

HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 116
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
SEPTEMBER 30, 2017

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Roth & Eyring, PLLC

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January 31, 2018

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Water Control
And Improvement District No. 116
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Harris County Water Control And Improvement District No. 116, as of and for the year ended September 30, 2017, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Water Control And Improvement District No. 116 as of September 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 24 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Wastewater Treatment Plant Special Revenue Fund, on Page 25 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Recreation Facilities Special Revenue Fund, on Page 26 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 27 to 41 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

North & Arising, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Water Control and Improvement District No. 116 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017.

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District. Resources in the Wastewater Treatment Plant Special Revenue Fund are derived principally from billings to participants in accordance with the contract and are used to operate and maintain the facility. Resources in the Recreation Facilities Special Revenue Fund are derived from transfers from the General Fund and fees paid by users of the facilities. Such funds are used to operate and maintain the facilities. The District does not currently have an active Debt Service Fund or Capital Projects Fund.

Management has financial objectives for each of the District's funds. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Wastewater Treatment Plant Special Revenue Fund is to insure that the expenditures in the fund are billed to the participants in accordance with the contract. The financial objective for the Recreation Facilities Special Revenue Fund is to account for the revenues and expenditures related to the recreation facilities. Management believes that these financial objectives were met during the fiscal year.

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

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

Summary of Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current and other assets	\$ 6,938,228	\$ 1,663,213	\$ 5,275,015
Capital assets	1,806,794	1,858,753	(51,959)
Total assets	<u>8,745,022</u>	<u>3,521,966</u>	<u>5,223,056</u>
Long-term liabilities	5,311,579	0	5,311,579
Other liabilities	558,696	575,274	(16,578)
Total liabilities	<u>5,870,275</u>	<u>575,274</u>	<u>5,295,001</u>
Net position:			
Invested in capital assets, net of related debt	(3,599,526)	1,858,753	(5,458,279)
Restricted	5,130,074	154,867	4,975,207
Unrestricted	1,344,199	933,072	411,127
Total net position	<u>\$ 2,874,747</u>	<u>\$ 2,946,692</u>	<u>\$ (71,945)</u>

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 680,373	\$ 283,417	\$ 396,956
Charges for services	1,806,166	1,641,281	164,885
Other revenues	190,156	187,213	2,943
Total revenues	<u>2,676,695</u>	<u>2,111,911</u>	<u>564,784</u>
Expenses:			
Service operations	2,357,419	2,278,263	79,156
Debt service	391,221	0	391,221
Total expenses	<u>2,748,640</u>	<u>2,278,263</u>	<u>470,377</u>
Change in net position	(71,945)	(166,352)	94,407
Net position, beginning of year	<u>2,946,692</u>	<u>3,113,044</u>	<u>(166,352)</u>
Net position, end of year	<u>\$ 2,874,747</u>	<u>\$ 2,946,692</u>	<u>\$ (71,945)</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2017, were \$6,633,801, an increase of \$5,501,718 from the prior year.

The General Fund balance increased by \$404,497, in accordance with the District's financial plan.

The Wastewater Treatment Plant Special Revenue Fund balance did not change during the fiscal year.

The Recreation Facilities Special Revenue Fund balance increased by \$7,448, as revenues and the transfer of \$142,843 from the General Fund exceeded expenditures.

The Debt Service Fund balance increased by \$466,812, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by \$4,622,961, as proceeds from the Series 2017 bonds and interest earnings on deposits exceeded authorized expenditures and the reimbursement of \$258,552 to the General Fund.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 24 of this report. The budgetary fund balance as of September 30, 2017, was expected to be \$1,069,011 and the actual end of year fund balance was \$1,473,508.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$ 107,481	\$ 107,481	\$ 0
Construction in progress	22,589	0	22,589
Buildings and improvements	100,073	117,486	(17,413)
Water facilities	403,092	441,184	(38,092)
Sewer facilities	1,173,559	1,192,602	(19,043)
Totals	<u>\$ 1,806,794</u>	<u>\$ 1,858,753</u>	<u>\$ (51,959)</u>

Changes to capital assets during the fiscal year ended September 30, 2017, are summarized as follows:

Additions:		
Sewer system improvements		\$ 58,718
Decreases:		
Depreciation		<u>(110,677)</u>
Net change to capital assets		<u>\$ (51,959)</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2017, are summarized as follows:

Bonded debt payable, beginning of year	\$ 0
Bonds sold	<u>5,625,000</u>
Bonded debt payable, end of year	<u>\$ 5,625,000</u>

At September 30, 2017, the District had \$15,295,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District has a underlying rating of Baa1 by Moody's. The Series 2017 bonds are insured by National Public Finance Guarantee Corp. The rating of the bonds is Baa1 by Moody's. There was no change in the bond ratings during the fiscal year ended September 30, 2017.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$22,010,000 for the 2016 tax year (approximately 8%), primarily due to the increase of the average assessed valuations on existing property.

Relationship to the City of Houston

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of June 18, 2004. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use tax and voting in City elections. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

Water Supply Issues

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

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

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At September 30, 2017, the pumpage fee was equal to \$2.90 per 1,000 gallons pumped, and is expected to increase in the future. At September 30, 2017, the Authority's surface water usage fee was equal to \$3.35 per 1,000 gallons, and is expected to increase in the future. The NHCRWA has sold four issues of bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the Pumpage Fee.

