

KLEINWOOD MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kleinwood Municipal Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Kleinwood Municipal Utility District (the "District"), as of and for the year ended March 31, 2017, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2017, 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 the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 27, 2017

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

Management's discussion and analysis of Kleinwood Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2017. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the Statement of Net Position. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$4,742,841 as of March 31, 2017. A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment, as well as the water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

| | <u>Summary of Changes in the Statement of Net Position</u> | | |
|---|--|----------------------|----------------------------------|
| | 2017 | 2016 | Change Positive (Negative) |
| Current and Other Assets | \$ 7,442,679 | \$ 7,709,862 | \$ (267,183) |
| Capital Assets (Net of Accumulated Depreciation) | <u>9,972,812</u> | <u>9,993,232</u> | <u>(20,420)</u> |
| Total Assets | <u>\$ 17,415,491</u> | <u>\$ 17,703,094</u> | <u>\$ (287,603)</u> |
| Deferred Outflows of Resources | <u>\$ 119,743</u> | <u>\$ 128,505</u> | <u>\$ (8,762)</u> |
| Bonds Payable | \$ 12,110,753 | \$ 12,863,890 | \$ 753,137 |
| Other Liabilities | <u>681,640</u> | <u>816,797</u> | <u>135,157</u> |
| Total Liabilities | <u>\$ 12,792,393</u> | <u>\$ 13,680,687</u> | <u>\$ 888,294</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ (2,343,176) | \$ (3,027,094) | \$ 683,918 |
| Restricted | 1,930,347 | 1,992,095 | (61,748) |
| Unrestricted | <u>5,155,670</u> | <u>5,185,911</u> | <u>(30,241)</u> |
| Total Net Position | <u>\$ 4,742,841</u> | <u>\$ 4,150,912</u> | <u>\$ 591,929</u> |

The following table provides a summary of the District's operations for the years ended March 31, 2017, and March 31, 2016.

| | <u>Summary of Changes in the Statement of Activities</u> | | |
|---------------------------------|--|---------------------|----------------------------------|
| | 2017 | 2016 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 1,344,957 | \$ 1,464,520 | \$ (119,563) |
| Charges for Services | 1,182,947 | 1,161,828 | 21,119 |
| Other Revenues | <u>465,356</u> | <u>405,066</u> | <u>60,290</u> |
| Total Revenues | <u>\$ 2,993,260</u> | <u>\$ 3,031,414</u> | <u>\$ (38,154)</u> |
| Expenses for Services | <u>2,401,331</u> | <u>2,694,298</u> | <u>292,967</u> |
| Change in Net Position | \$ 591,929 | \$ 337,116 | \$ 254,813 |
| Net Position, Beginning of Year | <u>4,150,912</u> | <u>3,813,796</u> | <u>337,116</u> |
| Net Position, End of Year | <u>\$ 4,742,841</u> | <u>\$ 4,150,912</u> | <u>\$ 591,929</u> |

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2017, was \$5,842,294, a decrease of \$33,538 from the prior fiscal year.

The General Fund fund balance increased by \$16,029, primarily due to operating and tax revenues exceeding operating and administrative expenditures.

The Debt Service Fund fund balance decreased by \$49,567, primarily due to the structure of the District's outstanding debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$108,003 more than budgeted revenues primarily due to higher than expected sales tax revenues. Actual expenditures were \$291,119 less than budgeted expenditures primarily due to lower than expected professional fees.

CAPITAL ASSETS

Capital assets as of March 31, 2017, total \$9,972,812 (net of accumulated depreciation) and also include land, buildings and equipment, and the water and wastewater facilities. Significant capital outlay during the current fiscal year consisted of lift station improvements, water plant no. 1 and no. 2 improvements, and clarifier no. 1 rehabilitation.

| Capital Assets At Year-End, Net of Accumulated Depreciation | | | |
|---|--------------|--------------|----------------------------------|
| | 2017 | 2016 | Change Positive (Negative) |
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 1,526,486 | \$ 1,526,486 | \$ |
| Construction in Progress | 102,669 | 293,746 | (191,077) |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Buildings and Equipment | 244,036 | 246,532 | (2,496) |
| Water System | 4,231,206 | 4,110,626 | 120,580 |
| Wastewater System | 3,868,415 | 3,815,842 | 52,573 |
| Total Net Capital Assets | \$ 9,972,812 | \$ 9,993,232 | \$ (20,420) |

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

LONG-TERM DEBT ACTIVITY

As of March 31, 2017, the District had total bonds payable of \$11,829,992. The changes in bonds payable during the year ended March 31, 2017, are summarized as follows:

| | |
|-----------------------------------|----------------------|
| Bond Debt Payable, April 1, 2016 | \$ 12,559,992 |
| Less: Bond Principal Paid | <u>730,000</u> |
| Bond Debt Payable, March 31, 2017 | <u>\$ 11,829,992</u> |

