
PRESTONWOOD FOREST UTILITY DISTRICT

REPORT ON FINANCIAL STATEMENTS
(With Supplemental Material)

YEAR ENDED SEPTEMBER 30, 2018

BREEDLOVE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

17014 Seven Pines Drive
Spring, Texas 77379
(281) 379-1065
(281) 379-6322 (fax)

RICHARD W. BREEDLOVE, CPA
President

JILL A. HENZE, CPA
Vice President

NICOLE BREEDLOVE HUNT, CPA
Vice President

INDEPENDENT AUDITORS' REPORT

January 22, 2019

The Board of Directors
Prestonwood Forest Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Prestonwood Forest Utility District, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Prestonwood Forest Utility District, as of September 30, 2018, and the respective changes in financial position 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 information on pages 3 through 7 and page 25 be presented to supplement the basic financial statements. Such information, although not a 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 an opinion on the financial statements that collectively comprise Prestonwood Forest Utility District's basic financial statements. The accompanying Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the financial statements.

The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Brechner & Co., P.C.

PRESTONWOOD FOREST UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 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 supplementary 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, provision of water and sanitary sewer services. Other activities, such as 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 report all of the assets and liabilities 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 total assets and total liabilities 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.

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.

PRESTONWOOD FOREST UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018 (Continued)

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 balance 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 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 the notes to financial statements that describe 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.

PRESTONWOOD FOREST UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2018

(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's overall financial position and operations for the past year is 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	\$ 2 404 596	\$ 2 266 399
Capital assets	<u>2 829 352</u>	<u>3 007 745</u>
Total assets	<u>\$ 5 233 948</u>	<u>\$ 5 274 144</u>
Current liabilities	\$ 247 163	\$ 266 297
Noncurrent liabilities	<u>150 721</u>	<u>164 932</u>
Total liabilities	<u>\$ 397 884</u>	<u>\$ 431 229</u>
Net position:		
Net investment in capital assets	\$ 2 664 420	\$ 2 829 944
Restricted	23 558	23 558
Unrestricted	<u>2 148 086</u>	<u>1 989 413</u>
Total net position	<u>\$ 4 836 064</u>	<u>\$ 4 842 915</u>

The total net position of the District decreased by \$6,851, less than 1 percent. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

	<u>2018</u>	<u>2017</u>
Revenues:		
Property taxes	\$ 768 746	\$ 753 897
Charges for services	1 169 495	945 685
Other revenues	<u>220 353</u>	<u>112 443</u>
Total revenues	<u>2 158 594</u>	<u>1 812 025</u>
Depreciation	214 198	233 775
Expenses for services	<u>1 951 247</u>	<u>1 595 088</u>
Total expenses	<u>2 165 445</u>	<u>1 828 863</u>
Change in net position	(6 851)	(16 838)
Net position, beginning of year	<u>4 842 915</u>	<u>4 859 753</u>
Net position, end of year	<u>\$ 4 836 064</u>	<u>\$ 4 842 915</u>

PRESTONWOOD FOREST UTILITY DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's combined fund balances as of the end of the fiscal year ended September 30, 2018, were \$2,161,214, an increase of \$182,488 from the prior year.

The general fund's fund balance increased by \$182,488.

The capital projects fund's fund balance remained the same.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were several minor differences between the final budgetary amounts and actual amounts. The major difference between budget and actual was due water and sewer service revenues and maintenance tax revenue being greater than expected. The budgetary fund balance as of September 30, 2018, was expected to be \$1,992,468 and the actual end of year fund balance was \$2,137,656.

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 below.

Capital Assets (Net of Accumulated Depreciation)

	<u>2018</u>	<u>2017</u>
Land	\$ 45 609	\$ 45 609
Water facilities	2 017 366	2 153 512
Wastewater facilities	<u>766 377</u>	<u>808 624</u>
Total capital assets	<u>\$ 2 829 352</u>	<u>\$ 3 007 745</u>

Debt

At September 30, 2018, the District did not have any bonds outstanding or any bonds remaining to be issued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

PRESTONWOOD FOREST UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

(Continued)

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, except as provided in the Strategic Partnership Agreement between the District and the City (see Note 11), the District may not 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.

North Harris County Regional Water Authority

The District is located within the North Harris County Regional Water Authority (the Authority). The Authority was created to provide for the supply of surface water to north Harris County and to prepare a groundwater reduction plan to comply with the Subsidence District's 1999 Plan. The Authority's Groundwater Reduction Proposal has been approved by the Subsidence District. This plan, as adopted by the Subsidence District, will cover the areas of the District and the District will not owe any disincentive fees to the Subsidence District. It should also be known that the Authority has entered into a contract with the City and began to purchase surface water in 2010. The District currently pays to the Authority a groundwater pumpage fee of \$3.40 per 1,000 gallons of groundwater and \$3.85 per 1,000 gallons for surface water, and these amounts are subject to future increases. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to develop surface water conversion infrastructure or to participate in the Authority or another regional surface water conversion effort.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Prestonwood Forest Utility District, 10000 Memorial Drive, Suite 260, Houston, TX 77024.

PRESTONWOOD FOREST UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2018

	<u>Capital</u>		
	<u>General Fund</u>	<u>Projects Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 2 196 133	\$ 23 558	\$ 2 219 691
Taxes receivable	10 430	-	10 430
Service accounts receivable	143 411	-	143 411
Other receivables	13 001	-	13 001
Prepaid expenditures	18 063	-	18 063
Capital assets (net of accumulated depreciation)			
Land	-	-	-
Infrastructure	-	-	-
Total assets	<u>\$ 2 381 038</u>	<u>\$ 23 558</u>	<u>\$ 2 404 596</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 138 617	\$ -	\$ 138 617
Refundable deposits	94 335	-	94 335
Lease payable - due within one year	-	-	-
Noncurrent liabilities			
Lease payable - due after one year	-	-	-
Total liabilities	<u>232 952</u>	<u>-</u>	<u>232 952</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable tax revenue	<u>10 430</u>	<u>-</u>	<u>10 430</u>
Total deferred inflows of resources	<u>10 430</u>	<u>-</u>	<u>10 430</u>
<u>FUND BALANCES/NET POSITION</u>			
Fund balances			
Restricted:			
Capital projects funds	-	23 558	23 558
Unassigned	<u>2 137 656</u>	<u>-</u>	<u>2 137 656</u>
Total fund balances	<u>2 137 656</u>	<u>23 558</u>	<u>2 161 214</u>
Total liabilities and fund balances	<u>\$ 2 381 038</u>	<u>\$ 23 558</u>	<u>\$ 2 404 596</u>
Net position:			
Net investment in capital assets			
Restricted for capital projects			
Unrestricted			
Total net position			
Total liabilities, deferred inflows of resources and net position			

See the Accompanying Independent Auditors' Report and Notes to Financial Statements.

