	-	610,681	-	610,681
Professional fees	119,049	5,343	1,197	125,589	-	125,589
Contracted services	315,873	31,862	22,874	370,609	-	370,609
Sludge removal	21,586	-	-	21,586	-	21,586
Utilities	74,255	31,701	-	105,956	-	105,956
Repairs and maintenance	275,029	116,440	-	391,469	-	391,469
Other expenditures	91,860	8,205	8,399	108,464	-	108,464
Capital outlay	41,865	-	-	41,865	(41,865)	-
Depreciation	-	-	-	-	228,057	228,057
Debt service:						
Principal retirement	-	-	365,000	365,000	(365,000)	-
Interest and fees	-	-	11,268	11,268	(5,570)	5,698
	<u>1,559,604</u>	<u>911,835</u>	<u>408,738</u>	<u>2,880,177</u>	<u>(798,493)</u>	<u>2,081,684</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>						
	<u>144,000</u>	<u>(100,953)</u>	<u>(18,239)</u>	<u>24,808</u>	<u>367,657</u>	

**Cypress-Klein Utility District**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances (Continued)**  
**Year Ended December 31, 2017**

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
<b>Other Financing Sources</b>						
Return of capital	\$ 2,187	\$ 5,009	\$ -	\$ 7,196	\$ (7,196)	
Insurance proceeds	79,107	95,944	-	175,051	(175,051)	
Total other financing sources	81,294	100,953	0	182,247	(182,247)	
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>						
	225,294	-	(18,239)	207,055	(207,055)	
<b>Change in Net Position</b>						
					392,465	\$ 392,465
<b>Fund Balances/Net Position</b>						
Beginning of year	1,490,649	59,334	109,106	1,659,089	-	3,085,511
End of year	\$ 1,715,943	\$ 59,334	\$ 90,867	\$ 1,866,144	\$ 0	\$ 3,477,976

# **Cypress-Klein Utility District**

## **Notes to Financial Statements**

### **December 31, 2017**

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

Cypress-Klein Utility District (the District) was created by Acts of the 62<sup>nd</sup> Legislature of the State of Texas, Regular Session, 1971, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the Commission). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District 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 following is a summary of the significant accounting and reporting policies of the District:

#### ***Reporting Entity***

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District 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 District.

#### ***Government-wide and Fund Financial Statements***

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, 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 District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

# Cypress-Klein Utility District

## Notes to Financial Statements

### December 31, 2017

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

The District presents the following major governmental funds:

*General Fund* – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

*Special Revenue 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.

*Debt Service Fund* – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

#### **Fund Balances – Governmental Funds**

The fund balances for the District's governmental funds 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 District's Board.

*Assigned* – Amounts intended to be used by the District 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.



# **Cypress-Klein Utility District**

## **Notes to Financial Statements**

### **December 31, 2017**

The District 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 District 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.

#### ***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.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

##### **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 and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District 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 taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

***Pension Costs***

The District 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, liabilities, and deferred inflows and outflows of resources 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.

***Investments and Investment Income***

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2016 on the 2016 levy.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended December 31, 2017, the tax levied in October 2017 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ended December 31, 2018. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

**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 District 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.

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:

	<b>Years</b>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Buildings and improvements	40

**Deferred Amount on Debt Refundings**

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

***Debt Issuance Costs***

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds 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 debt service expenditures.

***Net Position/Fund Balances***

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

***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.	\$ 1,662,505
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	15,304
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	6,906

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

Amount due from North Harris County Regional Water Authority (the Authority) is not receivable in the current period and is not reported in the funds.	\$ 285,519
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	3,975
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(1,183)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(361,194)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ 1,611,832</u></u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ 207,055
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 by which depreciation exceeded capital outlay expenditures in the current year.	(186,192)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	365,000
Governmental funds report return of capital receipts from the Authority because they provide current financial resources.	(5,527)
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.	6,559
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>5,570</u>
Change in net position of governmental activities.	<u><u>\$ 392,465</u></u>

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 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 District'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 December 31, 2017, none of the District's bank balances were exposed to custodial credit risk.

