

Cypress-Klein Utility District

Harris County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2018



Cypress-Klein Utility District
December 31, 2018

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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, 2018, 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, 2018, 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
May 13, 2019

Cypress-Klein Utility District

Management's Discussion and Analysis

December 31, 2018

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, 2018

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, 2018

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>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Current and other assets | \$ 2,661,729 | \$ 2,866,589 |
| Capital assets | <u>1,635,208</u> | <u>1,662,505</u> |
| Total assets | <u>4,296,937</u> | <u>4,529,094</u> |
| Deferred outflows of resources | <u>0</u> | <u>3,975</u> |
| Total assets and deferred outflows of resources | <u>\$ 4,296,937</u> | <u>\$ 4,533,069</u> |
| Long-term liabilities | \$ - | \$ 361,194 |
| Other liabilities | <u>274,801</u> | <u>393,033</u> |
| Total liabilities | <u>274,801</u> | <u>754,227</u> |
| Deferred inflows of resources | <u>283,880</u> | <u>300,866</u> |
| Net position: | | |
| Net investment in capital assets | 1,635,208 | 1,305,286 |
| Restricted | 87,841 | 171,228 |
| Unrestricted | <u>2,015,207</u> | <u>2,001,462</u> |
| Total net position | <u>\$ 3,738,256</u> | <u>\$ 3,477,976</u> |

The total net position of the District increased by \$260,280, or about 7 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, 2018

Summary of Changes in Net Position

| | 2018 | 2017 |
|---------------------------------|--------------|--------------|
| Revenues: | | |
| Property taxes | \$ 298,181 | \$ 391,236 |
| Charges for services | 1,855,110 | 1,851,549 |
| Other revenues | 69,140 | 231,364 |
| | <hr/> | <hr/> |
| Total revenues | 2,222,431 | 2,474,149 |
| | <hr/> | <hr/> |
| Expenses: | | |
| Services | 1,757,109 | 1,847,929 |
| Depreciation | 204,894 | 228,057 |
| Debt service | 148 | 5,698 |
| | <hr/> | <hr/> |
| Total expenses | 1,962,151 | 2,081,684 |
| | <hr/> | <hr/> |
| Change in net position | 260,280 | 392,465 |
| Net position, beginning of year | 3,477,976 | 3,085,511 |
| | <hr/> | <hr/> |
| Net position, end of year | \$ 3,738,256 | \$ 3,477,976 |
| | <hr/> <hr/> | <hr/> <hr/> |

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended December 31, 2018, were \$1,795,126, a decrease of \$71,018 from the prior year.

The general fund's fund balance increased by \$19,614 primarily due to service revenues exceeding service operation expenditures.

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 \$90,632 due to principal and interest requirements and contracted services expenditures being greater than property tax revenues generated.

Cypress-Klein Utility District
Management's Discussion and Analysis (Continued)
December 31, 2018

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 and purchased services, professional fees and repairs and maintenance expenditures being greater than anticipated while water and sewer service revenues and capital outlay expenditures were less than anticipated. The fund balance as of December 31, 2018, was expected to be \$1,716,561 and the actual end-of-year fund balance was \$1,735,557.

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)

| | 2018 | 2017 |
|----------------------------|--------------|--------------|
| Construction in progress | \$ - | \$ 16,587 |
| Water facilities | 599,518 | 699,586 |
| Wastewater facilities | 1,030,655 | 940,038 |
| Buildings and improvements | 5,035 | 6,294 |
| Total capital assets | \$ 1,635,208 | \$ 1,662,505 |

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

| | |
|---|------------|
| Sanitary sewer rehabilitation, Phase 2A | \$ 177,597 |
|---|------------|

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2018, are summarized as follows:

| | |
|---|------------|
| Long-term debt payable, beginning of year | \$ 361,194 |
| Decreases in long-term debt | (361,194) |
| Long-term debt payable, end of year | \$ 0 |

Cypress-Klein Utility District
Management's Discussion and Analysis (Continued)
December 31, 2018

At December 31, 2018, 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 has no outstanding bonds.

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, 2018

| | General Fund | Special Revenue Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|---------------------|----------------------------|-------------------------|---------------------|---------------------|---------------------------------|
| Assets | | | | | | |
| Cash | \$ 904,122 | \$ 67,229 | \$ 74,261 | \$ 1,045,612 | \$ - | \$ 1,045,612 |
| Certificates of deposit | 246,475 | - | - | 246,475 | - | 246,475 |
| Short-term investments | 684,997 | - | - | 684,997 | - | 684,997 |
| Receivables: | | | | | | |
| Property taxes | 215,459 | - | 18,919 | 234,378 | - | 234,378 |
| Service accounts | 128,367 | - | - | 128,367 | - | 128,367 |
| Accrued penalty and interest | - | - | - | - | 9,353 | 9,353 |
| Accrued interest | 2,034 | - | - | 2,034 | - | 2,034 |
| Interfund receivable | 71,566 | 36,056 | - | 107,622 | (107,622) | - |
| Due from participants | - | 30,863 | - | 30,863 | - | 30,863 |
| Due from the Authority | - | - | - | - | 279,650 | 279,650 |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Infrastructure | - | - | - | - | 1,630,173 | 1,630,173 |
| Buildings | - | - | - | - | 5,035 | 5,035 |
| Total assets | \$ 2,253,020 | \$ 134,148 | \$ 93,180 | \$ 2,480,348 | \$ 1,816,589 | \$ 4,296,937 |