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HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2017

	<u>General</u>	<u>Wastewater Treatment Plant Special Revenue Fund</u>	<u>Recreation Facilities Special Revenue Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS								
Cash, including interest-bearing accounts, Note 7	\$ 757,855	\$ 50,001	\$ 22,534	\$ 525,028	\$ 4,383,856	\$ 5,739,274	\$	\$ 5,739,274
Certificates of deposit, at cost, Note 7	395,000					395,000		395,000
Temporary investments, at cost, Note 7	371,282					371,282		371,282
Receivables:								
Property taxes	5,594			2,741		8,335		8,335
Accrued penalty and interest on property taxes						0	2,350	2,350
Service accounts	96,825					96,825		96,825
Accrued interest	972					972		972
Other district		40,388			56,085	96,473		96,473
City of Houston, Note 11	39,938					39,938		39,938
Other	6,230					6,230		6,230
Due from other funds	67,517	37,040	17,607		183,020	305,184	(305,184)	0
Prepaid expenditures	18,652					18,652		18,652
Deposit	5,124					5,124		5,124
Groundwater bank certificates, at cost, Note 13	35,531					35,531		35,531
Chloramine costs due from regional authority, Note 10	122,242					122,242		122,242
Deposit at joint venture, Note 9	50,000					50,000	(50,000)	0
Capital assets, net of accumulated depreciation, Note 4:								
Capital assets not being depreciated						0	130,070	130,070
Depreciable capital assets						0	1,676,724	1,676,724
Total assets	\$ 1,972,762	\$ 127,429	\$ 40,141	\$ 527,769	\$ 4,622,961	\$ 7,291,062	1,453,960	8,745,022

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

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET, (Continued)

SEPTEMBER 30, 2017

	<u>General</u>	<u>Wastewater Treatment Plant Special Revenue Fund</u>	<u>Recreation Facilities Special Revenue Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
LIABILITIES								
Accounts payable	\$ 165,993	\$ 69,238	\$ 16,621	\$ 1,890	\$	\$ 253,742	\$	\$ 253,742
Accrued interest payable						0	14,033	14,033
Customer deposits	90,000					90,000		90,000
Due to other funds	237,667	8,191	3,000	56,326		305,184	(305,184)	0
Long-term liabilities, Note 5:								
Due within one year						0	200,921	200,921
Due in more than one year						0	5,311,579	5,311,579
<u>Total liabilities</u>	<u>493,660</u>	<u>77,429</u>	<u>19,621</u>	<u>58,216</u>	<u>0</u>	<u>648,926</u>	<u>5,221,349</u>	<u>5,870,275</u>
DEFERRED INFLOWS OF RESOURCES								
Property tax revenues	<u>5,594</u>	<u>0</u>	<u>0</u>	<u>2,741</u>	<u>0</u>	<u>8,335</u>	<u>(8,335)</u>	<u>0</u>
FUND BALANCES / NET POSITION								
Fund balances:								
Nonspendable:								
Groundwater bank certificates, Note 13	35,531					35,531	(35,531)	0
Deposit at joint venture, Note 9	50,000					50,000	(50,000)	0
Due from regional authority, Note 10	122,242					122,242	(122,242)	0
Restricted for:								
Bond interest, Note 5				106,180		106,180	(106,180)	0
Deposit at joint venture, Note 9		50,000				50,000	(50,000)	0
Committed to:								
Recreational Facilities			20,520			20,520	(20,520)	0
Assigned to:								
Debt service				360,632		360,632	(360,632)	0
Capital projects					4,622,961	4,622,961	(4,622,961)	0
Unassigned	<u>1,265,735</u>					<u>1,265,735</u>	<u>(1,265,735)</u>	<u>0</u>
<u>Total fund balances</u>	<u>1,473,508</u>	<u>50,000</u>	<u>20,520</u>	<u>466,812</u>	<u>4,622,961</u>	<u>6,633,801</u>	<u>(6,633,801)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 1,972,762</u>	<u>\$ 127,429</u>	<u>\$ 40,141</u>	<u>\$ 527,769</u>	<u>\$ 4,622,961</u>	<u>\$ 7,291,062</u>		
Net position:								
Invested in capital assets, net of related debt, Note 4							(3,599,526)	(3,599,526)
Restricted for debt service							349,340	349,340
Restricted for capital projects							4,622,961	4,622,961
Restricted for groundwater bank certificates							35,531	35,531
Restricted for due from regional authority							122,242	122,242
Unrestricted							<u>1,344,199</u>	<u>1,344,199</u>
Total net position							<u>\$ 2,874,747</u>	<u>\$ 2,874,747</u>

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

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Wastewater Treatment Plant Special Revenue Fund	Recreation Facilities Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES								
Property taxes	\$ 285,465	\$	\$	\$ 374,355	\$	\$ 659,820	\$ 3,875	\$ 663,695
Water service	425,419					425,419		425,419
Sewer service	338,015					338,015		338,015
Surface water fees, Note 10	566,809					566,809		566,809
Penalty and interest	18,285			15,724		34,009	954	34,963
Tap connection and inspection fees	13,175					13,175		13,175
Sales and Use Taxes, Note 11	181,774					181,774		181,774
Recreation facilities user charges, Note 12			90,410			90,410		90,410
From participants in joint facilities, Note 9		561,850				561,850	(259,294)	302,556
Interest on surface water chloramine costs, Note 10	7,517					7,517		7,517
Accrued interest on bonds received at date of sale				7,952		7,952	(7,952)	0
Interest on deposits and investments	7,096	9	5	410	862	8,382		8,382
Other revenues	43,980					43,980		43,980
Total revenues	1,887,535	561,859	90,415	398,441	862	2,939,112	(262,417)	2,676,695
EXPENDITURES / EXPENSES								
Service operations:								
Purchased sewer services, Note 9	259,294					259,294	(259,294)	0
Professional fees	137,292	19,903	14,381	7,507		179,083		179,083
Contracted services	149,880	83,188	66,343	15,068		314,479		314,479
Utilities	48,215	76,075	13,024			137,314		137,314
Surface water fees, Note 10	570,705					570,705		570,705
Repairs and maintenance	304,880	206,948	65,732			577,560		577,560
Other operating expenditures	43,629	155,986	60,042			259,657		259,657
Administrative expenditures	79,729	19,759	6,288	6,750		112,526		112,526
Depreciation						0	110,677	110,677
Capital outlay / non-capital outlay	5,655				148,481	154,136	(58,718)	95,418
Debt service:								
Bond issuance expenditures					314,977	314,977		314,977
Interest and fees				70,163		70,163	6,081	76,244
Total expenditures / expenses	1,599,279	561,859	225,810	99,488	463,458	2,949,894	(201,254)	2,748,640
Excess (deficiency) of revenues over expenditures	288,256	0	(135,395)	298,953	(462,596)	(10,782)	(61,163)	(71,945)

