

NORTHCHASE REGIONAL SEWAGE TREATMENT PLANT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2024

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northchase Regional Sewage Treatment Plant
Harris County, Texas

Opinion

We have audited the accompanying financial statements of the Special Revenue Fund of the Northwest Harris County Municipal Utility District No. 21 (the "District"), also known as the Northchase Regional Sewage Treatment Plant (the "Plant"), as of and for the year ended May 31, 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plant as of May 31, 2024, and the changes in financial position and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Special Revenue Fund and do not purport to, and do not, present fairly the financial position of the District as of May 31, 2024, and changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Management's Discussion and Analysis has not been prepared for inclusion in these financial statements. See the Annual Financial Report of the District as of and for the fiscal year ending May 31, 2024, for Management's Discussion and Analysis of the entity as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 16, 2024

NORTHCHASE REGIONAL SEWAGE TREATMENT PLANT
BALANCE SHEET – SPECIAL REVENUE FUND
MAY 31, 2024

ASSETS

Cash	\$ 150,226
Investments	1,790,614
Due from Participants:	
Northwest Harris County MUD No. 21	22,828
Northwest Harris County MUD No. 22	50,225
Northwest Harris County MUD No. 23	<u>45,926</u>

TOTAL ASSETS	\$ <u>2,059,819</u>
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LIABILITIES

Accounts Payable	\$ 396,705
Due to Participants:	
Northwest Harris County MUD No. 21	429,790
Northwest Harris County MUD No. 22	483,042
Northwest Harris County MUD No. 23	<u>554,782</u>

TOTAL LIABILITIES	\$ <u>1,864,319</u>
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FUND BALANCE

Restricted for Future Operations	<u>\$ 195,500</u>
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TOTAL FUND BALANCE	\$ <u>195,500</u>
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TOTAL LIABILITIES

 AND FUND BALANCE	\$ <u>2,059,819</u>
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The accompanying notes to the financial
statements are an integral part of this report.

NORTHCHASE REGIONAL SEWAGE TREATMENT PLANT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – SPECIAL REVENUE FUND
FOR THE YEAR ENDED MAY 31, 2024

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Northwest Harris County MUD No. 21	\$ 197,880	\$ 690,504	\$ 492,624
Northwest Harris County MUD No. 22	296,820	840,558	543,738
Northwest Harris County MUD No. 23	329,800	939,975	610,175
Investment Revenues	<u>246</u>	<u>246</u>	<u>246</u>
TOTAL REVENUES	<u>\$ 824,500</u>	<u>\$ 2,471,283</u>	<u>\$ 1,646,783</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 18,500	\$ 21,364	\$ (2,864)
Contracted Services	92,500	92,091	409
Utilities	90,000	82,555	7,445
Repairs and Maintenance	235,000	194,751	40,249
Other	388,500	427,901	(39,401)
Capital Outlay	<u>1,652,621</u>	<u>1,652,621</u>	<u>(1,652,621)</u>
TOTAL EXPENDITURES	<u>\$ 824,500</u>	<u>\$ 2,471,283</u>	<u>\$ (1,646,783)</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ -0-
FUND BALANCE - JUNE 1, 2023	<u>195,500</u>	<u>195,500</u>	<u></u>
FUND BALANCE - MAY 31, 2024	<u>\$ 195,500</u>	<u>\$ 195,500</u>	<u>\$ -0-</u>

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

NORTHCHASE REGIONAL SEWAGE TREATMENT PLANT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 1. CREATION

On December 13, 1979, Northwest Harris County Municipal Utility District No. 21 (the "District"), Northwest Harris County Municipal Utility District No. 22 (District No. 22) and Northwest Harris County Municipal Utility District No. 23 (District No. 23) entered into an agreement to share the construction and operation costs of a regional sewage treatment plant (the "Plant"). The District is to operate and maintain the facilities. The original agreement was for a period of thirty-five years or December 13, 2014. During the current fiscal year, the agreement was extended for forty years from December 13, 2014, and will automatically renew for additional one year terms unless terminated.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the Plant are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the "Commission").

These financial statements present only the Special Revenue Fund of the District and do not purport to, and do not, present fairly the financial position of the District as of May 31, 2024, and changes in its financial position and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have included the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-Special Revenue Fund as part of the financial statements instead of as required supplementary information, as allowed by the GASB.

The GASB has established the criteria for determining whether or not a given entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the Plant does not meet the criteria for inclusion as a component unit of the District or any other entity. The Plant is considered to be operated as a joint venture of the respective participants. Since the District exercises oversight responsibility for the Plant, the Plant is accounted for and is included in the financial statements of the District as a Special Revenue Fund.

NORTHCHASE REGIONAL SEWAGE TREATMENT PLANT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget

Annual unappropriated budgets are adopted for the Special Revenue Fund by the District's Board of Directors. The budgets are prepared using the same method of accounting as for financial reporting. The original Special Revenue Fund budget for the current year was not amended. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund present the original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Measurement Focus

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Plant does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The entire fund balance of the Plant is restricted.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The Plant does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and the Plant does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the Plant considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

NORTHCHASE REGIONAL SEWAGE TREATMENT PLANT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The Plant invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Hermes, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. As a result, the Plant also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

During the current fiscal year, the Plant had the following investments:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$1,790,614	\$1,790,614	\$ - 0 -	\$ - 0 -	\$ - 0 -

NORTHCHASE REGIONAL SEWAGE TREATMENT PLANT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 4. SHARING OF COSTS (Continued)

At May 31, 2024, accounts receivable was composed of the following:

	District No. 21	District No. 22	District No. 23	Total
Due From Districts at June 1, 2023	\$ 21,805	\$ 66,407	\$ 64,865	\$ 153,077
Current Year Billings	690,504	840,558	939,975	2,471,037
Current Year Collections	<u>689,481</u>	<u>856,740</u>	<u>958,914</u>	<u>2,505,135</u>
Due From Districts at May 31, 2024	<u>\$ 22,828</u>	<u>\$ 50,225</u>	<u>\$ 45,926</u>	<u>\$ 118,979</u>

Construction Costs

Construction costs of the Plant's facilities are to be shared based on the capacity acquired by each district. The districts record their pro rata share of capitalizable costs within their respective financial statements. Current construction includes the Wastewater Treatment Plant Improvements 2015 project. This project was completed during the current fiscal year.

NOTE 5. INSURANCE COVERAGE AND RISK MANAGEMENT

The Plant is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Plant carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

The total cost of insurance for the Plant for the year ended May 31, 2024 was \$41,030. At the fiscal year end, the Plant was covered by the following policies.

<u>Type of Coverage</u>	<u>Term</u>	<u>Limits of Coverage</u>	<u>Insurer/Name</u>	<u>Policy Clause Co- Insurance</u>
BOILER AND MACHINERY Extra Expense Deductible	10/02/23- 10/02/24	\$20,000,000 500,000 10,000	Chubb	None
PROPERTY Extra Expense Deductible	10/02/23- 10/02/24	\$20,000,000 100,000 5,000	Hanover	None