The District carries an underlying rating of "A2". The District's Series 2011 and 2012 bonds carry an insured rating of "A2" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The District's Series 2014 and 2015 bonds carry insured ratings of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings reflect any rating changes during the year ended March 31, 2017.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kleinwood Municipal Utility District, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1100, Houston, TX 77046.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2017**

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| ASSETS | | |
| Cash | \$ 182,669 | \$ 189,884 |
| Investments | 3,781,838 | 1,782,128 |
| Receivables: | | |
| Property Taxes | 10,969 | 31,464 |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts (Net of Allowance for Doubtful Accounts of \$750) | 85,398 | |
| Sales Taxes | 76,239 | |
| Other | 2,687 | |
| Due from Other Funds | 10,112 | |
| Regional Water Authority Capital Contributions | | |
| Chloramination Credit Receivable | | |
| Prepaid Costs | 22,384 | |
| Operating Advance | 17,473 | |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 4,189,769 | \$ 2,003,476 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Charges on Refunding Bonds | \$ -0- | \$ -0- |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 4,189,769 | \$ 2,003,476 |

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

| <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|---------------------|----------------------|--------------------------------------|
| \$ 372,553 | \$ | \$ 372,553 |
| 5,563,966 | | 5,563,966 |
| 42,433 | | 42,433 |
| | 7,279 | 7,279 |
| 85,398 | | 85,398 |
| 76,239 | | 76,239 |
| 2,687 | | 2,687 |
| 10,112 | (10,112) | |
| | 976,762 | 976,762 |
| | 275,505 | 275,505 |
| 22,384 | | 22,384 |
| 17,473 | | 17,473 |
| | 1,526,486 | 1,526,486 |
| | 102,669 | 102,669 |
| | <u>8,343,657</u> | <u>8,343,657</u> |
| <u>\$ 6,193,245</u> | <u>\$ 11,222,246</u> | <u>\$ 17,415,491</u> |
| | | |
| \$ -0- | \$ 119,743 | \$ 119,743 |
| <u>\$ 6,193,245</u> | <u>\$ 11,341,989</u> | <u>\$ 17,535,234</u> |

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

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2017**

| | General Fund | Debt Service Fund |
|---|--------------|----------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 184,410 | \$ |
| Accrued Interest Payable | | |
| Due to Other Funds | | 10,112 |
| Due to Taxpayers | | 12,040 |
| Security Deposits | 101,956 | |
| Accrued Interest on Compound Interest Bonds | | |
| Long-term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 286,366 | \$ 22,152 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ 10,969 | \$ 31,464 |
| FUND BALANCES | | |
| Nonspendable: | | |
| Prepaid Costs | \$ 22,384 | \$ |
| Operating Advance | 17,473 | |
| Restricted for Debt Service | | 1,949,860 |
| Assigned to 2018 Budget Deficit | 295,093 | |
| Unassigned | 3,557,484 | |
| TOTAL FUND BALANCES | \$ 3,892,434 | \$ 1,949,860 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 4,189,769 | \$ 2,003,476 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|---------------------|-----------------------|--------------------------------------|
| \$ 184,410 | \$ 58,256 | \$ 184,410 |
| 10,112 | (10,112) | 58,256 |
| 12,040 | | 12,040 |
| 101,956 | 324,978 | 101,956 |
| | 720,000 | 324,978 |
| | 720,000 | 720,000 |
| | 11,390,753 | 11,390,753 |
| <u>\$ 308,518</u> | <u>\$ 12,483,875</u> | <u>\$ 12,792,393</u> |
| | | |
| <u>\$ 42,433</u> | <u>\$ (42,433)</u> | <u>\$ - 0 -</u> |
| | | |
| \$ 22,384 | \$ (22,384) | \$ |
| 17,473 | (17,473) | |
| 1,949,860 | (1,949,860) | |
| 295,093 | (295,093) | |
| <u>3,557,484</u> | <u>(3,557,484)</u> | |
| <u>\$ 5,842,294</u> | <u>\$ (5,842,294)</u> | <u>\$ - 0 -</u> |
| | | |
| <u>\$ 6,193,245</u> | | |
| | \$ (2,343,176) | \$ (2,343,176) |
| | 1,930,347 | 1,930,347 |
| | 5,155,670 | 5,155,670 |
| | <u>\$ 4,742,841</u> | <u>\$ 4,742,841</u> |

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

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2017**

| | | |
|--|----|-----------|
| Total Fund Balances - Governmental Funds | \$ | 5,842,294 |
|--|----|-----------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|--|--|-----------|
| Long-term receivables are recorded in the Statement of Net Position. | | 1,252,267 |
|--|--|-----------|

| | | |
|--|--|-----------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. | | 9,972,812 |
|--|--|-----------|

| | | |
|--|--|---------|
| Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. | | 119,743 |
|--|--|---------|

| | | |
|---|--|--------|
| Deferred tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District. | | 49,712 |
|---|--|--------|