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

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Wastewater Treatment Plant Special Revenue Fund</u>	<u>Recreation Facilities Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities</u>
Excess (deficiency) of revenues over expenditures	\$ 288,256	\$ 0	\$ (135,395)	\$ 298,953	\$ (462,596)	\$ (10,782)	\$ (61,163)	\$ (71,945)
OTHER FINANCING SOURCES (USES)								
Bonds issued, Note 5				280,891	5,344,109	5,625,000	(5,625,000)	0
Bond issuance discount, Note 5				(112,500)		(112,500)	112,500	0
Reimbursement (to) from other fund, Note 7	259,084			(532)	(258,552)	0		0
Operating transfers in (out)	(142,843)		142,843			0		0
Total other financing sources (uses)	<u>116,241</u>	<u>0</u>	<u>142,843</u>	<u>167,859</u>	<u>5,085,557</u>	<u>5,512,500</u>	<u>(5,512,500)</u>	<u>0</u>
Net change in fund balances / net position	404,497	0	7,448	466,812	4,622,961	5,501,718	(5,573,663)	(71,945)
Beginning of year	<u>1,069,011</u>	<u>50,000</u>	<u>13,072</u>	<u>0</u>	<u>0</u>	<u>1,132,083</u>	<u>1,814,609</u>	<u>2,946,692</u>
End of year	<u>\$ 1,473,508</u>	<u>\$ 50,000</u>	<u>\$ 20,520</u>	<u>\$ 466,812</u>	<u>\$ 4,622,961</u>	<u>\$ 6,633,801</u>	<u>\$ (3,759,054)</u>	<u>\$ 2,874,747</u>

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

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2017

NOTE 1: REPORTING ENTITY

Harris County Water Control and Improvement District No. 116 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective September 12, 1968, and operates in accordance with Texas Water Code Chapters 49 and 51. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on December 20, 1968, and the first bonds were sold on February 27, 1970. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

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

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

The District and Heatherloch Municipal Utility District are participants in joint sewage treatment facilities (the "Facilities"). Oversight of the Facilities is exercised by the Board of Directors of the District and financial activity of the Facilities has been included as a component unit in the financial statements of the District. The Facilities' General Fund has been reported as the Special Revenue Fund of the District. Transactions with this joint venture are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Basic Financial Statements

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

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

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

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

Wastewater Treatment Plant Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the joint sewage treatment facilities.

Recreation Facilities Special Revenue Fund -- To account for all revenues and expenditures of the recreation facilities operated by the District.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

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

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

Interfund Activity

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

Receivables

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Plant and equipment	10-45 years
Underground lines	45 years

Regional Water Authority Credits

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under agreements with the regional water authority are recorded as either a repayment of the principal amount or interest earned at the interest rate of the applicable agreement. The principal is amortized based upon the life of the credits and the interest rate of the applicable agreement.

Long-term Liabilities

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

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

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

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 6,633,801
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		1,806,794
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (5,625,000)	
Issuance discount (to be amortized as interest expense)	<u>112,500</u>	(5,512,500)
The assets in the Special Revenue Fund are owned by the District and other participants in the Wastewater Treatment Plant:		
The District's equity		(50,000)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	2,350	
Uncollected property taxes	<u>8,335</u>	10,685
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(14,033)</u>
Net position, end of year		<u>\$ 2,874,747</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Total net change in fund balances		\$ 5,501,718
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 58,718	
Depreciation	<u>(110,677)</u>	(51,959)
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Bonds issued		(5,625,000)
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Issuance discount		112,500
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	954	
Uncollected property taxes	<u>3,875</u>	4,829
<p>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 the funds:</p>		
Accrued interest		<u>(14,033)</u>
Change in net position		<u>\$ (71,945)</u>

NOTE 4: CAPITAL ASSETS

At September 30, 2017, "Invested in capital assets, net of related debt" was \$(3,599,526). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$10,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 107,481			\$ 107,481
Construction in progress	<u>0</u>	<u>22,589</u>		<u>22,589</u>
Total capital assets not being depreciated	<u>107,481</u>	<u>22,589</u>	<u>0</u>	<u>130,070</u>
Depreciable capital assets:				
Buildings and improvements	423,651			423,651
Water system	2,213,640			2,213,640
Sewer system	<u>2,594,029</u>	<u>36,129</u>		<u>2,630,158</u>
Total depreciable capital assets	<u>5,231,320</u>	<u>36,129</u>	<u>0</u>	<u>5,267,449</u>
Less accumulated depreciation for:				
Buildings and improvements	(306,165)	(17,413)		(323,578)
Water system	(1,772,456)	(38,092)		(1,810,548)
Sewer system	<u>(1,401,427)</u>	<u>(55,172)</u>		<u>(1,456,599)</u>
Total accumulated depreciation	<u>(3,480,048)</u>	<u>(110,677)</u>	<u>0</u>	<u>(3,590,725)</u>
Total depreciable capital assets, net	<u>1,751,272</u>	<u>(74,548)</u>	<u>0</u>	<u>1,676,724</u>
Total capital assets, net	<u>\$ 1,858,753</u>	<u>\$ (51,959)</u>	<u>\$ 0</u>	<u>\$ 1,806,794</u>
Changes to capital assets:				
Capital outlay		\$ 58,718		
Depreciation expense for the fiscal year		<u>(110,677)</u>		
Net increases / decreases to capital assets		<u>\$ (51,959)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 0	\$ 5,625,000		\$ 5,625,000	\$ 210,000
Issuance discount	<u>0</u>	<u>(112,500)</u>		<u>(112,500)</u>	<u>(9,079)</u>
Total bonds payable	<u>0</u>	<u>5,512,500</u>	<u>0</u>	<u>5,512,500</u>	<u>200,921</u>
Total long-term liabilities	<u>\$ 0</u>	<u>\$ 5,512,500</u>	<u>\$ 0</u>	<u>\$ 5,512,500</u>	<u>\$ 200,921</u>

At September 30, 2017, there were no developer construction commitments or liabilities.