Cypress-Klein Utility District
Statement of Net Position and Governmental Funds Balance Sheets (Continued)
December 31, 2018

| | General Fund | Special Revenue Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|--|---------------------|----------------------------|-------------------------|---------------------|---------------------|---------------------------------|
| Liabilities | | | | | | |
| Accounts payable | \$ 82,155 | \$ 45,148 | \$ 2,460 | \$ 129,763 | \$ - | \$ 129,763 |
| Customer deposits | 106,930 | - | - | 106,930 | - | 106,930 |
| Other liabilities | - | 29,666 | - | 29,666 | - | 29,666 |
| Due to others | 8,442 | - | - | 8,442 | - | 8,442 |
| Interfund payable | 36,056 | - | 71,566 | 107,622 | (107,622) | - |
| Total liabilities | <u>233,583</u> | <u>74,814</u> | <u>74,026</u> | <u>382,423</u> | <u>(107,622)</u> | <u>274,801</u> |
| Deferred Inflows of Resources | | | | | | |
| Deferred property tax revenues | <u>283,880</u> | <u>0</u> | <u>18,919</u> | <u>302,799</u> | <u>(18,919)</u> | <u>283,880</u> |
| Fund Balances/Net Position | | | | | | |
| Fund balances: | | | | | | |
| Restricted, unlimited tax bonds | - | - | 235 | 235 | (235) | - |
| Committed, water production and distribution | - | 59,334 | - | 59,334 | (59,334) | - |
| Unassigned | <u>1,735,557</u> | <u>-</u> | <u>-</u> | <u>1,735,557</u> | <u>(1,735,557)</u> | <u>-</u> |
| Total fund balances | <u>1,735,557</u> | <u>59,334</u> | <u>235</u> | <u>1,795,126</u> | <u>(1,795,126)</u> | <u>0</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,253,020</u> | <u>\$ 134,148</u> | <u>\$ 93,180</u> | <u>\$ 2,480,348</u> | | |
| Net position: | | | | | | |
| Net investment in capital assets | | | | | 1,635,208 | 1,635,208 |
| Restricted for plant operations | | | | | 59,334 | 59,334 |
| Restricted for debt service | | | | | 28,507 | 28,507 |
| Unrestricted | | | | | <u>2,015,207</u> | <u>2,015,207</u> |
| Total net position | | | | | <u>\$ 3,738,256</u> | <u>\$ 3,738,256</u> |

Cypress-Klein Utility District
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended December 31, 2018

| | General Fund | Special Revenue Fund | Debt Service Fund | Total | Adjustments | Statement of Activities |
|--|------------------|----------------------------|-------------------------|------------------|------------------|-------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ - | \$ - | \$ 294,566 | \$ 294,566 | \$ 3,615 | \$ 298,181 |
| Water service | 555,744 | - | - | 555,744 | - | 555,744 |
| Sewer service | 548,798 | - | - | 548,798 | - | 548,798 |
| Regional water fee | 569,655 | - | - | 569,655 | - | 569,655 |
| Bulk water sales | - | 797,320 | - | 797,320 | (616,407) | 180,913 |
| Penalty and interest | 18,501 | - | 3,381 | 21,882 | 2,447 | 24,329 |
| Tap connection and inspection fees | 7,666 | - | - | 7,666 | - | 7,666 |
| Investment income | 25,292 | 15,380 | 1,162 | 41,834 | (5,126) | 36,708 |
| Other income | 437 | - | - | 437 | - | 437 |
| Total revenues | 1,726,093 | 812,700 | 299,109 | 2,837,902 | (615,471) | 2,222,431 |
| Expenditures/Expenses | | | | | | |
| Service operations: | | | | | | |
| Purchased services | 623,305 | - | - | 623,305 | (623,305) | - |
| Regional water fees | 6,483 | 731,542 | - | 738,025 | - | 738,025 |
| Professional fees | 132,656 | 4,976 | 1,389 | 139,021 | - | 139,021 |
| Contracted services | 314,247 | 27,474 | 21,456 | 363,177 | - | 363,177 |
| Sludge removal | 22,300 | - | - | 22,300 | - | 22,300 |
| Utilities | 67,185 | 31,464 | - | 98,649 | - | 98,649 |
| Repairs and maintenance | 250,804 | 14,143 | - | 264,947 | 3,500 | 268,447 |
| Other expenditures | 110,725 | 8,419 | 8,346 | 127,490 | - | 127,490 |
| Capital outlay | 181,097 | - | - | 181,097 | (181,097) | - |
| Depreciation | - | - | - | - | 204,894 | 204,894 |
| Debt service: | | | | | | |
| Principal retirement | - | - | 355,000 | 355,000 | (355,000) | - |
| Interest and fees | - | - | 3,550 | 3,550 | (3,402) | 148 |
| Total expenditures/expenses | 1,708,802 | 818,018 | 389,741 | 2,916,561 | (954,410) | 1,962,151 |
| Excess (Deficiency) of Revenues Over Expenditures | 17,291 | (5,318) | (90,632) | (78,659) | 338,939 | |