<u>Adjustments</u>	<u>Statement of Net Positon</u>
\$ -	\$ 2 219 691
-	10 430
-	143 411
-	13 001
-	18 063
45 609	45 609
<u>2 783 743</u>	<u>2 783 743</u>
<u>\$ 2 829 352</u>	<u>\$ 5 233 948</u>
\$ -	\$ 138 617
-	94 335
14 211	14 211
<u>150 721</u>	<u>150 721</u>
<u>164 932</u>	<u>397 884</u>
<u>(10 430)</u>	<u>-</u>
<u>(10 430)</u>	<u>-</u>
(23 558)	-
<u>(2 137 656)</u>	<u>-</u>
<u>(2 161 214)</u>	<u>-</u>
2 664 420	2 664 420
23 558	23 558
<u>2 148 086</u>	<u>2 148 086</u>
<u>4 836 064</u>	<u>4 836 064</u>
<u>\$ 2 829 352</u>	<u>\$ 5 233 948</u>

PRESTONWOOD FOREST UTILITY DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Capital		
	<u>General Fund</u>	<u>Projects Fund</u>	<u>Total</u>
Revenues:			
Charges for water service	\$ 299 261	\$ -	\$ 299 261
Charges for sewer service	266 976	-	266 976
Regional water authority	603 258	-	603 258
Property taxes	792 561	-	792 561
Investment earnings	13 266	35	13 301
Penalties and interest	30 231	-	30 231
Tap connection and inspection fees	28 325	-	28 325
Sales tax revenue	92 945	-	92 945
Miscellaneous income	<u>55 551</u>	<u>-</u>	<u>55 551</u>
Total revenues	<u>2 182 374</u>	<u>35</u>	<u>2 182 409</u>
Expenditures/expenses:			
Service operations:			
Purchased sewer service	37 460	-	37 460
Regional water authority fee	680 512	-	680 512
Contracted services	120 319	-	120 319
Professional fees	211 638	-	211 638
Director fees	28 950	-	28 950
Repairs and maintenance	502 931	-	502 931
Utilities	169 733	-	169 733
Other	182 538	35	182 573
Capital outlay	35 805	-	35 805
Debt Service			
Principal	12 869	-	12 869
Interest expense	17 131	-	17 131
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures/expenses	<u>1 999 886</u>	<u>35</u>	<u>1 999 921</u>
Excess (deficiency) of revenues over expenditures	182 488	-	182 488
Transfer between funds	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	182 488	-	182 488
Change in net position			
Fund balance/net position:			
Beginning of the year	<u>1 955 168</u>	<u>23 558</u>	<u>1 978 726</u>
End of the year	<u>\$ 2 137 656</u>	<u>\$ 23 558</u>	<u>\$ 2 161 214</u>

See the Accompanying Independent Auditors' Report and Notes to Financial Statements.

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 299 261
-	266 976
-	603 258
(23 815)	768 746
-	13 301
-	30 231
-	28 325
-	92 945
-	55 551
<u>(23 815)</u>	<u>2 158 594</u>
-	37 460
-	680 512
-	120 319
-	211 638
-	28 950
-	502 931
-	169 733
-	182 573
(35 805)	-
(12 869)	-
-	17 131
<u>214 198</u>	<u>214 198</u>
<u>165 524</u>	<u>2 165 445</u>
(189 339)	(6 851)
<u>-</u>	<u>-</u>
(182 488)	
(6 851)	(6 851)
<u>2 864 189</u>	<u>4 842 915</u>
<u>\$ 2 674 850</u>	<u>\$ 4 836 064</u>

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES

Prestonwood Forest Utility District (District) was formed pursuant to a consolidation agreement approved by the voters of Tomball Road Utility District and Prestonwood Public Utility District effective April 2, 1977. The Board of Directors held its first meeting on April 15, 1977. The District operates under Chapters 49 and 54 of the Texas Water Code.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The District is a Texas Utility District with a five-member board of directors, who are elected by individuals residing within the boundaries of the District. The Directors are elected to serve four-year terms, with two members elected at one election and the other three elected two years later.

The District follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the District is financially accountable. The District is not a participant in any joint venture and has not identified any entities which would be component units of the District.

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District.

B. BASIS OF PRESENTATION

The financial transactions of the District are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

a. Governmental Funds

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

Debt Service Fund - To account for the accumulation of financial resources for, and the payment of, general long-term debt principal and interest, paid principally from property taxes levied by the District. The District did not have any bonds payable during the year.

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

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018 (Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

b. Fund Balances

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Government Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., board of directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the board of directors or by an official or body to which the board of directors delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose.

The District uses the following classifications for net position:

Net investment in Capital Assets - To indicate the value of capital invested in capital assets less accumulated depreciation, net of associated debt.

Restricted - To indicate the funds restricted within the General Fund for the purposes of contingencies or emergencies. The Board must approve any changes in the restriction of this fund balance.

Unrestricted - To indicate net assets that are available for use in future periods.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018 (Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF ACCOUNTING

All Governmental Funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded in the accounting period in which they become available and measurable. "Available" means collectible within 60 days after year-end to be used to pay liabilities of the current period. Expenditures are recognized in the period in which the fund liability is incurred, if measurable. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

The District has adopted GASB 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." In compliance with GASB 34, the District has presented a Statement of Net Position and Statement of Activities for the year ended September 30, 2018. These statements are presented on an accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded in the period they are earned, and expenses are recorded in the period they are incurred. The "Adjustments" columns on these statements represent the infrastructure of the District and related debt. In addition, tax revenues are adjusted to reflect an accrual basis rather than a modified accrual basis of accounting. Depreciation is recorded for all infrastructure assets. All fund balances are adjusted to reflect net position.