Bonds voted	\$ 27,400,000
Bonds approved for sale and sold	12,105,000
Bonds voted and not issued	15,295,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of September 30, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 210,000	\$ 166,291	\$ 376,291
2019	215,000	162,041	377,041
2020	220,000	157,691	377,691
2021	225,000	153,242	378,242
2022	230,000	148,576	378,576
2023 - 2027	1,260,000	652,421	1,912,421
2028 - 2032	1,480,000	449,540	1,929,540
2033 - 2037	<u>1,785,000</u>	<u>170,701</u>	<u>1,955,701</u>
	<u>\$ 5,625,000</u>	<u>\$ 2,060,503</u>	<u>\$ 7,685,503</u>

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

The bond issues payable at September 30, 2017, were as follows:

	<u>Series 2017</u>
Amounts outstanding, September 30, 2017	\$5,625,000
Interest rates	2.00% to 3.75%
Maturity dates, serially beginning/ending	March 1, 2018/2037
Interest payment dates	March 1/September 1
Callable dates	March 1, 2024*

*Or any date thereafter, in whole or in part, callable at par plus unpaid accrued interest to the date fixed for redemption.

In accordance with the Series 2017 Bond Order, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

12 months interest from sale of bonds	\$ 168,391
Accrued interest received at date of sale	<u>7,952</u>
	176,343
Appropriation for bond interest paid	<u>(70,163)</u>
Bond interest reserve, end of year	<u>\$ 106,180</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES

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

At an election held November 16, 2015, the voters within the District authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On October 12, 2016, the District levied the following ad valorem taxes for the 2016 tax year on the adjusted taxable valuation of \$309,034,501:

	<u>Rate</u>	<u>Amount</u>	
Debt service	\$ 0.1220	\$ 377,096	
Maintenance	<u>0.0930</u>	<u>287,460</u>	
	<u>\$ 0.2150</u>	<u>\$ 664,556</u>	

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

2016 tax year total property tax levy	\$ 664,556
Appraisal district adjustments to prior year taxes	<u>(861)</u>
Statement of Activities property tax revenues	<u>\$ 663,695</u>

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

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

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

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$6,134,274 and the bank balance was \$6,182,603. Of the bank balance, \$770,128 was covered by federal insurance and \$5,412,475 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$371,282.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deposits and temporary investments restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest, paying agent fees and costs of assessing and collecting taxes:

Cash \$ 525,028

Capital Projects Fund

For construction of capital assets:

Cash \$ 4,383,856

During the fiscal year ended September 30, 2017, the District reimbursed \$258,552 to the General Fund from the Capital Projects Fund with the permission of the Texas Commission on Environmental Quality.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2017, the District had physical damage and boiler and machinery coverage of \$12,665,000, comprehensive general liability coverage with a per occurrence limit of \$3,000,000 and \$6,000,000 general aggregate, pollution liability coverage of \$2,000,000, automobile coverage of \$2,000,000, statutory workers' compensation coverage, consultant's crime coverage of \$100,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: CONTRACT WITH OTHER DISTRICT

On October 13, 1978, the District and Heatherloch Municipal Utility District entered into an agreement for the construction and operation of joint sewage treatment facilities (the "Facilities"). Ownership of the Facilities is based on capacity in the Facilities as follows: Harris County Water Control and Improvement District No. 116 -- 46.15%, Heatherloch Municipal Utility District -- 53.85%. Oversight of the Facilities is exercised by the Board of Directors of the District. Construction costs of the Facilities are funded by the contribution of funds from each participating district. The Facilities issues no debt. During the fiscal year ended September 30, 2017, the District contributed \$36,129 for its share of construction and engineering of plant improvements.

Costs incurred for maintenance and operation of the joint facilities are allocated to the participants based on the percentage of ownership of each district and are billed monthly. During the fiscal year ended September 30, 2017, the District's share of the operating cost of the Facilities was \$259,294. Activity of the Facilities is accounted for in the Wastewater Treatment Plant Special Revenue Fund of the District. The District has advanced \$50,000 to this fund to facilitate the cash flow of the fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Each participant records its share of the capital assets of the Facilities in its financial statements. Capital asset activity for the fiscal year ended September 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 119,671	\$ 0	\$ 0	\$ 119,671
Depreciable capital assets:				
Sewer system	<u>2,439,606</u>	<u>78,285</u>	<u>0</u>	<u>2,517,891</u>
Less accumulated depreciation for:				
Sewer system	<u>(1,405,694)</u>	<u>(54,009)</u>	<u>0</u>	<u>(1,459,703)</u>
Total depreciable capital assets, net	<u>1,033,912</u>	<u>24,276</u>	<u>0</u>	<u>1,058,188</u>
Total capital assets, net	<u>\$ 1,153,583</u>	<u>\$ 24,276</u>	<u>\$ 0</u>	<u>\$ 1,177,859</u>
Changes to capital assets:				
Capital outlay		\$ 78,285	\$	
Depreciation expense for the fiscal year		<u>(54,009)</u>	<u>0</u>	
Net increases / decreases to capital assets		<u>\$ 24,276</u>	<u>\$ 0</u>	

NOTE 10: REGIONAL WATER AUTHORITY

The North Harris County Regional Water Authority (the "Authority" and the "NHCRWA") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2000. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of September 30, 2017, the Authority had established a well pumpage fee of \$2.90 per 1,000 gallons of water pumped from each regulated well and surface water usage fees of \$3.35 per 1,000 gallons. The District's fees payable to the Authority for the fiscal year ended September 30, 2017, were \$570,705. The District billed its service customers and other districts \$566,809 during the fiscal year to pay for the fees charged by the Authority.

Effective January 1, 2010, the Authority adopted a rate order which provided for the reimbursement to the District for costs incurred by the District to modify its system to accept surface water from the Authority. Such "Chloramine Credit" was determined by the Authority upon completion and operation of the District's Chloramine System. The Chloramine Credit is credited monthly to the amounts payable to the Authority for water used by the District over a 30-year period at 6% interest. During the fiscal year ended September 30, 2012, the Authority determined that the allowable costs of construction were \$133,158.