Cypress-Klein Utility District
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended December 31, 2018

| | General Fund | Special Revenue Fund | Debt Service Fund | Total | Adjustments | Statement of Activities |
|---|---------------------|----------------------------|-------------------------|---------------------|-------------|-------------------------------|
| Other Financing Sources | | | | | | |
| Return of capital | \$ 2,323 | \$ 5,318 | \$ 0 | \$ 7,641 | \$ (7,641) | |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 19,614 | - | (90,632) | (71,018) | 71,018 | |
| Change in Net Position | | | | | 260,280 | \$ 260,280 |
| Fund Balances/Net Position | | | | | | |
| Beginning of year | 1,715,943 | 59,334 | 90,867 | 1,866,144 | - | 3,477,976 |
| End of year | <u>\$ 1,735,557</u> | <u>\$ 59,334</u> | <u>\$ 235</u> | <u>\$ 1,795,126</u> | <u>\$ 0</u> | <u>\$ 3,738,256</u> |

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

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

Cypress-Klein Utility District (the District) was created by Acts of the 62nd 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, 2018

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, 2018

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, 2018

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, 2018

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 2017 on the 2017 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, 2018, the tax levied in October 2018 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ended December 31, 2019. 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:

| | Years |
|--|--------------|
| 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, 2018

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. | \$ 1,635,208 |
| Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements. | 18,919 |
| Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds. | 9,353 |

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

| | |
|--|-------------------|
| 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. | \$ <u>279,650</u> |
|--|-------------------|

| | |
|--|----------------------------|
| Adjustment to fund balances to arrive at net position. | \$ <u><u>1,943,130</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. | \$ (71,018) |
| 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 and noncapitalized expenditures exceeded capital outlay expenditures in the current year. | (27,297) |
| Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position. | 355,000 |
| Governmental funds report return of capital receipts from the Authority because they provide current financial resources. | (5,869) |
| 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. | 6,062 |
| 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>3,402</u> |
| Change in net position of governmental activities. | \$ <u><u>260,280</u></u> |

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.

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

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, 2018, 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, 2018, the District had the following investments and maturities:

| Type | Maturities in Years | | | | |
|---------|---------------------|----------------|------|------|-----------------|
| | Amortized Cost | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| TexPool | \$ 684,997 | \$ 684,997 | \$ 0 | \$ 0 | \$ 0 |

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.

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2018, 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, 2018, as follows:

| | | |
|-----------------|----|-----------|
| Carrying value: | | |
| Deposits | \$ | 1,292,087 |
| Investments | | 684,997 |
| Total | \$ | 1,977,084 |

Included in the following statement of net position captions:

| | | |
|-------------------------|----|-----------|
| Cash | \$ | 1,045,612 |
| Certificates of deposit | | 246,475 |
| Short-term investments | | 684,997 |
| Total | \$ | 1,977,084 |

Investment Income

Investment income of \$36,708 for the year ended December 31, 2018, consisted of \$19,738 of interest income on deposits and investments and \$16,970 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, 2018, is presented as follows:

| Governmental Activities | Balances, Beginning of Year | Additions | Reclass- ifications | Balances, End of Year |
|----------------------------------|-----------------------------------|-----------|------------------------|-----------------------------|
| Capital assets, non-depreciable: | | | | |
| Construction in progress | \$ 16,587 | \$ 0 | \$ (16,587) | \$ 0 |