D. CAPITAL ASSETS

The cost of capital assets includes all costs associated with the creation of the District, the sale of bonds, and the construction of facilities including infrastructure (immovable) assets which are of value only to the District.

The District capitalized the cost of meters and boxes and residential lines as part of the water system in Capital Assets. The full cost of facilities owned by the District is capitalized; funds provided by others are shown as contributions on the Balance Sheet. Depreciation of capital assets is not recorded in the accounts of governmental funds, but is recorded as an Adjustment on the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance. The District capitalized all land and land improvements, buildings and facilities and improvements over \$7,500. Assets are depreciated on a straight-line basis using lives established by the Texas Commission on Environmental Quality ranging from 3-45 years. Land is not a depreciable asset.

E. INTER-FUND TRANSACTIONS

Transfers from one fund to another fund are reported as inter-fund receivables and payables if there is intent to repay the amount and if the debtor fund has 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. Transfers of residual equities are reported as additions to or deductions from the fund balance of the governmental fund types.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. BUDGET

An operating budget is adopted each fiscal year for the General Fund on substantially the same basis used to reflect actual revenues and expenditures. The Board of Directors' approval is required for revisions that alter the total expenditures. Reported budgeted amounts are as originally adopted by the Board of Directors. Budgeted amounts lapse annually.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balance at September 30, 2018	<u>\$ 2 161 214</u>
Capital assets used in governmental activities are not financial and are not reported in the funds	2 829 352
Conversion of property tax assessments to full accrual basis	10 430
Long - term debt obligations are not reported in the funds	<u>(164 932)</u>
Adjustment to fund balance to arrive at net position	<u>2 674 850</u>
Total net position at September 30, 2018	<u><u>\$ 4 836 064</u></u>

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018
 (Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 (Continued)

Amounts reported for governmental activities in the statement of activities are different because:

Change in fund balance	\$ 182 488
Governmental funds report capital outlays as expenditures. However, for government-wide financials statements, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay and conveyance of capital assets in the current period.	(178 393)
Principal payments on debt are reported as expenditures in the fund. However, they do not affect net position.	12 869
Conversion of property tax assessments to full accrual basis	<u>(23 815)</u>
Change in net position of governmental activities	<u><u>\$ (6 851)</u></u>

NOTE (2) RATES AND CUSTOMERS

Effective June 10, 2010, the District approved the following rates. These changes remained in effect through April 11, 2018.

Water Service

Residential and Commercial Monthly Charge	
First 10,000 gallons of water used (minimum bill)	\$ 6.00
Each 1,000 gallons used over 10,000 gallons, but less than 15,000 gallons	1.00
Each 1,000 gallons of water used over 15,000 gallons, but not more than 25,000 gallons	1.25
Each 1,000 gallons of water used thereafter	1.50

Charges for services to non-commercial property outside of the District shall be two times those rates charged for similar in-District services. Charges for services to commercial properties outside of the District shall be four times those rates charged for similar in District services.

Apartment Projects Monthly Charge

Rate per unit for water service shall be the same as above except that water furnished through a master meter shall be calculated as follows:

$$\frac{\text{Total number of gallons used}}{\text{Total number of units in project}}$$

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Continued)

NOTE (2) WATER AND SEWER SERVICE RATES (Continued)

Sewer Service

Residential and Commercial Monthly Charge

First 15,000 gallons of water used (minimum bill)	\$ 8.00
Each 1,000 gallons of water used over 15,000 gallons, but less than 25,000	1.00
Each 1,000 gallons of water used thereafter	1.50

Charges for services to non-commercial property outside of the District shall be two times those rates charged for similar in-District services. Charges for services to commercial properties outside of the District shall be four times those rates charged for similar in District services.

Apartment Projects Monthly Charge

Rates per unit for sewer service shall be the same as above except that water furnished through a master meter shall be calculated as follows:

$$\frac{\text{Total number of gallons used}}{\text{Total number of units in project}}$$

North Harris County Regional Water Authority Fee

The District charges its customers for the North Harris County Regional Water Authority Fee at the rate charged the District for its ground water pumpage per 1,000 gallons plus \$.25 per 1,000 gallons.

Tap Fees

Residential Tap Fee (3/4" tap)

The above fee includes the cost of meter, box and installation	\$785.00
--	----------

Commercial Tap Fee

Three times the actual and reasonable costs to the District for construction, installation, and inspection of the tap or connection, including all necessary service lines and meters.

Sewer Inspection Fees

Residential	\$ 50.00
Commercial – Costs incurred by the District plus 10%	

Deposits

Residential customers	\$ 50.00
Apartments – per unit	35.00
Commercial – Less than 2" meter	100.00
2"- 4" meter	200.00
Greater than 4" meter	500.00

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Continued)

NOTE (2) WATER AND SEWER SERVICE RATES (Continued)

Commercial Wastes

Grease trap inspection	\$ 30.00
Sampling	30.00
Lab analysis	Cost + 15%

The monthly sewer rate for commercial wastes shall be determined by the following formula:

$$\frac{(\text{Actual Biochemical Oxygen Demand plus Total Suspended Solids})}{(\text{Normal Biochemical Oxygen Demand plus Total Suspended Solids})} \times \text{Regular Rate}$$

Effective June 10, 2010, the District approved a temporary rebate credit of \$10.00 per month for each account, which remained in effect through April 11, 2018.

Effective April 12, 2018, the District approved the following rates in place of the above rates.