***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, 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, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At December 31, 2017, the District had the following investments and maturities:

<b>Type</b>	<b>Maturities in Years</b>				
	<b>Amortized Cost</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
TexPool	<u>\$ 219,719</u>	<u>\$ 219,719</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

***Summary of Carrying Values***

The carrying values of deposits and investments shown previously are included in the balance sheet at December 31, 2017, as follows:

Carrying value:		
Deposits	\$	1,963,655
Investments		219,719
Total	\$	2,183,374

Included in the following statement of net position captions:

Cash	\$	1,718,655
Certificates of deposit		245,000
Short-term investments		219,719
Total	\$	2,183,374

***Investment Income***

Investment income of \$24,005 for the year ended December 31, 2017, consisted of \$6,692 of interest income on deposits and investments and \$17,313 of interest on return of capital from the Authority.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended December 31, 2017, is presented as follows.

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Balances, End of Year</b>
Capital assets, non-depreciable:			
Construction in progress	\$ 0	\$ 16,587	\$ 16,587
Capital assets, depreciable:			
Water production and distribution facilities	4,587,195	-	4,587,195
Wastewater collection and treatment facilities	7,233,493	25,278	7,258,771
Buildings and improvements	50,353	-	50,353
Total capital assets, depreciable	11,871,041	25,278	11,896,319
Less accumulated depreciation:			
Water production and distribution facilities	(3,772,423)	(115,186)	(3,887,609)
Wastewater collection and treatment facilities	(6,207,121)	(111,612)	(6,318,733)
Buildings and improvements	(42,800)	(1,259)	(44,059)
Total accumulated depreciation	(10,022,344)	(228,057)	(10,250,401)
Total governmental activities, net	\$ 1,848,697	\$ (186,192)	\$ 1,662,505

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2017, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:				
General obligation bonds	\$ 720,000	\$ 365,000	\$ 355,000	\$ 355,000
Add premiums on bonds	18,343	12,149	6,194	6,194
Total governmental Total governmental activities long-term liabilities	\$ 738,343	\$ 377,149	\$ 361,194	\$ 361,194



**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

**General Obligation Bonds**

	<b>Refunding Series 2012</b>
Amount outstanding, December 31, 2017	\$355,000
Interest rates	2.00%
Maturity date, serially beginning/ending	May 1, 2018
Interest payment dates	May 1/ November 1
Callable date*	N/A

\*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

**Annual Debt Service Requirements**

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at December 31, 2017.

Year	Principal	Interest	Total
2018	\$ 355,000	\$ 3,550	\$ 358,550

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Bonds voted	\$ 10,325,000
Bonds sold	10,325,000

**Note 5: Significant Bond Resolution and Commission Requirements**

The Bond Resolution requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended December 31, 2017, the District levied an ad valorem debt service tax at the rate of \$0.1120 per \$100 of assessed

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

valuation, which resulted in a tax levy of \$300,866 on the taxable valuation of \$268,634,755 for the 2017 tax year. The interest and principal requirements to be paid from the tax revenues and available debt service fund resources are \$358,550.

**Note 6: Regional Water Authority**

The District is within the boundaries of the Authority, which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of December 31, 2017, the Authority was billing the District \$2.90 per 1,000 gallons of water pumped from its wells and \$3.35 per 1,000 gallons for surface water received. The District bills its customers \$3.68 per 1,000 gallons to recover amounts related to water losses and bills Harris County Municipal Utility District No. 316 (District No. 316) for its share of the costs.