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

| Governmental Activities (Continued) | Balances, Beginning of Year | Additions | Reclass- ifications | Balances, End of Year |
|--|--|--------------------|--------------------------------|--------------------------------------|
| Capital assets, depreciable: | | | | |
| Water production and distribution facilities | \$ 4,587,195 | \$ - | \$ - | \$ 4,587,195 |
| Wastewater collection and treatment facilities | 7,258,771 | 177,597 | 16,587 | 7,452,955 |
| Buildings and improvements | 50,353 | - | - | 50,353 |
| Total capital assets, depreciable | <u>11,896,319</u> | <u>177,597</u> | <u>16,587</u> | <u>12,090,503</u> |
| Less accumulated depreciation: | | | | |
| Water production and distribution facilities | (3,887,609) | (100,068) | - | (3,987,677) |
| Wastewater collection and treatment facilities | (6,318,733) | (103,567) | - | (6,422,300) |
| Buildings and improvements | (44,059) | (1,259) | - | (45,318) |
| Total accumulated depreciation | <u>(10,250,401)</u> | <u>(204,894)</u> | <u>0</u> | <u>(10,455,295)</u> |
| Total governmental activities, net | <u>\$ 1,662,505</u> | <u>\$ (27,297)</u> | <u>\$ 0</u> | <u>\$ 1,635,208</u> |

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2018, were as follows:

| Governmental Activities | Balances, Beginning of Year | Decreases | Balances, End of Year | Amounts Due in One Year |
|--|--|-------------------|--------------------------------------|--|
| Bonds payable: | | | | |
| General obligation bonds | \$ 355,000 | \$ 355,000 | \$ - | \$ - |
| Add premiums on bonds | 6,194 | 6,194 | - | - |
| Total governmental Total governmental activities long-term liabilities | <u>\$ 361,194</u> | <u>\$ 361,194</u> | <u>\$ 0</u> | <u>\$ 0</u> |

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.

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

| | |
|-------------|---------------|
| 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, 2018, the District did not levy an ad valorem debt service tax.

Note 6: Maintenance Taxes

At an election held on November 6, 2018, voters authorized a maintenance tax not to exceed \$0.1500 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended December 31, 2018, the District levied an ad valorem maintenance tax at the rate of \$0.1150 per \$100 of assessed valuation, which resulted in a tax levy of \$283,881 on the taxable valuation of \$246,856,395 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: 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, 2018, the Authority was billing the District \$3.40 per 1,000 gallons of water pumped from its wells and \$3.85 per 1,000 gallons for surface water received. The District bills its customers \$4.24 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, 2018, the District's share of repayments outstanding is as follows:

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

| Year | Amount |
|-----------------------------------|------------|
| 2019 | \$ 22,840 |
| 2020 | 22,840 |
| 2021 | 22,840 |
| 2022 | 22,840 |
| 2023 | 22,840 |
| Thereafter | 392,081 |
| | 506,281 |
| Less amount representing interest | (226,631) |
| | \$ 279,650 |

Note 8: 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 \$623,305. District No. 316's share of operating costs was \$174,015. 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.

Cypress-Klein Utility District
Notes to Financial Statements
December 31, 2018

| | The District | District No. 316 | Total |
|-------------------------------|-------------------------|-----------------------------|--------------|
| Receivable, beginning of year | \$ 61,609 | \$ 7,997 | \$ 69,606 |
| Current year billings | 623,305 | 174,015 | 797,320 |
| Collections | (648,858) | (151,149) | (800,007) |
| Receivable, end of year | \$ 36,056 | \$ 30,863 | \$ 66,919 |

Note 9: 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.

Required Supplementary Information

Cypress-Klein Utility District
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2018

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|----------------------------|---|
| Revenues | | | |
| Water service | \$ 601,500 | \$ 555,744 | \$ (45,756) |
| Sewer service | 570,000 | 548,798 | (21,202) |
| Regional water fee | 504,000 | 569,655 | 65,655 |
| Penalty and interest | 15,000 | 18,501 | 3,501 |
| Tap connection and inspection fees | 4,400 | 7,666 | 3,266 |
| Investment income | 500 | 25,292 | 24,792 |
| Other income | 3,000 | 437 | (2,563) |
| Total revenues | <u>1,698,400</u> | <u>1,726,093</u> | <u>27,693</u> |
| Expenditures | | | |
| Service operations: | | | |
| Purchased services | 546,873 | 623,305 | (76,432) |
| Regional water fee | 10,000 | 6,483 | 3,517 |
| Professional fees | 96,000 | 132,656 | (36,656) |
| Contracted services | 310,400 | 314,247 | (3,847) |
| Sludge removal | 25,000 | 22,300 | 2,700 |
| Utilities | 80,000 | 67,185 | 12,815 |
| Repairs and maintenance | 189,000 | 250,804 | (61,804) |
| Other expenditures | 96,226 | 110,725 | (14,499) |
| Capital outlay | 340,000 | 181,097 | 158,903 |
| Total expenditures | <u>1,693,499</u> | <u>1,708,802</u> | <u>(15,303)</u> |
| Excess of Revenues Over Expenditures | <u>4,901</u> | <u>17,291</u> | <u>12,390</u> |
| Other Financing Sources (Uses) | | | |
| Interfund transfers out | (13,334) | - | 13,334 |
| Return of capital | 9,051 | 2,323 | (6,728) |
| Total other financing sources (uses) | <u>(4,283)</u> | <u>2,323</u> | <u>6,606</u> |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 618 | 19,614 | 18,996 |
| Fund Balance, Beginning of Year | <u>1,715,943</u> | <u>1,715,943</u> | <u>-</u> |
| Fund Balance, End of Year | <u><u>\$ 1,716,561</u></u> | <u><u>\$ 1,735,557</u></u> | <u><u>\$ 18,996</u></u> |