During the fiscal year ended September 30, 2017, the District received chloramine credits of \$9,674. Of this amount, \$2,157 was a repayment of principal and \$7,517 was interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Credits Due During Fiscal Years Ending September 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,292	\$ 7,382	\$ 9,674
2019	2,435	7,239	9,674
2020	2,588	7,086	9,674
2021	2,749	6,924	9,673
2022	2,922	6,752	9,674
2023-2027	17,594	30,775	48,369
2028-2032	23,840	24,529	48,369
2033-2037	32,301	16,068	48,369
2038-2042	35,521	4,786	40,307
	<u>\$ 122,242</u>	<u>\$ 111,541</u>	<u>\$ 233,783</u>

NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

On June 18, 2004, the District and the City of Houston (the “City”) entered into a 30 year Strategic Partnership Agreement (the “Agreement”). Under the terms of the Agreement, the City annexed a portion of the District (the “Partial District”) for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$181,774 from the City for the fiscal year ended September 30, 2017. Of this amount, \$39,938 was receivable at this date.

NOTE 12: RECREATION FACILITIES

On March 8, 2006, the District purchased the assets of the Huntwick Racquet Club, Inc. for \$10. These recreation facilities are to be used by the residents of the District. The District has established the Recreation Facilities Special Revenue Fund to account for all revenues and expenditures of the recreation facilities operated by the District. Users of certain recreation facilities are charged a user fee. User fee revenues of \$90,410 were collected during the fiscal year ended September 30, 2017.

NOTE 13: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the “HGSD”). These certificates expire in 20 years and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the HGSD. Certificates can also be used in lieu of a disincentive fee assessed by the HGSD for ground water pumpage in excess of the District’s permit as amended. At September 30, 2017, the District had in its possession certificates totaling 85,260 thousand gallons of water. The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$35,531 at September 30, 2017.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 270,000	\$ 270,000	\$ 285,465	\$ 15,465
Water service	325,000	325,000	425,419	100,419
Sewer service	350,000	350,000	338,015	(11,985)
Surface water fees	470,000	470,000	566,809	96,809
Penalty and interest	15,000	15,000	18,285	3,285
Tap connection and inspection fees	0	0	13,175	13,175
Sales and Use Taxes	185,000	185,000	181,774	(3,226)
Interest on surface water chloramine costs	0	0	7,517	7,517
Interest on deposits and investments	4,000	4,000	7,096	3,096
Other revenues	<u>41,525</u>	<u>41,525</u>	<u>43,980</u>	<u>2,455</u>
TOTAL REVENUES	<u>1,660,525</u>	<u>1,660,525</u>	<u>1,887,535</u>	<u>227,010</u>
EXPENDITURES				
Service operations:				
Purchased sewer services	220,000	220,000	259,294	39,294
Professional fees	163,600	163,600	137,292	(26,308)
Contracted services	147,300	147,300	149,880	2,580
Utilities	45,000	45,000	48,215	3,215
Surface water fees	470,000	470,000	570,705	100,705
Repairs and maintenance	328,000	328,000	304,880	(23,120)
Other operating expenditures	41,000	41,000	43,629	2,629
Administrative expenditures	85,625	85,625	79,729	(5,896)
Capital outlay	<u>0</u>	<u>0</u>	<u>5,655</u>	<u>5,655</u>
TOTAL EXPENDITURES	<u>1,500,525</u>	<u>1,500,525</u>	<u>1,599,279</u>	<u>98,754</u>
EXCESS REVENUES (EXPENDITURES)	<u>160,000</u>	<u>160,000</u>	<u>288,256</u>	<u>128,256</u>
OTHER FINANCING SOURCES (USES)				
Reimbursement (to) from other fund	0	0	259,084	259,084
Operating transfers (out)	<u>(160,000)</u>	<u>(160,000)</u>	<u>(142,843)</u>	<u>17,157</u>
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>(160,000)</u>	<u>(160,000)</u>	<u>116,241</u>	<u>276,241</u>
EXCESS SOURCES (USES)	0	0	404,497	404,497
FUND BALANCE, BEGINNING OF YEAR	<u>1,069,011</u>	<u>1,069,011</u>	<u>1,069,011</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,069,011</u>	<u>\$ 1,069,011</u>	<u>\$ 1,473,508</u>	<u>\$ 404,497</u>

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

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL,
WASTEWATER TREATMENT PLANT SPECIAL REVENUE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From participants:				
Harris County Water Control and Improvement District No. 116	\$ 220,000	\$ 220,000	\$ 259,294	\$ 39,294
Heatherloch Municipal Utility District	255,000	255,000	302,556	47,556
Interest on deposits	<u>45</u>	<u>45</u>	<u>9</u>	<u>(36)</u>
TOTAL REVENUES	<u>475,045</u>	<u>475,045</u>	<u>561,859</u>	<u>86,814</u>
EXPENDITURES				
Service operations:				
Professional fees	16,800	16,800	19,903	3,103
Contracted services	84,000	84,000	83,188	(812)
Utilities	115,200	115,200	76,075	(39,125)
Repairs and maintenance	110,000	110,000	206,948	96,948
Other operating expenditures	132,300	132,300	155,986	23,686
Administrative expenditures	16,745	16,745	19,759	3,014
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>475,045</u>	<u>475,045</u>	<u>561,859</u>	<u>86,814</u>
EXCESS REVENUES (EXPENSES)	0	0	0	0
FUND BALANCE, BEGINNING OF YEAR	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 0</u>