During a prior year, the District completed the conversion to chloramine project at water plant Nos. 2 and 3. The District received confirmation from the Authority for reimbursement of \$409,133, of which \$94,910 will be credited to District No. 316 through monthly billings. The District receives payment through credits for District pumpage fees and water payments as they become due each year. These repayments accrue interest at 6 percent per year for a 30-year period. The total calculated annual credit is \$29,738, which will be paid as a monthly credit of \$2,478 toward fees payable to the Authority. At December 31, 2017, the District's share of repayments outstanding is as follows:

Year	Amount
2018	\$ 22,840
2019	22,840
2020	22,840
2021	22,840
2022	22,840
Thereafter	414,920
	529,120
Less amount representing interest	(243,601)
	\$ 285,519

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 7: Contracts With Other Districts**

***Water Plant and Water Supply***

On October 8, 1990, the District and District No. 316 entered into an agreement for the construction and operation of joint water supply facilities. Under the terms of the agreement, the District has constructed and operates the facilities on behalf of the parties. Construction costs were shared based on capacity acquired by each party: one-third by District No. 316 and two-thirds by the District.

The District manages and operates the facility. The financial activity of the facility is shown in the special revenue fund of these financial statements. Both districts are billed monthly. District No. 316's share of operating costs is equal to the ratio of the metered flow of water through their meter, assumed to be 35,000 gallons per day (gpd), to the metered flow of water measured at the well head, assumed to be 105,000 gpd, unless such figures are exceeded by actual measured usage.

During the current year, the District's share of operating costs was \$614,115. District No. 316's share of operating costs was \$181,078. In addition, each district has paid for its share of an operating and maintenance reserve. The current reserve is \$89,000. Of the operating reserve, total share for the District is \$59,334 and is shown as fund equity in the special revenue fund. District No. 316's share of the reserve is \$29,666 and is shown as a liability of the facility.

Transactions for the current year are as follows:

	<b>The District</b>	<b>District No. 316</b>	<b>Total</b>
Receivable, beginning of year	\$ 44,381	\$ 23,446	\$ 67,827
Current year billings	614,115	181,078	795,193
Collections	(596,887)	(196,527)	(793,414)
Receivable, end of year	\$ 61,609	\$ 7,997	\$ 69,606

**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; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

**Cypress-Klein Utility District**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 9: Hurricane Harvey**

The Houston area sustained widespread flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District sustained material damage at its water plant No. 2 facility and estimates damages incurred to be approximately \$222,700. The District has filed an insurance claim with their insurance provider. The District is aware of structural flooding in a significant number of commercial properties and a limited number of residential properties. Hurricane Harvey and flooding could have an adverse impact on the region's economy, including business activity and development in the region. The District cannot predict what impact, if any Hurricane Harvey and flooding will have on the assessed value of homes within the District.

## **Required Supplementary Information**

**Cypress-Klein Utility District**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended December 31, 2017**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Water service	\$ 601,500	\$ 601,500	\$ 571,526	\$ (29,974)
Sewer service	570,000	570,000	552,757	(17,243)
Regional water fee	471,900	471,900	539,290	67,390
Penalty and interest	15,000	15,000	21,275	6,275
Tap connection and inspection fees	400	400	5,650	5,250
Investment income	3,000	3,000	12,731	9,731
Other income	500	500	375	(125)
Total revenues	<u>1,662,300</u>	<u>1,662,300</u>	<u>1,703,604</u>	<u>41,304</u>
<b>Expenditures</b>				
Service operations:				
Purchased services	500,609	500,609	614,115	(113,506)
Regional water fee	50,000	50,000	5,972	44,028
Professional fees	83,500	83,500	119,049	(35,549)
Contracted services	337,000	337,000	315,873	21,127
Sludge removal	30,000	30,000	21,586	8,414
Utilities	95,000	95,000	74,255	20,745
Repairs and maintenance	205,000	205,000	275,029	(70,029)
Other expenditures	105,076	105,076	91,860	13,216
Capital outlay	200,000	215,000	41,865	173,135
Total expenditures	<u>1,606,185</u>	<u>1,621,185</u>	<u>1,559,604</u>	<u>61,581</u>
<b>Excess of Revenues over Expenditures</b>	<u>56,115</u>	<u>41,115</u>	<u>144,000</u>	<u>102,885</u>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers out	(13,334)	(13,334)	-	13,334
Return of capital	9,051	9,051	2,187	(6,864)
Insurance proceeds	-	-	79,107	79,107
Total other financing sources (uses)	<u>(4,283)</u>	<u>(4,283)</u>	<u>81,294</u>	<u>85,577</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	51,832	36,832	225,294	188,462
<b>Fund Balance, Beginning of Year</b>	<u>1,490,649</u>	<u>1,490,649</u>	<u>1,490,649</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 1,542,481</u>	<u>\$ 1,527,481</u>	<u>\$ 1,715,943</u>	<u>\$ 188,462</u>