Cypress-Klein Utility District
Budgetary Comparison Schedule – Special Revenue Fund
Year Ended December 31, 2018

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------------|------------------|--|
| Revenues | | | |
| Bulk water | \$ 732,093 | \$ 797,320 | \$ 65,227 |
| Investment income | - | 15,380 | 15,380 |
| Total revenues | <u>732,093</u> | <u>812,700</u> | <u>80,607</u> |
| Expenditures | | | |
| Service operations: | | | |
| Regional water fees | 603,313 | 731,542 | (128,229) |
| Professional fees | 6,000 | 4,976 | 1,024 |
| Contracted services | 35,280 | 27,474 | 7,806 |
| Utilities | 45,000 | 31,464 | 13,536 |
| Repairs and maintenance | 32,500 | 14,143 | 18,357 |
| Other expenditures | 10,000 | 8,419 | 1,581 |
| Total expenditures | <u>732,093</u> | <u>818,018</u> | <u>(85,925)</u> |
| Deficiency of Revenues Over Expenditures | - | (5,318) | (5,318) |
| Other Financing Sources | | | |
| Return of capital | - | 5,318 | 5,318 |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | - | - | - |
| Fund Balance, Beginning of Year | <u>59,334</u> | <u>59,334</u> | <u>-</u> |
| Fund Balance, End of Year | <u>\$ 59,334</u> | <u>\$ 59,334</u> | <u>\$ 0</u> |

Cypress-Klein Utility District
Notes to Required Supplementary Information
December 31, 2018

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 budgets of the general fund and special revenue fund were not amended during 2018.

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, 2018

(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 13-25
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [] Schedule of Long-term Debt Service Requirements by Years – N/A
- [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, 2018

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):

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate Per 1,000 Gallons Over Minimum | Usage Levels |
|--------|----------------|---------------|---------------|-------------------------------------|--------------------|
| 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: \$ 4.24 0 N \$ 4.24 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 \$ 73.40 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: | 197,085 |
| Gallons billed to customers: | 182,997 |
| Water accountability ratio (gallons billed/gallons pumped): | 92.85% |

*"ESFC" means equivalent single-family connections

Cypress-Klein Utility District
Schedule of General Fund Expenditures
Year Ended December 31, 2018

| | | | |
|---|----|---------|------------------|
| Personnel (including benefits) | | \$ | - |
| Professional Fees | | | |
| Auditing | \$ | 16,200 | |
| Legal | | 68,824 | |
| Engineering | | 47,632 | |
| Financial advisor | | - | 132,656 |
| | | <hr/> | |
| Purchased Services for Resale | | | |
| Bulk water and wastewater service purchases | | | 623,305 |
| Regional Water Fee | | | 6,483 |
| Contracted Services | | | |
| Bookkeeping | | 16,577 | |
| General manager | | - | |
| Appraisal district | | - | |
| Tax collector | | - | |
| Security | | - | |
| Other contracted services | | 101,792 | 118,369 |
| | | <hr/> | |
| Utilities | | | 67,185 |
| Repairs and Maintenance | | | 250,804 |
| Administrative Expenditures | | | |
| Directors' fees | | 12,450 | |
| Office supplies | | 11,262 | |
| Insurance | | 24,999 | |
| Other administrative expenditures | | 62,014 | 110,725 |
| | | <hr/> | |
| Capital Outlay | | | |
| Capitalized assets | | 177,597 | |
| Expenditures not capitalized | | 3,500 | 181,097 |
| | | <hr/> | |
| Tap Connection Expenditures | | | - |
| Solid Waste Disposal | | | 195,878 |
| Fire Fighting | | | - |
| Parks and Recreation | | | - |
| Other Expenditures | | | 22,300 |
| | | | <hr/> |
| Total expenditures | | \$ | <u>1,708,802</u> |

Cypress-Klein Utility District
Schedule of Temporary Investments
December 31, 2018

| | Interest Rate | Maturity Date | Face Amount | Accrued Interest Receivable |
|------------------------|--------------------------|--------------------------|------------------------|--|
| General Fund | | | | |
| Certificate of deposit | | | | |
| No. 4188565 | 1.20% | 04/24/19 | \$ 246,475 | \$ 2,034 |
| TexPool | 2.40% | Demand | 684,997 | - |
| Totals | | | \$ 931,472 | \$ 2,034 |