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

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL,
RECREATION FACILITIES SPECIAL REVENUE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Recreation facilities user fees	\$ 76,675	\$ 76,675	\$ 90,410	\$ 13,735
Interest on deposits	<u>25</u>	<u>25</u>	<u>5</u>	<u>(20)</u>
TOTAL REVENUES	<u>76,700</u>	<u>76,700</u>	<u>90,415</u>	<u>13,715</u>
EXPENDITURES				
Service operations:				
Professional fees	1,900	1,900	14,381	12,481
Contracted services	63,700	63,700	66,343	2,643
Utilities	14,000	14,000	13,024	(976)
Repairs and maintenance	67,500	67,500	65,732	(1,768)
Other operating expenditures	70,350	70,350	60,042	(10,308)
Administrative expenditures	13,716	13,716	6,288	(7,428)
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>0</u>	<u>(5,000)</u>
TOTAL EXPENDITURES	<u>236,166</u>	<u>236,166</u>	<u>225,810</u>	<u>(10,356)</u>
EXCESS REVENUES (EXPENSES)	<u>(159,466)</u>	<u>(159,466)</u>	<u>(135,395)</u>	<u>24,071</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	<u>160,000</u>	<u>160,000</u>	<u>142,843</u>	<u>(17,157)</u>
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>160,000</u>	<u>160,000</u>	<u>142,843</u>	<u>(17,157)</u>
EXCESS SOURCES (USES)	534	534	7,448	6,914
FUND BALANCE, BEGINNING OF YEAR	<u>13,072</u>	<u>13,072</u>	<u>13,072</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 13,606</u>	<u>\$ 13,606</u>	<u>\$ 20,520</u>	<u>\$ 6,914</u>

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

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

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

SEPTEMBER 30, 2017

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2017

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

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$5.00	5,000	N	\$1.50	5,001 to 8,000
				2.00	8,001 to 20,000
				3.00	20,001 to 30,000
				4.50	30,001 to 50,000
				5.00	Over 50,000
WASTEWATER:	\$28.00	30,000	N	\$0.75	Over 30,000
SURCHARGE:	\$3.35 per 1,000 gallons of water used. – NHCRWA surface water fees.				

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$13.50 Wastewater: \$28.00 Surcharge: \$33.50

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

SCHEDULE OF SERVICES AND RATES (Continued)

SEPTEMBER 30, 2017

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	818	817	1.0	817
1"	86	86	2.5	215
1-1/2"	8	8	5.0	40
2"	17	17	8.0	136
3"	1	1	15.0	15
4"	3	3	25.0	75
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>933</u>	<u>932</u>		<u>1,298</u>
Total Wastewater	<u>915</u>	<u>914</u>	1.0	<u>914</u>

*Equivalent single family connection

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

Gallons pumped into system (unaudited): 370,418
 Gallons billed to customers (unaudited): 352,941

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 95%

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

Does the District have Debt Service standby fees? Yes No

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

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

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

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Wastewater Treatment Plant Special Revenue Fund</u>	<u>Recreation Facilities Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT						
Purchased sewer services	\$ 259,294	\$ 0	\$ 0	\$ 0	\$ 0	\$ 259,294
Professional fees:						
Auditing	8,100	1,700	1,400			11,200
Legal	89,286		12,981	7,507		109,774
Engineering	39,906	18,203				58,109
	<u>137,292</u>	<u>19,903</u>	<u>14,381</u>	<u>7,507</u>	<u>0</u>	<u>179,083</u>
Contracted services:						
Bookkeeping	17,265	5,188	10,213			32,666
Operations	132,615	78,000	56,130			266,745
Tax assessor-collector Central appraisal district				10,019		10,019
				5,049		5,049
	<u>149,880</u>	<u>83,188</u>	<u>66,343</u>	<u>15,068</u>	<u>0</u>	<u>314,479</u>
Utilities	<u>48,215</u>	<u>76,075</u>	<u>13,024</u>	<u>0</u>	<u>0</u>	<u>137,314</u>
Surface water fees:						
Ground water pumpage fees	77,293					77,293
Purchased surface water	493,412					493,412
	<u>570,705</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>570,705</u>
Repairs and maintenance	<u>304,880</u>	<u>206,948</u>	<u>65,732</u>	<u>0</u>	<u>0</u>	<u>577,560</u>
Other operating expenditures:						
Sludge hauling		56,564				56,564
Chemicals	7,816	45,786				53,602
Laboratory costs	25,350	51,473				76,823
TCEQ assessment	3,761					3,761
Lifeguards			38,265			38,265
Pool expenses			6,197			6,197
Supplies			4,306			4,306
Water and sewer service			2,308			2,308
Other operating expenditures	6,702	2,163	8,966			17,831
	<u>43,629</u>	<u>155,986</u>	<u>60,042</u>	<u>0</u>	<u>0</u>	<u>259,657</u>
Administrative expenditures:						
Director's fees	13,050					13,050
Office supplies and postage	20,380		162			20,542
Insurance	16,003	8,191		100		24,294
Permit fees	3,693	11,352				15,045
Other	26,603	216	6,126	6,650		39,595
	<u>79,729</u>	<u>19,759</u>	<u>6,288</u>	<u>6,750</u>	<u>0</u>	<u>112,526</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