**Cypress-Klein Utility District**  
**Budgetary Comparison Schedule – Special Revenue Fund**  
**Year Ended December 31, 2017**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Bulk water	\$ 690,493	\$ 795,193	\$ 104,700
Investment income	-	15,689	15,689
Total revenues	<u>690,493</u>	<u>810,882</u>	<u>120,389</u>
<b>Expenditures</b>			
Service operations:			
Purchased water	-	113,575	(113,575)
Regional water fees	590,000	604,709	(14,709)
Professional fees	4,400	5,343	(943)
Contracted services	29,280	31,862	(2,582)
Utilities	45,000	31,701	13,299
Repairs and maintenance	32,500	116,440	(83,940)
Other expenditures	10,000	8,205	1,795
Total expenditures	<u>711,180</u>	<u>911,835</u>	<u>(200,655)</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(20,687)</u>	<u>(100,953)</u>	<u>(80,266)</u>
<b>Other Financing Sources</b>			
Return of capital	20,687	5,009	(15,678)
Insurance proceeds	-	95,944	95,944
Total other financing sources	<u>20,687</u>	<u>100,953</u>	<u>80,266</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	-	-	-
<b>Fund Balance, Beginning of Year</b>	<u>59,334</u>	<u>59,334</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 59,334</u>	<u>\$ 59,334</u>	<u>\$ 0</u>

**Cypress-Klein Utility District**  
**Notes to Required Supplementary Information**  
**December 31, 2017**

***Budgets and Budgetary Accounting***

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

The District prepares its annual operating budgets on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedules – General Fund and Special Revenue Fund present the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.



## **Other Information**

**Cypress-Klein Utility District**  
**Other Schedules Included Within This Report**  
**December 31, 2017**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 13-26
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

# Cypress-Klein Utility District

## Schedule of Services and Rates

### Year Ended December 31, 2017

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" 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 checked="" 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 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 28.00	8,000	N	\$ 1.50	8,001 to 15,000
				\$ 2.00	15,001 to 25,000
				\$ 3.50	25,001 to 35,000
				\$ 4.50	35,001 to 50,000
				\$ 5.50	50,001 to No Limit
Wastewater:	\$ 43.00	0	Y		
Regional water fee:	\$ 3.68	0	N	\$ 3.68	1 to No Limit

Does the District employ winter averaging for wastewater usage? Yes  No

Total charges per 10,000 gallons usage (including fees): Water \$ 67.80 Wastewater \$ 43.00

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	775	775	x1.0	775
1"	95	95	x2.5	238
1 1/2"	5	5	x5.0	25
2"	20	20	x8.0	160
3"	3	3	x15.0	45
4"	3	3	x25.0	75
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	901	901		1,318
Total wastewater	852	852	x1.0	852

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	224,890
Gallons billed to customers:	202,552
Water accountability ratio (gallons billed/gallons pumped):	90.07%

\*"ESFC" means equivalent single-family connections

**Cypress-Klein Utility District**  
**Schedule of General Fund Expenditures**  
**Year Ended December 31, 2017**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	15,600	
Legal		59,005	
Engineering		44,444	
Financial advisor		-	119,049
		<hr/>	
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			614,115
<b>Regional Water Fee</b>			5,972
<b>Contracted Services</b>			
Bookkeeping		16,641	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		94,967	111,608
		<hr/>	
<b>Utilities</b>			74,255
<b>Repairs and Maintenance</b>			275,029
<b>Administrative Expenditures</b>			
Directors' fees		13,500	
Office supplies		10,255	
Insurance		23,471	
Other administrative expenditures		44,634	91,860
		<hr/>	
<b>Capital Outlay</b>			
Capitalized assets		41,865	
Expenditures not capitalized		-	41,865
		<hr/>	
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			204,265
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			21,586
			<hr/>
Total expenditures		\$	<u><u>1,559,604</u></u>