Cypress-Klein Utility District
Analysis of Taxes Levied and Receivable
Year Ended December 31, 2018

| | <u>Maintenance Taxes</u> | <u>Debt Service Taxes</u> |
|---|------------------------------|-----------------------------------|
| Receivable, Beginning of Year | \$ - | \$ 157,353 |
| Additions and corrections to prior years' taxes | - | (3,359) |
| Adjusted receivable, beginning of year | <u>0</u> | <u>153,994</u> |
| 2018 Original Tax Levy | 261,236 | - |
| Additions and corrections | <u>22,644</u> | <u>-</u> |
| Adjusted tax levy | <u>283,880</u> | <u>0</u> |
| Total to be accounted for | 283,880 | 153,994 |
| Tax collections: Current year | (68,421) | - |
| Prior years | <u>-</u> | <u>(135,075)</u> |
| Receivable, end of year | <u>\$ 215,459</u> | <u>\$ 18,919</u> |
| Receivable, by Years | | |
| 2018 | \$ 215,459 | \$ - |
| 2017 | - | 5,505 |
| 2016 | - | 6,228 |
| 2015 | - | 1,320 |
| 2014 | - | 1,503 |
| 2013 | - | 1,540 |
| 2012 | - | 515 |
| 2011 | - | 412 |
| 2010 | - | 387 |
| 2009 | - | 362 |
| 2008 | - | 364 |
| 2007 | - | 406 |
| 2006 | <u>-</u> | <u>377</u> |
| Receivable, end of year | <u>\$ 215,459</u> | <u>\$ 18,919</u> |

Cypress-Klein Utility District
Analysis of Taxes Levied and Receivable (Continued)
Year Ended December 31, 2018

| | 2018 | 2017 | 2016 | 2015 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| Property Valuations | | | | |
| Land | \$ 56,965,395 | \$ 56,765,381 | \$ 54,879,263 | \$ 54,169,961 |
| Improvements | 220,472,400 | 245,295,884 | 237,333,172 | 220,009,019 |
| Personal property | 10,768,167 | 8,714,089 | 8,387,113 | 9,440,270 |
| Exemptions | <u>(41,349,567)</u> | <u>(42,140,599)</u> | <u>(40,924,921)</u> | <u>(40,176,918)</u> |
| Total property valuations | <u><u>\$ 246,856,395</u></u> | <u><u>\$ 268,634,755</u></u> | <u><u>\$ 259,674,627</u></u> | <u><u>\$ 243,442,332</u></u> |
| Tax Rates per \$100 Valuation | | | | |
| Debt service tax rates | \$ - | \$ 0.1120 | \$ 0.1500 | \$ 0.1700 |
| Maintenance tax rates* | <u>0.1150</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total tax rates per \$100 valuation | <u><u>\$ 0.1150</u></u> | <u><u>\$ 0.1120</u></u> | <u><u>\$ 0.1500</u></u> | <u><u>\$ 0.1700</u></u> |
| Tax Levy | <u><u>\$ 283,880</u></u> | <u><u>\$ 300,866</u></u> | <u><u>\$ 389,508</u></u> | <u><u>\$ 413,847</u></u> |
| Percent of Taxes Collected to Taxes Levied** | | | | |
| | <u><u>24%</u></u> | <u><u>99%</u></u> | <u><u>99%</u></u> | <u><u>99%</u></u> |

*Maximum tax rate approved by voters: \$0.1500 on November 6, 2018.

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

Cypress-Klein Utility District
Changes in Long-term Bonded Debt
Year Ended December 31, 2018

| | Bond Issue |
|--|------------------------------|
| | Refunding Series 2012 |
| Interest rates | 2.00% |
| Dates interest payable | May 1/ November 1 |
| Bonds outstanding, beginning of current year | \$ 355,000 |
| Retirements, principal | 355,000 |
| Bonds outstanding, end of current year | \$ 0 |
| Interest paid during current year | \$ 3,550 |

Paying agent's name and address:

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

| Bond authority: | Tax Bonds | Other Bonds | Refunding Bonds |
|-----------------------------|------------------|--------------------|------------------------|
| 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, 2018: \$ 74,261