Water Service

Residential and Non-profit Monthly Charge	
First 5,000 gallons of water used (minimum bill)	\$ 6.00
Each 1,000 gallons used over 5,000 gallons, but less than 10,000 gallons	1.00
Each 1,000 gallons of water used over 10,000 gallons, but not more than 15,000 gallons	1.50
Each 1,000 gallons of water used over 15,000 gallons, but not more than 25,000 gallons	2.25
Each 1,000 gallons of water used thereafter	3.00
Commercial Monthly Charge	
First 10,000 gallons of water used (minimum bill)	\$ 15.00
Each 1,000 gallons used over 10,000 gallons, but less than 15,000 gallons	2.00
Each 1,000 gallons of water used over 15,000 gallons, but not more than 25,000 gallons	3.00
Each 1,000 gallons of water used thereafter	3.50
Multi-family Monthly Charge	
First 5,000 gallons of water used (minimum bill)	\$ 10.00
Each 1,000 gallons used over 5,000 gallons, but less than 10,000 gallons	1.00
Each 1,000 gallons of water used over 10,000 gallons, but not more than 15,000 gallons	1.50
Each 1,000 gallons of water used over 15,000 gallons, but not more than 25,000 gallons	2.25
Each 1,000 gallons of water used thereafter	3.00

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Continued)

NOTE (2) WATER AND SEWER SERVICE RATES (Continued)

Apartment Projects Monthly Charge

Rate per unit for water service shall be the same as Multi-family above except that water furnished through a master meter shall be calculated as follows:

$$\frac{\text{Total number of gallons used}}{\text{Total number of units in project}}$$

Charges for services to non-commercial property outside of the District shall be two times those rates charged for similar in-District services. Charges for services to commercial properties outside of the District shall be four times those rates charged for similar in District services.

Sewer Service

Residential and Non-profit Monthly Charge

First 10,000 gallons of water used (minimum bill)	\$ 8.00
Each 1,000 gallons of water used over 10,000 gallons, but less than 25,000	1.00
Each 1,000 gallons of water used thereafter	1.50

Commercial Monthly Charge

First 10,000 gallons of water used (minimum bill)	\$ 15.00
Each 1,000 gallons used over 10,000 gallons, but less than 15,000 gallons	2.00
Each 1,000 gallons of water used over 15,000 gallons, but not more than 25,000 gallons	3.00
Each 1,000 gallons of water used thereafter	3.50

Multi-family Monthly Charge

First 10,000 gallons of water used (minimum bill)	\$ 10.00
Each 1,000 gallons of water used over 10,000 gallons, but less than 25,000	1.00
Each 1,000 gallons of water used thereafter	1.50

Apartment Projects Monthly Charge

Rates per unit for sewer service shall be the same as Multi-family above except that waste water furnished through a master meter shall be calculated as follows:

$$\frac{\text{Total number of gallons used}}{\text{Total number of units in project}}$$

Charges for services to non-commercial property outside of the District shall be two times those rates charged for similar in-District services. Charges for services to commercial properties outside of the District shall be four times those rates charged for similar in District services.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Continued)

NOTE (2) WATER AND SEWER SERVICE RATES (Continued)

North Harris County Regional Water Authority Fee

The District charges its customers for the North Harris County Regional Water Authority Fee at the rate charged the District for its ground water pumpage per 1,000 gallons plus \$.25 per 1,000 gallons.

Tap Fees

Residential Tap Fee (3/4" tap)

The above fee includes the cost of meter, box and installation \$785.00

Commercial Tap Fee

Three times the actual and reasonable costs to the District for construction, installation, and inspection of the tap or connection, including all necessary service lines and meters.

Sewer Inspection Fees

Residential \$ 50.00

Commercial – Costs incurred by the District plus 10%

Deposits

Residential and Non-profit customers \$100.00

Apartments – per unit 50.00

Commercial – Greater of 2x the estimated monthly bill as determined by the operator or 500.00

Commercial Wastes

Grease trap inspection \$ 30.00

Sampling 30.00

Lab analysis Cost + 15%

The monthly sewer rate for commercial wastes shall be determined by the following formula:

$$\frac{(\text{Actual Biochemical Oxygen Demand plus Total Suspended Solids})}{(\text{Normal Biochemical Oxygen Demand plus Total Suspended Solids})} \times \text{Regular Rate}$$

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018
 (Continued)

NOTE (3) WATER AND SEWER SERVICE CUSTOMERS

The following is a comparison of the metered active water and sewer service billing connections (including out-of-District connections) serviced by the District:

<u>Billing Connections</u>		<u>Year</u>
<u>Water</u>	<u>Sewer</u>	
882	856	2018
872	849	2017
873	853	2016
861	832	2015
868	839	2014

NOTE (4) CAPITAL ASSETS

The changes in the investment in capital assets are as follows:

	<u>Balances at Beginning of Year</u>	<u>Additions/ Deletions</u>	<u>Amortization/ Depreciation Expense</u>	<u>Balances at End of Year</u>
Land	\$ 45 609	\$ -	\$ -	\$ 45 609
Water facilities	4 607 552	-	-	4 607 552
Wastewater facilities	4 345 253	35 805	-	4 381 058
	8 952 805	35 805	-	8 988 610
Less: accumulated depreciation	<u>(5 990 669)</u>	<u>-</u>	<u>(214 198)</u>	<u>(6 204 867)</u>
Net book value	<u>2 962 136</u>	<u>35 805</u>	<u>(214 198)</u>	<u>2 783 743</u>
Totals	<u>\$ 3 007 745</u>	<u>\$ 35 805</u>	<u>\$ (214 198)</u>	<u>\$ 2 829 352</u>

During the year ended September 30, 2018, the District conducted a major waste water treatment plant rehabilitation.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018 (Continued)

NOTE (5) DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

The contracted depository bank used by the General Fund was Compass Bank. The largest cash, savings, and time deposit combined account balance at Compass Bank was \$1,491,117 and occurred on February 27, 2018. The contracted depository bank used for tax collections was Wells Fargo Bank. The largest cash, savings, and time deposit combined account balance was \$341,670 which occurred January 11, 2018. These funds were secured at year end by FDIC coverage and by pledged collateral held by the contracted bank.

At the balance sheet date, deposits with a carrying value of \$267,750 held by depository banks were properly secured by FDIC coverage and pledged securities.