**Cypress-Klein Utility District**  
**Schedule of Temporary Investments**  
**December 31, 2017**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
Certificate of deposit				
No. 4188565	0.60%	04/24/18	\$ 245,000	\$ 1,014
TexPool	1.28%	Demand	<u>173,556</u>	<u>-</u>
			418,556	1,014
<b>Debt Service Fund</b>				
TexPool	1.28%	Demand	<u>46,163</u>	<u>-</u>
Totals			<u><u>\$ 464,719</u></u>	<u><u>\$ 1,014</u></u>

**Cypress-Klein Utility District**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended December 31, 2017**

	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 278,432
Additions and corrections to prior years' taxes	1,728
Adjusted receivable, beginning of year	280,160
 <b>2017 Original Tax Levy</b>	 282,442
Additions and corrections	18,424
Adjusted tax levy	300,866
Total to be accounted for	581,026
Tax collections: Current year	(158,817)
Prior years	(264,856)
Receivable, end of year	\$ 157,353
 <b>Receivable, by Years</b>	
2017	\$ 142,049
2016	7,926
2015	1,420
2014	1,549
2013	1,586
2012	515
2011	412
2010	387
2009	362
2008	364
2007	406
2006	377
Receivable, end of year	\$ 157,353

**Cypress-Klein Utility District**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Property Valuations</b>				
Land	\$ 56,765,381	\$ 54,879,263	\$ 54,169,961	\$ 52,061,183
Improvements	245,295,884	237,333,172	220,009,019	200,164,102
Personal property	8,714,089	8,387,113	9,440,270	8,863,635
Exemptions	<u>(42,140,599)</u>	<u>(40,924,921)</u>	<u>(40,176,918)</u>	<u>(39,738,086)</u>
 Total property valuations	 <u>\$ 268,634,755</u>	 <u>\$ 259,674,627</u>	 <u>\$ 243,442,332</u>	 <u>\$ 221,350,834</u>
 Debt service tax rates	 <u>\$ 0.1120</u>	 <u>\$ 0.1500</u>	 <u>\$ 0.1700</u>	 <u>\$ 0.2000</u>
 <b>Tax Levy</b>	 <u>\$ 300,866</u>	 <u>\$ 389,508</u>	 <u>\$ 413,847</u>	 <u>\$ 442,698</u>
 <b>Percent of Taxes Collected to Taxes Levied*</b>	 <u>53%</u>	 <u>98%</u>	 <u>99%</u>	 <u>99%</u>

\*Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

**Cypress-Klein Utility District**  
**Schedule of Long-term Debt Service Requirements by Years**  
**December 31, 2017**

	<b>Refunding Series 2012</b>		
<b>Due During Fiscal Years Ending December 31</b>	<b>Principal Due May 1</b>	<b>Interest Due May 1, November 1</b>	<b>Total</b>
2018	<u>\$ 355,000</u>	<u>\$ 3,550</u>	<u>\$ 358,550</u>



**Cypress-Klein Utility District**  
**Changes in Long-term Bonded Debt**  
**Year Ended December 31, 2017**

	<b>Bond Issue</b>
	<b>Refunding Series 2012</b>
Interest rates	2.00%
Dates interest payable	May 1/ November 1
Maturity date	May 1, 2018
Bonds outstanding, beginning of current year	\$ 720,000
Retirements, principal	365,000
Bonds outstanding, end of current year	\$ 355,000
Interest paid during current year	\$ 10,750

Paying agent's name and address:

**Series 2012** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 10,325,000	0	0
Amount issued	\$ 10,325,000	0	0
Remaining to be issued	\$ -	0	0

Debt service fund cash and temporary investment balances as of December 31, 2017: \$ 251,574