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 0

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

| | Amounts | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| General Fund | | | | | |
| Revenues | | | | | |
| Water service | \$ 555,744 | \$ 571,526 | \$ 586,381 | \$ 597,763 | \$ 581,608 |
| Sewer service | 548,798 | 552,757 | 567,256 | 563,231 | 555,180 |
| Regional water fee | 569,655 | 539,290 | 479,455 | 435,561 | 435,561 |
| Bulk water sales | - | - | - | - | 20,146 |
| Penalty and interest | 18,501 | 21,275 | 15,679 | 19,378 | 19,514 |
| Tap connection and inspection fees | 7,666 | 5,650 | 37,500 | 13,250 | 2,825 |
| Investment income | 25,292 | 12,731 | 10,679 | 10,005 | 11,240 |
| Other income | 437 | 375 | 491 | 1,124 | 1,586 |
| Total revenues | <u>1,726,093</u> | <u>1,703,604</u> | <u>1,697,441</u> | <u>1,640,312</u> | <u>1,627,660</u> |
| Expenditures | | | | | |
| Service operations: | | | | | |
| Purchased services | 623,305 | 614,115 | 476,404 | 360,504 | 368,322 |
| Regional water fees | 6,483 | 5,972 | 97,426 | 115,342 | 95,245 |
| Professional fees | 132,656 | 119,049 | 84,957 | 75,871 | 71,061 |
| Contracted services | 314,247 | 315,873 | 340,504 | 319,088 | 314,955 |
| Sludge removal | 22,300 | 21,586 | 29,273 | 34,844 | 21,146 |
| Utilities | 67,185 | 74,255 | 92,313 | 107,999 | 106,021 |
| Repairs and maintenance | 250,804 | 275,029 | 307,827 | 222,757 | 170,531 |
| Other expenditures | 110,725 | 91,860 | 73,564 | 74,358 | 70,693 |
| Tap connections | - | - | 10,850 | 3,100 | - |
| Capital outlay | 181,097 | 41,865 | 227,557 | 174,215 | 155,845 |
| Total expenditures | <u>1,708,802</u> | <u>1,559,604</u> | <u>1,740,675</u> | <u>1,488,078</u> | <u>1,373,819</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>17,291</u> | <u>144,000</u> | <u>(43,234)</u> | <u>152,234</u> | <u>253,841</u> |
| Other Financing Sources | | | | | |
| Return of capital | 2,323 | 2,187 | 2,061 | 1,941 | 1,828 |
| Insurance proceeds | - | 79,107 | - | - | - |
| Total other financing sources | <u>2,323</u> | <u>81,294</u> | <u>2,061</u> | <u>1,941</u> | <u>1,828</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 19,614 | 225,294 | (41,173) | 154,175 | 255,669 |
| Fund Balance, Beginning of Year | <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> |
| Fund Balance, End of Year | <u>\$ 1,735,557</u> | <u>\$ 1,715,943</u> | <u>\$ 1,490,649</u> | <u>\$ 1,531,822</u> | <u>\$ 1,377,647</u> |
| Total Active Retail Water Connections | <u>901</u> | <u>901</u> | <u>901</u> | <u>896</u> | <u>895</u> |
| Total Active Retail Wastewater Connections | <u>852</u> | <u>852</u> | <u>852</u> | <u>850</u> | <u>849</u> |

Percent of Fund Total Revenues

| 2018 | 2017 | 2016 | 2015 | 2014 |
|---------------------|---------------------|-----------------------|---------------------|----------------------|
| 32.2 % | 33.6 % | 34.6 % | 36.4 % | 35.7 % |
| 31.8 | 32.5 | 33.4 | 34.3 | 34.1 |
| 33.0 | 31.7 | 28.3 | 26.6 | 26.8 |
| - | - | - | - | 1.2 |
| 1.1 | 1.2 | 0.9 | 1.2 | 1.2 |
| 0.4 | 0.3 | 2.2 | 0.8 | 0.2 |
| 1.5 | 0.7 | 0.6 | 0.6 | 0.7 |
| 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 36.1 | 36.0 | 28.1 | 22.0 | 22.6 |
| 0.4 | 0.4 | 5.7 | 7.0 | 5.9 |
| 7.7 | 7.0 | 5.0 | 4.6 | 4.4 |
| 18.2 | 18.5 | 20.1 | 19.5 | 19.3 |
| 1.3 | 1.3 | 1.7 | 2.1 | 1.3 |
| 3.9 | 4.4 | 5.4 | 6.6 | 6.5 |
| 14.5 | 16.1 | 18.1 | 13.6 | 10.5 |
| 6.4 | 5.4 | 4.3 | 4.5 | 4.3 |
| - | - | 0.6 | 0.2 | - |
| 10.5 | 2.5 | 13.4 | 10.6 | 9.6 |
| <u>99.0</u> | <u>91.6</u> | <u>102.4</u> | <u>90.7</u> | <u>84.4</u> |
| <u><u>1.0 %</u></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> |