Investment Policies

Statutes authorize the District to invest in direct or indirect obligations of the United States; the State; or any county, school district, or other political subdivisions of the State. Funds of the District may be placed in certificates of deposit of State or national banks or savings associations within the State. The District holds investments at September 30, 2018, in accordance with the Board approved investment policy. The total carrying value and market value for the certificates of deposit was \$577,602 and \$1,367,400 for the money market accounts at year end. Each of the investments was secured by FDIC coverage at year end. The District also holds investments at September 30, 2018, in accordance with the Board approved investment policy, in TexPool State Treasury (“TexPool”). In following the Public Funds Collateral Act, TexPool invests the District’s funds in obligations of the United States, obligations issued by a public agency that is payable from taxes, revenues, or a combination thereof that has been rated by a nationally recognized rating agency with a rating of not less than A, or any security in which a public entity may invest under the Public Funds Investment Act of 1987. Surety bonds and investment securities are used as collateral to secure both the amount of the deposits with TexPool plus any accrued interest. A separate financial report for TexPool is prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from TexPool Participant Services, c/o Federated Investors, 1001 Texas Ave., Suite 1400, Houston, Texas 77002. The District held investments in TexPool with a total carrying value and market value of \$6,940 at year end.

Local governments are subject to the Public Funds Investment Act as amended during the 1995 legislative session. The Act directs local governments to adopt a written investment policy that primarily emphasizes safety of principal and liquidity. Also addressed under the Act are the areas of investment diversification, yield, maturity, and quality of investment management. The District has complied with the Act's provisions during its fiscal year ended September 30, 2018.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018
 (Continued)

NOTE (6) CAPITAL LEASE PAYABLE

The District entered into a service agreement with NRG Energy Services, LLC. According to the agreement, NRG Energy Services, LLC will provide and install generators for District use. The District will pay a monthly service fee for twenty-one years. The agreement also includes a purchase option for the District to purchase the equipment at \$1.00 after the twentieth year of the term. The economic substance of the agreement is that the District is financing the acquisition of the equipment through the lease, and accordingly, the equipment is recorded in the District's assets and liabilities. During the year ended of September 30, 2018, the District paid total of \$17,131 in interest and \$12,869 in principal.

The following is an analysis of the leased assets included in Capital Assets:

Water facilities	\$	250 000
Less accumulated depreciation		<u>(68 750)</u>
		<u>\$ 181 250</u>

The following is a schedule by years of future minimum payments required under the agreement together with their present value as of September 30, 2018:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 30 000
2020	30 000
2021	30 000
2022	27 000
2023	18 000
Thereafter	<u>139 363</u>
Total minimum lease payments	274 363
Less amount representing interest	109 431
Less current maturities of present value of minimum lease payments	<u>14 211</u>
Present value of minimum lease payments - net of current maturities	<u>\$ 150 721</u>

Amortization of assets held under capital leases is included with depreciation expense.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018 (Continued)

NOTE (7) MAINTENANCE TAX

An election held on January 20, 2001, authorized a maintenance tax of \$.35 per \$100 valuation on all property subject to taxation within the District. The District levied an ad valorem maintenance tax of \$.35 per \$100 assessed valuation on all property subject to taxation within the District, which resulted in a tax levy of \$772,510 on the taxable valuation of \$220,717,108 for the 2017 tax year.

This maintenance tax is to be used by the General Operating Fund to pay expenditures of operating the District's waterworks and sanitary sewer system. The maintenance tax was due upon receipt and was delinquent if not paid before February 1, at which time penalties and interest were assessed. The levy date of the tax was September 1 of the previous year or as soon after September 1, as it took to set the tax rate and the lien date was January 1 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and unearned revenue at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2018, include collections during the current period or within 60 days of year-end related to the 2017 and prior years' tax levies.

NOTE (8) LEASES

On August 9, 2016, the District entered into an operating lease agreement with Harris County Precinct 4 for the lease of District-owned fire station facility. Harris County agreed to lease the premise for a term commencing on January 1, 2016, and ending on May 31, 2041, for \$25. Harris County will lease the premises for construction, maintenance, and operation, at Harris County's sole expense, of a Harris County Precinct 4 Parks Department Office and Operation Building, containing living quarters sufficient to accommodate a single, live-in caretaker, with public access being provided to the Harris County Kickerillo-Mischer Preserve Park by a pedestrian bridge crossing Cypress Creek from the leased premises to the Park.

NOTE (9) DEVELOPER ADVANCES

On May 9, 2002, the Board of Directors entered into an annexation and service agreement with Cypress Developers Limited Partnership "Cypress". This developer owns and desires to develop approximately 7.9 acres located outside the boundaries of the District and 38.6 acres located within the District's boundaries. The District received \$75,000 from "Cypress" for the estimated engineering fees to design a Plant Expansion to increase the wastewater treatment capacity of the Plant. On January 5, 2005, "Cypress" advanced \$500,000 (the balance of the Developer's share of these expansion costs) upon plan approval and authorization of the District's wastewater permit amendment. The District agreed to reimburse the Developer its share of the expansion costs of \$575,000, with annual payments beginning February 2003, as follows: (a) that portion of any tap fee received from multi-family or commercial customers with this tract that exceeds the actual costs to the District and (b) the revenue generated by \$.0075 of the District's maintenance tax for each \$5,000,000 in taxable value of vertical improvements constructed on the Greenwood Tract. During the year ended September 30, 2018, the final reimbursement payment totaling \$20,627 was made.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018 (Continued)

NOTE (10) CONTRACTS WITH OTHER DISTRICTS

Emergency Water Interconnect Agreements

On September 15, 1999, the District entered into an emergency water interconnect agreement with Harris County Municipal Utility District No. 191 (MUD 191). Each district owns and operates a water supply and distribution system that serves the area within their respective boundaries. Under the terms of the agreement, the Districts will construct an interconnection and provide water to one another during an emergency period which is a period no longer than 15 days unless otherwise agreed upon. The Districts funded the costs for construction of the interconnect facilities equally. MUD 191 funded the costs of construction of the MUD 191 line and the District funded the costs for construction of the Prestonwood Forest loop line.

The rate to be charged for water supplied by either District shall be redelivery of a like quantity of water to the supplying District, or at the rate of \$.75 per 1,000 gallons of water unless the supplying District has converted to surface water in which case the rate shall be the rate paid for surface water. The term of the agreement is fifteen (15) years and will continue each year thereafter unless terminated by either district by providing sixty (60) days prior written notice to the other District. During the year ended September 30, 2018, the District made no purchase under this agreement.