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 358,550

**Cypress-Klein Utility District**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended December 31,**

	Amounts				
	2017	2016	2015	2014	2013
<b>General Fund</b>					
<b>Revenues</b>					
Water service	\$ 571,526	\$ 586,381	\$ 597,763	\$ 581,608	\$ 545,061
Sewer service	552,757	567,256	563,231	555,180	524,472
Regional water fee	539,290	479,455	435,561	435,561	471,466
Bulk water sales	-	-	-	20,146	-
Penalty and interest	21,275	15,679	19,378	19,514	17,689
Tap connection and inspection fees	5,650	37,500	13,250	2,825	3,295
Investment income	12,731	10,679	10,005	11,240	10,103
Other income	375	491	1,124	1,586	525
Total revenues	<u>1,703,604</u>	<u>1,697,441</u>	<u>1,640,312</u>	<u>1,627,660</u>	<u>1,572,611</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	614,115	476,404	360,504	368,322	415,393
Regional water fees	5,972	97,426	115,342	95,245	84,648
Professional fees	119,049	84,957	75,871	71,061	87,389
Contracted services	315,873	340,504	319,088	314,955	320,506
Sludge removal	21,586	29,273	34,844	21,146	20,810
Utilities	74,255	92,313	107,999	106,021	102,439
Repairs and maintenance	275,029	307,827	222,757	170,531	198,796
Other expenditures	91,860	73,564	74,358	70,693	69,754
Tap connections	-	10,850	3,100	-	-
Capital outlay	41,865	227,557	174,215	155,845	262,372
Total expenditures	<u>1,559,604</u>	<u>1,740,675</u>	<u>1,488,078</u>	<u>1,373,819</u>	<u>1,562,107</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>144,000</u>	<u>(43,234)</u>	<u>152,234</u>	<u>253,841</u>	<u>10,504</u>
<b>Other Financing Sources (Uses)</b>					
Interfund transfers out	-	-	-	-	(13,334)
Return of capital	2,187	2,061	1,941	1,828	1,722
Insurance proceeds	79,107	-	-	-	-
Total other financing sources (uses)	<u>81,294</u>	<u>2,061</u>	<u>1,941</u>	<u>1,828</u>	<u>(11,612)</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>225,294</u>	<u>(41,173)</u>	<u>154,175</u>	<u>255,669</u>	<u>(1,108)</u>
<b>Fund Balance, Beginning of Year</b>	<u>1,490,649</u>	<u>1,531,822</u>	<u>1,377,647</u>	<u>1,121,978</u>	<u>1,123,086</u>
<b>Fund Balance, End of Year</b>	<u>\$ 1,715,943</u>	<u>\$ 1,490,649</u>	<u>\$ 1,531,822</u>	<u>\$ 1,377,647</u>	<u>\$ 1,121,978</u>
<b>Total Active Retail Water Connections</b>	<u>901</u>	<u>901</u>	<u>896</u>	<u>895</u>	<u>895</u>
<b>Total Active Retail Wastewater Connections</b>	<u>852</u>	<u>852</u>	<u>850</u>	<u>849</u>	<u>849</u>

**Percent of Fund Total Revenues**

<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
33.6 %	34.6 %	36.4 %	35.7 %	34.7 %
32.5	33.4	34.3	34.1	33.4
31.7	28.3	26.6	26.8	30.0
-	-	-	1.2	-
1.2	0.9	1.2	1.2	1.1
0.3	2.2	0.8	0.2	0.2
0.7	0.6	0.6	0.7	0.6
0.0	0.0	0.1	0.1	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
36.0	28.1	22.0	22.6	26.4
0.4	5.7	7.0	5.9	5.4
7.0	5.0	4.6	4.4	5.6
18.5	20.1	19.5	19.3	20.4
1.3	1.7	2.1	1.3	1.3
4.4	5.4	6.6	6.5	6.5
16.1	18.1	13.6	10.5	12.6
5.4	4.3	4.5	4.3	4.4
-	0.6	0.2	-	-
2.5	13.4	10.6	9.6	16.7
<u>91.6</u>	<u>102.4</u>	<u>90.7</u>	<u>84.4</u>	<u>99.3</u>
<u><u>8.4 %</u></u>	<u><u>(2.4) %</u></u>	<u><u>9.3 %</u></u>	<u><u>15.6 %</u></u>	<u><u>0.7 %</u></u>