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

| | Amounts | | | | |
|---|----------------|------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Debt Service Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ 294,566 | \$ 386,166 | \$ 410,146 | \$ 437,385 | \$ 444,315 |
| Penalty and interest | 3,381 | 3,519 | 4,002 | 2,664 | 5,088 |
| Investment income | 1,162 | 814 | 664 | 234 | 685 |
| Total revenues | <u>299,109</u> | <u>390,499</u> | <u>414,812</u> | <u>440,283</u> | <u>450,088</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Professional fees | 1,389 | 1,197 | 1,213 | 962 | 2,257 |
| Contracted services | 21,456 | 22,874 | 23,331 | 32,362 | 28,086 |
| Other expenditures | 8,346 | 8,399 | 7,681 | 2,135 | 2,578 |
| Debt service: | | | | | |
| Principal retirement | 355,000 | 365,000 | 375,000 | 390,000 | 400,000 |
| Interest and fees | 3,550 | 11,268 | 18,879 | 26,516 | 34,341 |
| Total expenditures | <u>389,741</u> | <u>408,738</u> | <u>426,104</u> | <u>451,975</u> | <u>467,262</u> |
| Deficiency of Revenues Over Expenditures | (90,632) | (18,239) | (11,292) | (11,692) | (17,174) |
| Fund Balance, Beginning of Year | <u>90,867</u> | <u>109,106</u> | <u>120,398</u> | <u>132,090</u> | <u>149,264</u> |
| Fund Balance, End of Year | <u>\$ 235</u> | <u>\$ 90,867</u> | <u>\$ 109,106</u> | <u>\$ 120,398</u> | <u>\$ 132,090</u> |

Percent of Fund Total Revenues

| 2018 | 2017 | 2016 | 2015 | 2014 |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 98.5 % | 98.9 % | 98.9 % | 99.3 % | 98.7 % |
| 1.1 | 0.9 | 0.9 | 0.6 | 1.1 |
| 0.4 | 0.2 | 0.2 | 0.1 | 0.2 |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 0.5 | 0.3 | 0.3 | 0.2 | 0.5 |
| 6.5 | 5.9 | 5.6 | 7.4 | 6.2 |
| 3.4 | 2.1 | 1.9 | 0.5 | 0.6 |
| 118.7 | 93.5 | 90.4 | 88.6 | 88.9 |
| <u>1.2</u> | <u>2.9</u> | <u>4.5</u> | <u>6.0</u> | <u>7.6</u> |
| <u>130.3</u> | <u>104.7</u> | <u>102.7</u> | <u>102.7</u> | <u>103.8</u> |
| <u><u>(30.3) %</u></u> | <u><u>(4.7) %</u></u> | <u><u>(2.7) %</u></u> | <u><u>(2.7) %</u></u> | <u><u>(3.8) %</u></u> |

Cypress-Klein Utility District
Board Members, Key Personnel and Consultants
Year Ended December 31, 2018

| | | |
|--|---|--------------|
| 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): | | May 21, 2018 |
| 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 |
|----------------|---|----------|---------------------------|------------------------|
| Robert Rasch | Elected 05/16- 05/20 | \$ 2,550 | \$ 0 | President |
| Paul Laven | Elected 05/16- 05/20 | 2,250 | 0 | Vice President |
| Adam Lightfoot | Elected 05/18- 05/22 | 2,100 | 0 | Secretary |
| Carl Sandhoff | Elected 05/18- 05/22 | 1,800 | 0 | Assistant Secretary |
| Chaz Logan | Elected 05/18- 05/22 | 1,650 | 0 | 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, 2018

| Board Members | Term of Office Elected & Expires | Fees* | Expense Reimbursements | Title at Year-end |
|----------------------|---|--------------|-----------------------------------|------------------------------|
| Mark Hanz | Elected 05/14- 05/18 | \$ 750 | \$ 0 | Term Expired |
| Karen Stepchinsky | Elected 05/14- 05/18 | 750 | 0 | Term Expired |
| Ron Koval | Elected 05/14- 01/18 | 600 | 0 | Resigned |

*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, 2018

| Consultants | Date Hired | Fees and Expense Reimbursements | Title |
|--|-----------------------|--|--------------------------------|
| AEI Engineering, Inc. | 09/14/87 | \$ 85,922 | Engineer |
| BKD, LLP | 03/10/86 | 18,200 | Auditor |
| Eagle Water Management, Inc. | 03/11/02 | 319,324 | Operator |
| Harris County Appraisal District | Legislative Action | 2,054 | Appraiser |
| Hilltop Securities Inc. | 11/12/12 | 0 | Former Financial Advisor |
| L&S District Services, LLC | 06/13/16 | 21,851 | Bookkeeper |
| Masterson Advisors LLC | 07/09/18 | 0 | Financial Advisor |
| Sanford Kuhl Hagan Kugle Parker Kahn LLP | 01/25/10 | 89,293 | General Counsel |
| Wheeler & Associates, Inc. | 07/13/72 | 26,089 | Tax Assessor/ Collector |
| Investment Officers | | | |
| Debra Loggins | 11/14/17 | N/A | Bookkeeper |