On June 10, 2010, the District amended and revised the emergency water interconnect agreement with MUD 191. Under the agreement, the primary interconnects mentioned above remain in service. The amended agreement allows MUD 191 to have their engineers design and prepare plans for the construction of a secondary interconnect with the District. MUD 191 shall bear 100% of the cost of the secondary interconnect construction and notify the District upon completion of the project. If a meter is installed, the costs of maintaining the meter will be shared equally between the Districts. All other maintenance costs shall be paid for by MUD 191. The secondary interconnect is to be used as a backup to the primary interconnect. The rate for the water supply shall be as stated in the above paragraph. During the year ended September 30, 2018, the District made no purchase under this agreement.

On June 9, 2016, the District entered into an emergency water interconnect agreement with Harris County Municipal Utility District No. 230 (MUD 230). Each district owns and operates a water supply and distribution system that serves the area within their respective boundaries. Under the terms of the agreement, each District agrees to temporarily supply water to the other District in the event of an emergency. MUD 230 will fund the costs for the construction of the interconnect, and have the ownership of the interconnect. MUD 230 will also maintain the interconnect in good condition, with the District being responsible for one-half of the reasonable cost of a repair or maintenance. Each District owns and is responsible for the maintenance for the water distribution facilities on its own side of the interconnect.

The rate to be charged for water supplied by either district shall be redelivery of a like quantity of water to the supplying district, or at the rate paid by the supplying district per 1,000 gallons of water to purchase surface water plus an additional \$.25 per 1,000 gallons. The term of the agreement is twenty (20) years and will continue each year thereafter unless terminated by either district by providing sixty (60) days prior written notice to the other District. During the year ended September 30, 2018, the District made no purchase under this agreement.

PRESTONWOOD FOREST UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018 (Continued)

NOTE (11) STRATEGIC PARTNERSHIP AGREEMENT

Effective December 2, 2002, the District and the City of Houston entered into a Strategic Partnership Agreement (the “SPA”) as authorized by Texas Local Government Code Section 43.0751. Effective July 11, 2007, the District and the City of Houston entered into a First Amendment to the SPA (the “First Amendment”), to include additional land annexed by the District, and to extend the thirty (30) year term of the SPA to run from the effective date of the First Amendment. During the term of the SPA (i) the commercial portion of the District is annexed by the City for limited purposes of extending the City sales tax and City Fire Marshal services, (ii) the City has agreed to not annex the District for full purposes without the District’s consent, (iii) 50% of the City sales tax revenues received by the City from businesses within the area made subject to the SPA will be distributed to the District, and (iv) the area made subject to the SPA will continue to receive water and wastewater treatment service from the District and will remain subject to District taxing authority. During the year ended September 30, 2018, the District received a total of \$92,945 from the City for sales tax revenue.

NOTE (12) INTERLOCAL AGREEMENTS

Harris-Galveston Subsidence District

On September 14, 1995, the District and Harris-Galveston Subsidence District entered into an agreement where the District agreed to sponsor Hancock Elementary fifth graders in Cypress-Fairbanks Independent School District in the “Learning to be Water Wise and Energy Efficient” project. In return, the District receives water conservation credits equal to 84,000 gallons of groundwater for each student sponsored. Redemption of the credits allows the District an increased groundwater allocation by the amount of the credit. The agreement may be renewed annually with written authorization of the District and approval of that authorization by the General Manager of the Harris-Galveston Subsidence District. A renewed agreement was entered into for 2018-2019 school year. During the year ended September 30, 2018 the District did not sell any groundwater credits.

Cypress-Fairbanks Independent School District

On September 10, 2007, the District and Cypress-Fairbanks Independent School District entered into an agreement to construct and maintain a Sensory Garden. The District agreed to pay approximately \$55,000 of costs to construct the Sensory Garden and to maintain the garden during summer months through termination of the agreement on January 1, 2027. During the year ended September 30, 2018, the District did not incur any costs of maintaining the Sensory Garden.

NOTE (13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2019 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

PRESTONWOOD FOREST UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Original and	Variance
	Actual	Final Budget*	Positive (Negative)
	<u>Actual</u>	<u>Final Budget*</u>	<u>(Negative)</u>
Revenues:			
Charges for water service	\$ 299 261	\$ 198 640	\$ 100 621
Charges for sewer service	266 976	188 640	78 336
Regional water authority	603 258	600 000	3 258
Maintenance taxes	792 561	700 000	92 561
Investment earnings	13 266	7 500	5 766
Penalties and interest	30 231	7 000	23 231
Tap connection and inspection fees	28 325	-	28 325
Sales tax revenue	92 945	100 000	(7 055)
Miscellaneous income	<u>55 551</u>	<u>20 000</u>	<u>35 551</u>
Total revenues	<u>2 182 374</u>	<u>1 821 780</u>	<u>360 594</u>
Expenditures/expenses:			
Service operations:			
Purchased sewer service	37 460	30 000	(7 460)
Regional water authority fee	680 512	625 000	(55 512)
Contracted services	120 319	116 380	(3 939)
Professional fees	211 638	125 500	(86 138)
Director fees	28 950	32 000	3 050
Repairs and maintenance	502 931	350 000	(152 931)
Utilities	169 733	150 000	(19 733)
Other	182 538	167 600	(14 938)
Capital outlay	35 805	150 000	114 195
Debt service			
Principal	12 869	16 057	3 188
Interest	<u>17 131</u>	<u>21 943</u>	<u>4 812</u>
Total expenditures/expenses	<u>1 999 886</u>	<u>1 784 480</u>	<u>(215 406)</u>
Excess (deficiency) of revenues over expenditures	182 488	37 300	145 188
Fund balance/net position:			
Beginning of the year	<u>1 955 168</u>	<u>1 955 168</u>	<u>-</u>
End of the year	<u>\$ 2 137 656</u>	<u>\$ 1 992 468</u>	<u>\$ 145 188</u>

* Budget was not amended during the year. Therefore, the original budget is the same as the final budget.

See the Accompanying Independent Auditors' Report.

PRESTONWOOD FOREST UTILITY DISTRICT

TSI-1. SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

1. Services Provided by the District:
Retail Water
Retail Wastewater

2. Retail Service Providers

- a. Retail Rates Based on 5/8" Meter:

Most prevalent type of meter (if not a 5/8"): 3/4" meter

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water	\$ 6.00	5,000	N	\$6.00 1.00 1.50 2.25 3.00	0 – 5,000 5,001 – 10,000 10,001 – 15,000 15,001 – 25,000 over 25,000
Sewer	\$ 8.00	10,000	N	\$8.00 1.00 1.50	0 – 10,000 10,001 – 25,000 over 25,000
Surcharge	\$ 3.65	1,000	Northwest Harris County Regional Authority		

District employs winter averaging for wastewater usage?