EXPENDITURES (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Wastewater Treatment Plant Special Revenue Fund</u>	<u>Recreation Facilities Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY						
Authorized expenditures					148,481	148,481
Tap connection costs	5,655					5,655
	<u>5,655</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>148,481</u>	<u>154,136</u>
DEBT SERVICE						
Bond issuance expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>314,977</u>	<u>314,977</u>
Interest and fees:						
Interest				70,163		70,163
Paying agent fees				0		0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>70,163</u>	<u>0</u>	<u>70,163</u>
TOTAL EXPENDITURES	<u>\$ 1,599,279</u>	<u>\$ 561,859</u>	<u>\$ 225,810</u>	<u>\$ 99,488</u>	<u>\$ 463,458</u>	<u>\$ 2,949,894</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Wastewater Treatment Plant Special Revenue Fund</u>	<u>Recreation Facilities Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS						
Cash receipts from revenues excluding maintenance taxes	\$ 1,665,536	\$ 546,306	\$ 90,410	\$ 390,489	\$ 862	\$ 2,693,603
Maintenance tax collections				285,465		285,465
Maintenance tax transfers	229,139					229,139
Sale of bonds				176,343	5,344,109	5,520,452
Principal portion of NHCRWA credits	2,157					2,157
Reimbursement from other fund	259,084					259,084
Transfer from other fund			<u>142,843</u>			<u>142,843</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>2,155,916</u>	<u>546,306</u>	<u>233,253</u>	<u>852,297</u>	<u>5,344,971</u>	<u>9,132,743</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS						
Cash disbursements for:						
Current expenditures	1,651,956	546,292	218,157	27,435		2,443,840
Capital outlay	5,655				148,481	154,136
Debt service				70,163	314,977	385,140
Other fund			13,429		183,020	196,449
Maintenance tax transfers				229,139		229,139
Purchase of groundwater bank certificates	5,063					5,063
Decrease in customer deposits	6,750					6,750
Other district's share of capital improvements					56,085	56,085
Reimbursement to other fund				532	258,552	259,084
Transfer to other fund	<u>142,843</u>					<u>142,843</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>1,812,267</u>	<u>546,292</u>	<u>231,586</u>	<u>327,269</u>	<u>961,115</u>	<u>3,878,529</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	343,649	14	1,667	525,028	4,383,856	5,254,214
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>1,180,488</u>	<u>49,987</u>	<u>20,867</u>	<u>0</u>	<u>0</u>	<u>1,251,342</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 1,524,137</u>	<u>\$ 50,001</u>	<u>\$ 22,534</u>	<u>\$ 525,028</u>	<u>\$ 4,383,856</u>	<u>\$ 6,505,556</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116
SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS
SEPTEMBER 30, 2017

GENERAL FUND	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
Certificates of Deposit				
No. 3300035242	0.75%	4/12/18	\$ 150,000	\$ 526
No. 100267954	0.80%	9/03/18	<u>245,000</u>	<u>446</u>
			<u>\$ 395,000</u>	<u>\$ 972</u>
TexPool				
No. 2670500002	Market	On demand	<u>\$ 371,282</u>	<u>\$ 0</u>
Total			<u>\$ 766,282</u>	<u>\$ 972</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 4,460	\$ 0
Additions and corrections to prior year taxes	<u>(861)</u>	<u>0</u>
Adjusted receivable, beginning of year	3,599	0
2016 ADJUSTED TAX ROLL	<u>287,460</u>	<u>377,096</u>
Total to be accounted for	291,059	377,096
Tax collections: Current tax year	(285,369)	(374,355)
Prior tax years	<u>(96)</u>	<u>0</u>
RECEIVABLE, END OF YEAR	<u>\$ 5,594</u>	<u>\$ 2,741</u>
RECEIVABLE, BY TAX YEAR		
2007	\$ 418	\$ 0
2008	233	0
2009	214	0
2010	214	0
2011	214	0
2012	214	0
2013	506	0
2014	741	0
2015	749	0
2016	<u>2,091</u>	<u>2,741</u>
RECEIVABLE, END OF YEAR	<u>\$ 5,594</u>	<u>\$ 2,741</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2017

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 72,555,090	\$ 67,235,783	\$ 64,068,152	\$ 62,828,671
Improvements	231,584,939	213,865,410	212,023,826	192,038,644
Personal property	14,779,138	17,769,534	18,930,511	18,958,823
Less exemptions	<u>(9,884,666)</u>	<u>(11,849,830)</u>	<u>(11,007,860)</u>	<u>(10,563,120)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 309,034,501</u>	 <u>\$ 287,020,897</u>	 <u>\$ 284,014,629</u>	 <u>\$ 263,263,018</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.12200	\$ 0.00000	\$ 0.00000	\$ 0.00000
Maintenance tax rates*	<u>0.09300</u>	<u>0.10000</u>	<u>0.10000</u>	<u>0.10000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.21500</u>	 <u>\$ 0.10000</u>	 <u>\$ 0.10000</u>	 <u>\$ 0.10000</u>
 TAX ROLLS	 <u>\$ 664,556</u>	 <u>\$ 287,111</u>	 <u>\$ 284,201</u>	 <u>\$ 263,357</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.3 %</u>	 <u>99.7 %</u>	 <u>99.7 %</u>	 <u>99.8 %</u>

*Maximum tax rate approved by voters on November 16, 2015: \$1.00.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS

SEPTEMBER 30, 2017

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2017</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 210,000	\$ 166,291	\$ 376,291
2019	215,000	162,041	377,041
2020	220,000	157,691	377,691
2021	225,000	153,242	378,242
2022	230,000	148,576	378,576
2023	235,000	143,459	378,459
2024	245,000	137,694	382,694
2025	250,000	131,256	381,256
2026	260,000	123,981	383,981
2027	270,000	116,031	386,031
2028	275,000	107,856	382,856
2029	285,000	99,456	384,456
2030	295,000	90,572	385,572
2031	305,000	81,006	386,006
2032	320,000	70,650	390,650
2033	330,000	59,475	389,475
2034	345,000	47,663	392,663
2035	355,000	34,969	389,969
2036	370,000	21,375	391,375
2037	<u>385,000</u>	<u>7,219</u>	<u>392,219</u>
TOTALS	<u>\$ 5,625,000</u>	<u>\$ 2,060,503</u>	<u>\$ 7,685,503</u>

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBTFOR THE YEAR ENDED SEPTEMBER 30, 2017

Bond Series:	2017
Interest Rate:	2.00% to 3.75%
Dates Interest Payable:	March 1/ September 1
Maturity Dates:	March 1, 2018/2037
Bonds Outstanding at Beginning of Current Year	\$ 0
Add Bonds Sold	5,625,000
Less Retirements	<u>0</u>
Bonds Outstanding at End of Current Year	<u>\$ 5,625,000</u>
Current Year Interest Paid	<u>\$ 70,163</u>

Bond Descriptions and Original Amount of Issue

Harris County Water Control and Improvement District No. 116 Unlimited Tax Bonds, Series 2017
(\$5,625,000)

Paying Agent/Registrar

BOKF, N.A., Austin, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$27,400,000	\$0	\$0
Amount Issued:	12,105,000		
Remaining to be Issued:	15,295,000		