**Cypress-Klein Utility District**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended December 31,**

	Amounts				
	2017	2016	2015	2014	2013
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 386,166	\$ 410,146	\$ 437,385	\$ 444,315	\$ 485,641
Penalty and interest	3,519	4,002	2,664	5,088	2,190
Investment income	814	664	234	685	357
Total revenues	<u>390,499</u>	<u>414,812</u>	<u>440,283</u>	<u>450,088</u>	<u>488,188</u>
<b>Expenditures</b>					
Current:					
Professional fees	1,197	1,213	962	2,257	886
Contracted services	22,874	23,331	32,362	28,086	27,132
Other expenditures	8,399	7,681	2,135	2,578	1,310
Debt service:					
Principal retirement	365,000	375,000	390,000	400,000	365,000
Interest and fees	11,268	18,879	26,516	34,341	81,890
Total expenditures	<u>408,738</u>	<u>426,104</u>	<u>451,975</u>	<u>467,262</u>	<u>476,218</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(18,239)	(11,292)	(11,692)	(17,174)	11,970
<b>Fund Balance, Beginning of Year</b>	<u>109,106</u>	<u>120,398</u>	<u>132,090</u>	<u>149,264</u>	<u>137,294</u>
<b>Fund Balance, End of Year</b>	<u>\$ 90,867</u>	<u>\$ 109,106</u>	<u>\$ 120,398</u>	<u>\$ 132,090</u>	<u>\$ 149,264</u>

**Percent of Fund Total Revenues**

<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
98.9 %	98.9 %	99.3 %	98.7 %	99.5 %
0.9	0.9	0.6	1.1	0.4
0.2	0.2	0.1	0.2	0.1
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.3	0.3	0.2	0.5	0.2
5.9	5.6	7.4	6.2	5.6
2.1	1.9	0.5	0.6	0.3
93.5	90.4	88.6	88.9	74.8
2.9	4.5	6.0	7.6	16.7
<u>104.7</u>	<u>102.7</u>	<u>102.7</u>	<u>103.8</u>	<u>97.6</u>
<u>(4.7) %</u>	<u>(2.7) %</u>	<u>(2.7) %</u>	<u>(3.8) %</u>	<u>2.4 %</u>

**Cypress-Klein Utility District**  
**Board Members, Key Personnel and Consultants**  
**Year Ended December 31, 2017**

Complete District mailing address:	Cypress-Klein Utility District c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP 1980 Post Oak Boulevard, Suite 1380 Houston, Texas 77056
District business telephone number:	713.850.9000
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	September 22, 2016
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Ron Koval	Elected 05/14- 05/18	\$ 2,850	\$ 252	President
Karen Stepchinsky	Elected 05/14- 05/18	2,850	0	Vice President
Robert Rasch	Elected 05/16- 05/20	2,100	0	Secretary
Paul Laven	Elected 05/16- 05/20	2,400	0	Assistant Secretary
Mark Hanz	Elected 05/14- 05/18	3,300	260	Director

\*Fees are the amounts actually paid to a director during the District's fiscal year.

**Cypress-Klein Utility District**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended December 31, 2017**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
AEI Engineering, Inc.	09/14/87	\$ 77,400	Engineer
BKD, LLP	03/10/86	17,600	Auditor
Eagle Water Management, Inc.	03/11/02	311,249	Operator
Harris County Appraisal District	Legislative Action	2,843	Appraiser
Hilltop Securities, Inc.	11/12/12	0	Financial Advisor
L&S District Services, LLC	06/13/16	21,886	Bookkeeper
Sanford Kuhl Hagan Kugle Parker Kahn LLP	01/25/10	70,012	General Counsel
Wheeler & Associates, Inc.	07/13/72	26,453	Tax Assessor/ Collector
<b>Investment Officers</b>			
Ron Koval	07/11/00	N/A	Director