Yes No
 X

- b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	1	1	x 1.0	1
< or =3/4"	811	803	x 1.0	803
1"	21	21	x 2.5	53
1 1/2"	2	2	x 5.0	10
2"	39	38	x 8.0	304
3"	3	3	x 15.0	45
4"	4	4	x 25.0	100
6"	6	6	x 50.0	300
8"	4	4	x 80.0	320
10"	-	-	x 115.0	-
Total Water	891	882		
Total Wastewater	866	856	x 1.0	1 936

PRESTONWOOD FOREST UTILITY DISTRICT

TSI-1. SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(Continued)

3. Total water consumption (rounded to the nearest 1,000) during the fiscal year:

Gallons pumped into system:	39,987,000	Water Accountability Ratio: 99.4%
Gallons purchased from NHCRWA:	138,596,000	
Gallons billed to customers:	177,568,000	

4. Location of District:

County in which district is located: Harris

Is the District located entirely within one county? Yes
 X No

Is the District located within a city? Entirely Partly Not at All

City in which District is located: Houston

Is the District located within a city's extra territorial jurisdiction (ETJ)? Entirely Partly Not at All

ETJ in which District is located: Houston

Are Board members appointed by an office outside the District? Yes No

PRESTONWOOD FOREST UTILITY DISTRICT

TSI-2. GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Personnel Expenditures (including benefits)*	\$ -
Professional Fees	
Auditing	8 545
Legal	42 880
Engineering	153 862
Other professional fees	6 351
Purchased Services for Resale	
Bulk water and wastewater service purchases	37 460
Regional water authority fee	680 512
Contracted Services	
Bookkeeping	16 607
General manager or operator	88 200
Tax assessor fee	15 512
Other contracted services	-
Utilities	169 733
Repairs and Maintenance	502 931
Sewer inspection fees	3 050
Laboratory fees	23 062
Chemicals	39 143
Administrative Expenditures	
Directors' fees	28 950
Office supplies	21 274
Insurance	26 950
Other administrative expenditures	69 059
Capital Outlay	
Capitalized Assets	35 805
Expenditures not Capitalized	-
Solid Waste Disposal	-
Debt Service Expenditures	<u>30 000</u>
TOTAL EXPENDITURES	<u><u>\$ 1 999 886</u></u>

*Number of persons employed by the District:

Full-time	<u><u>-</u></u>
Part-time	<u><u>-</u></u>

See the Accompanying Independent Auditors' Report.

PRESTONWOOD FOREST UTILITY DISTRICT

TSI-3. TEMPORARY INVESTMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balances End of Year	Accrued Interest Receivable at End of Year
General Fund					
Money Market Savings		varies	-	\$ 781 994	\$ -
Money Market Savings		varies	-	107 706	-
Money Market Savings		varies	-	239 640	-
Money Market Savings		varies	-	238 060	-
TexPool		varies	-	6 940	-
Certificates of Deposit:					
Allegiance Bank	1002334257I	2.00%	04/10/19	132 893	1 260
Third Coast Bank	6000005188R	1.87%	10/09/18	240 095	2 128
Texan Bank	1852001825G	2.07%	12/14/18	101 549	616
Green Bank	33000349311U	2.15%	03/11/19	<u>103 065</u>	<u>121</u>
Total General Fund				<u>1 951 942</u>	<u>4 125</u>
Total - All Funds				<u>\$ 1 951 942</u>	<u>\$ 4 125</u>

See the Accompanying Independent Auditors' Report.

PRESTONWOOD FOREST UTILITY DISTRICT

TSI-4. TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2018

	Maintenance Taxes	Debt Service Taxes
Taxes Receivable, Beginning of Year	\$ 34 245	\$ -
2017 Tax Roll	772 510	-
Adjustments to prior year tax rolls and write offs	<u>(3 764)</u>	<u>-</u>
Total to be Accounted for	<u>802 991</u>	<u>-</u>
Tax Collections		
Current year	770 846	-
Prior years	<u>21 715</u>	<u>-</u>
Total Collections	<u>792 561</u>	<u>-</u>
Total Receivable, End of Year	<u>\$ 10 430</u>	<u>\$ -</u>
Total Receivable, by Years		
2017	\$ 2 748	\$ -
2016	1 505	-
2015	1 674	-
2014	1 934	-
2013	1 355	-
2012 and prior	<u>1 214</u>	<u>-</u>
Taxes Receivable, End of Year	<u>\$ 10 430</u>	<u>\$ -</u>

ASSESSED VALUATION SUMMARY

Property Valuations	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 63 452 993	\$ 57 017 819	\$ 54 627 135	\$ 53 994 818	\$ 44 863 826
Improvements	148 546 576	151 211 382	145 762 545	126 460 560	122 847 385
Personal Property	<u>8 717 539</u>	<u>8 822 678</u>	<u>9 760 312</u>	<u>7 980 951</u>	<u>7 723 509</u>
Total Property Valuations	<u>\$ 220 717 108</u>	<u>\$ 217 051 879</u>	<u>\$ 210 149 992</u>	<u>\$ 188 436 329</u>	<u>\$ 175 434 720</u>
Tax Rates per \$100 Valuation					
Debt service tax rates	\$ -	\$ -	\$ -	\$ -	\$ -
Maintenance tax rates*	<u>0.35</u>	<u>0.35</u>	<u>0.35</u>	<u>0.35</u>	<u>0.35</u>
Total Tax Rates per \$100 Valuation	<u>\$ 0.35</u>				
Tax Rolls	<u>\$ 772 510</u>	<u>\$ 759 681</u>	<u>\$ 735 525</u>	<u>\$ 659 527</u>	<u>\$ 614 021</u>
Percent of Taxes Collected to Taxes					
Levied	<u>99.6%</u>	<u>99.8%</u>	<u>99.8%</u>	<u>99.7%</u>	<u>99.8%</u>

* Maximum Tax Rate Approved by Voters: \$.35 on January 20, 2001

See the Accompanying Independent Auditor's Report.