Net Debt Service Fund deposits and investments balances as of September 30, 2017:	\$466,812
Average annual debt service payment for remaining term of all debt:	384,275

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
REVENUES										
Property taxes	\$ 285,465	\$ 288,345	\$ 283,388	\$ 263,065	\$ 248,438	15.1 %	16.3 %	18.3 %	16.8 %	14.6 %
Water service	425,419	354,375	252,867	246,216	314,415	22.5	20.1	16.4	15.7	18.5
Sewer service	338,015	342,619	351,722	325,945	368,342	17.9	19.4	22.8	20.8	21.7
Surface water charges	566,809	488,204	412,063	456,050	515,341	30.1	27.7	26.6	29.0	30.2
Penalty and interest	18,285	27,070	12,179	14,605	10,111	1.0	1.5	0.8	0.9	0.6
Tap connection and inspection fees	13,175	16,625	0	23,225	0	0.7	0.9	0.0	1.5	0.0
Sales and Use Taxes	181,774	182,921	186,798	200,395	198,562	9.6	10.4	12.1	12.8	11.7
Interest on surface water chloramine costs	7,517	7,646	7,764	7,877	7,983	0.4	0.4	0.5	0.5	0.5
Interest on deposits and investments	7,096	4,224	4,600	3,752	3,730	0.4	0.2	0.3	0.2	0.2
Other revenues	43,980	55,173	33,536	28,607	33,270	2.3	3.1	2.2	1.8	2.0
TOTAL REVENUES	1,887,535	1,767,202	1,544,917	1,569,737	1,700,192	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased sewer services	259,294	242,851	265,779	190,809	188,490	13.7	13.7	17.2	12.2	11.1
Professional fees	137,292	161,789	128,742	79,848	63,777	7.3	9.2	8.3	5.1	3.8
Contracted services	149,880	158,717	166,568	202,101	200,384	7.9	9.0	10.8	12.9	11.8
Utilities	48,215	47,620	49,548	50,084	58,331	2.6	2.7	3.2	3.2	3.4
Surface water fees	570,705	493,812	431,575	422,201	478,216	30.2	27.9	27.9	26.8	28.0
Repairs and maintenance	304,880	172,734	169,773	135,164	130,267	16.2	9.8	11.0	8.6	7.7
Other operating expenditures	43,629	32,560	64,755	59,128	84,178	2.3	1.8	4.2	3.8	5.0
Administrative expenditures	79,729	91,619	72,689	58,030	50,625	4.2	5.2	4.7	3.7	3.0
Capital outlay	5,655	349,394	228,031	241,741	393,194	0.3	19.8	14.8	15.4	23.1
TOTAL EXPENDITURES	1,599,279	1,751,096	1,577,460	1,439,106	1,647,462	84.7	99.1	102.1	91.7	96.9
EXCESS REVENUES (EXPENDITURES)	\$ 288,256	\$ 16,106	\$ (32,543)	\$ 130,631	\$ 52,730	15.3 %	0.9 %	(2.1) %	8.3 %	3.1 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	932	927	931	932	932					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	914	914	913	914	914					

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
REVENUES										
Property taxes	\$ 374,355	\$	\$	\$	\$	94.0 %	%	%	%	%
Penalty and interest	15,724					3.9				
Accrued interest on bonds received at date of sale	7,952					2.0				
Interest on deposits and investments	410					0.1				
TOTAL REVENUES	398,441	0	0	0	0	100.0	N/A	N/A	N/A	N/A
EXPENDITURES										
Current:										
Professional fees	7,507					1.9				
Contracted services and professional fees	15,068					3.8				
Administrative expenditures	6,750					1.7				
Debt service:										
Principal retirement	0					0.0				
Interest and fees	70,163					17.6				
TOTAL EXPENDITURES	99,488	0	0	0	0	25.0	N/A	N/A	N/A	N/A
EXCESS REVENUES (EXPENDITURES)	\$ 298,953	\$ 0	\$ 0	\$ 0	\$ 0	75.0 %	N/A %	N/A %	N/A %	N/A %

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2017

Complete District Mailing Address: Harris County Water Control and Improvement District No. 116
c/o Radcliffe Bobbitt Adams Polley PLLC
2929 Allen Parkway, Suite 3450
Houston, Texas 77019

District Business Telephone No.: 713-651-0800

Submission date of the most recent District Registration Form: May 20, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Lessly D. Griffith c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/07/16- 11/09/21	\$ 3,300	\$ 238	President
Robert W. Warner c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/07/16- 11/09/21	3,000	790	Vice President
Frank Sklenka c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Appointed 8/24/15- 11/12/19	3,300	0	Secretary/ Treasurer
Jeff Handojo c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/07/16- 11/09/21	1,800	0	Assistant Secretary/ Treasurer
Thomas C. Helm c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Appointed 12/08/15- 11/12/19	1,650	0	Director

See accompanying independent auditor's report.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 116BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2017CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	8/06/96	\$ 103,014 120,800 Bonds	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008	3/05/96	7,507	Delinquent Tax Attorney
Texas Operations and Professional Services 9601 Jones Road, Suite 248 Houston, Texas 77065	7/24/12	985,012	Operator
Protocol Bookkeeping, Inc. 1506 Whispering Pines Houston, Texas 770055	7/01/77	33,862 1,500 Bonds	Bookkeeper
AEI Engineering, Inc. 616 FM 1960 W., Suite 250 Houston, Texas 77090	10/06/87	156,926	Engineer
Kenneth R. Byrd P.O. Box 73109 Houston, Texas 77273	2/01/83	16,017	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	5,049	Central Appraisal District
Blitch Associates, Inc. 11111 Katy Freeway, Suite 820 Houston, Texas 77079-2118	6/09/15	79,921 Bonds	Financial Advisor
Roth & Eyring, PLLC 12702 Century, Suite C-2 Stafford, Texas 77477	Prior to 1993	11,200 600 Bonds	Independent Auditor

See accompanying independent auditor's report.