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PRESTONWOOD FOREST UTILITY DISTRICT

TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES,
GENERAL FUND AND DEBT SERVICE FUND
FIVE YEARS ENDED SEPTEMBER 30, 2018

	Amounts		
	2018	2017	2016
General Fund Revenues			
Service revenues	\$ 566 237	\$ 389 885	\$ 398 331
Regional water authority	603 258	555 800	484 470
Penalty and interest	43 497	18 367	15 903
Maintenance tax revenue	792 561	732 897	719 448
Sales tax revenue	92 945	92 737	92 503
Tap connection fees	28 325	(524)	72 757
Miscellaneous income	55 551	1 831	19 634
Total General Fund Revenues	2 182 374	1 790 993	1 803 046
General Fund Expenditures			
Purchased sewer services	37 460	19 245	10 790
Regional water authority fee	680 512	608 346	526 470
Professional fees	211 638	127 694	98 236
Purchased and contracted services	120 319	126 784	131 034
Repairs and maintenance	502 931	355 750	527 040
Recurring operating expenditures	211 488	202 688	202 702
Utilities	169 733	135 521	156 592
Capital outlay	35 805	20 800	56 523
Debt service	30 000	32 000	36 000
Total General Fund Expenditures	1 999 886	1 628 828	1 745 387
Excess Revenues (Expenditures)	\$ 182 488	\$ 162 165	\$ 57 659
Debt Service Fund Revenues			
Penalty and interest	\$ -	\$ -	\$ -
Total Debt Service Revenues	-	-	-
Debt Service Fund Expenditures			
Tax collection expenditures	-	-	-
Total Debt Service Expenditures	-	-	-
Excess Revenues (Expenditures)	\$ -	\$ -	\$ -
Total Active Retail Water Connections	882	872	873
Total Active Retail Wastewater Connections	856	849	853

See the Accompanying Independent Auditor's Report.

Amounts		Percent of Fund Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 392 890	\$ 408 033	26.0 %	21.8 %	22.1 %	23.9 %	25.7 %
433 835	432 956	27.6	31.0	26.9	26.4	27.2
16 752	15 720	2.0	1.0	0.9	1.0	1.0
651 878	612 832	36.3	40.9	39.9	39.6	38.5
109 467	91 402	4.3	5.2	5.1	6.7	5.7
-	-	1.3	-	4.0	-	-
39 276	29 426	2.5	0.1	1.1	2.4	1.9
<u>1 644 098</u>	<u>1 590 369</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
98 463	33 645	1.7	1.1	0.6	6.0	2.1
457 393	450 937	31.2	34.0	29.2	27.8	28.4
75 233	69 719	9.7	7.1	5.4	4.6	4.4
124 665	102 330	5.5	7.1	7.3	7.6	6.4
257 016	270 243	23.0	19.9	29.2	15.6	17.0
185 806	186 272	9.7	11.3	11.2	11.3	11.7
146 813	156 549	7.8	7.6	8.7	8.9	9.8
88 933	19 012	1.6	1.2	3.1	5.4	1.2
35 999	36 000	1.4	1.8	2.0	2.2	2.3
<u>1 470 321</u>	<u>1 324 707</u>	<u>91.6</u>	<u>91.1</u>	<u>96.7</u>	<u>89.4</u>	<u>83.3</u>
<u>\$ 173 777</u>	<u>\$ 265 662</u>	<u>8.4</u>	<u>8.9</u>	<u>3.3</u>	<u>10.6</u>	<u>16.7 %</u>
\$ -	\$ 5 240	- %	- %	- %	- %	100.0 %
-	5 240	-	-	-	-	100.0
-	23 767	-	-	-	-	453.6
-	23 767	-	-	-	-	453.6
<u>\$ -</u>	<u>\$ (18 527)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(353.6) %</u>
<u>861</u>	<u>868</u>					
<u>832</u>	<u>839</u>					

See the Accompanying Independent Auditor's Report.

PRESTONWOOD FOREST UTILITY DISTRICT

TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS SEPTEMBER 30, 2018

Complete District Mailing Address: Prestonwood Forest Utility District
10000 Memorial drive, Suite 260
Houston, Texas 77024

District Business Telephone Number: (713) 951-0800

Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): January 5, 2018

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

Names	Term of office (Elected or Appointed) or Date Hired	Fees of Office Paid* FYE 9/30/18	Expense Reimburse- ments FYE 9/30/18	Title at Year End
Board Members:				
Gary Craig	(Elected) 12/17 - 11/21	\$ 4 800	\$ 2 134	President
Ted Karis	(Elected) 12/15 - 11/19	\$ 6 300	\$ -	Vice President
James R. Allen	(Elected) 12/15 - 11/19	\$ 6 300	\$ 1 040	Secretary
Cindy Ems	(Elected) 12/17 - 11/21	\$ 6 000	\$ 2 762	Assistant Secretary
John Broadfoot	(Elected) 12/17 - 11/21	\$ 4 650	\$ -	Director
Derryl York	(Elected) 12/13 - 11/17	\$ 900	\$ -	

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

PRESTONWOOD FOREST UTILITY DISTRICT

TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 SEPTEMBER 30, 2018
 (Continued)

<u>Names</u>	<u>Term of office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid* FYE 9/30/18</u>	<u>Expense Reimburse- ments FYE 9/30/18</u>	<u>Title at Year End</u>
Consultants:				
Young & Brooks	09/78	\$ 42 519	\$ 361	Attorney
Water District Management	12/80	\$ 88 200	\$ 291 944	Operator
Equi-Tax, Inc.	12/82	\$ 14 662	\$ 4 587	Tax Collector
Myrtle Cruz, Inc.	07/78	\$ 16 608	\$ 1 942	Bookkeeper
Arborleaf Engineering & Survey	10/17	\$ 2 550	\$ -	Engineer
Bleyl Engineering	11/16	\$ 140 041	\$ 11 271	Engineer
Breedlove & Co., P.C.	1981	\$ 8 545	\$ -	Auditor
Harris County Appraisal District	1985	\$ 5 722	\$ -	Appraisal District

* Fees of Office are the amounts actually paid to a consultant during the District's fiscal year.