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

| | | |
|--------------------------|---------------------|---------------------|
| Accrued Interest Payable | \$ (383,234) | |
| Bonds Payable | <u>(12,110,753)</u> | <u>(12,493,987)</u> |

| | | |
|--|----|-------------------------|
| Total Net Position - Governmental Activities | \$ | <u><u>4,742,841</u></u> |
|--|----|-------------------------|

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

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KLEINWOOD MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2017

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| REVENUES | | |
| Property Taxes | \$ 352,075 | \$ 1,007,147 |
| Water Service | 401,260 | |
| Wastewater Service | 215,073 | |
| Water Authority Fees | 515,672 | |
| Penalty and Interest | 9,055 | 17,884 |
| Tap Connection and Inspection Fees | 27,511 | |
| Water Authority Credits | 110,246 | |
| Sales Tax Revenues | 343,445 | |
| Miscellaneous Revenues | 48,773 | 5,991 |
| TOTAL REVENUES | \$ 2,023,110 | \$ 1,031,022 |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Professional Fees | \$ 132,786 | \$ 11,144 |
| Contracted Services | 218,316 | 37,743 |
| Purchased Services | 515,000 | |
| Purchased Wastewater Service | 127,002 | |
| Utilities | 65,093 | |
| Water Authority Pumpage Fees | 163,541 | |
| Repairs and Maintenance | 326,813 | |
| Depreciation | | |
| Other | 125,288 | 29,902 |
| Capital Outlay | 248,242 | |
| Debt Service: | | |
| Bond Principal | | 730,000 |
| Bond Interest | | 356,800 |
| TOTAL EXPENDITURES/EXPENSES | \$ 1,922,081 | \$ 1,165,589 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES | \$ 101,029 | \$ (134,567) |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In(Out) | \$ (85,000) | \$ 85,000 |
| NET CHANGE IN FUND BALANCES | \$ 16,029 | \$ (49,567) |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - APRIL 1, 2016 | 3,876,405 | 1,999,427 |
| FUND BALANCES/NET POSITION - MARCH 31, 2017 | \$ 3,892,434 | \$ 1,949,860 |

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

| <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---------------------|-----------------------|------------------------------------|
| \$ 1,359,222 | \$ (14,265) | \$ 1,344,957 |
| 401,260 | | 401,260 |
| 215,073 | | 215,073 |
| 515,672 | | 515,672 |
| 26,939 | (3,508) | 23,431 |
| 27,511 | | 27,511 |
| 110,246 | (43,099) | 67,147 |
| 343,445 | | 343,445 |
| 54,764 | | 54,764 |
| <u>\$ 3,054,132</u> | <u>\$ (60,872)</u> | <u>\$ 2,993,260</u> |
| | | |
| \$ 143,930 | \$ | \$ 143,930 |
| 256,059 | | 256,059 |
| 515,000 | | 515,000 |
| 127,002 | | 127,002 |
| 65,093 | | 65,093 |
| 163,541 | | 163,541 |
| 326,813 | | 326,813 |
| | 268,662 | 268,662 |
| 155,190 | | 155,190 |
| 248,242 | (248,242) | |
| 730,000 | (730,000) | |
| 356,800 | 23,241 | 380,041 |
| <u>\$ 3,087,670</u> | <u>\$ (686,339)</u> | <u>\$ 2,401,331</u> |
| | | |
| <u>\$ (33,538)</u> | <u>\$ 625,467</u> | <u>\$ 591,929</u> |
| | | |
| <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| \$ (33,538) | \$ 33,538 | \$ |
| | 591,929 | 591,929 |
| | | |
| <u>5,875,832</u> | <u>(1,724,920)</u> | <u>4,150,912</u> |
| | | |
| <u>\$ 5,842,294</u> | <u>\$ (1,099,453)</u> | <u>\$ 4,742,841</u> |

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

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2017**

| | | |
|---|----|----------------|
| Net Change in Fund Balances - Governmental Funds | \$ | (33,538) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. | | (14,265) |
| Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. | | (3,508) |
| Governmental funds report repayment of capital contributions as revenues in the period received. However, in the Statement of Net Position, repayments reduce long-term receivables. | | (43,099) |
| Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | | (268,662) |
| Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. | | 248,242 |
| Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. | | 730,000 |
| Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. | | (23,241) |
| Change in Net Position - Governmental Activities | \$ | <u>591,929</u> |

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

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 1. CREATION OF DISTRICT

Kleinwood Municipal Utility District, Harris County, Texas, was created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission”), effective May 3, 1972. The Board of Directors held its first meeting on February 2, 1973, and the first bonds were sold on November 3, 1975. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended.

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 District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an 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 District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has two governmental funds and considers each to be a major fund.

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the period and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or use. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2017, the Debt Service Fund owed the General Fund \$10,112 comprised of \$6,612 for maintenance tax collections and \$3,500 for Series 2015 refunding bond issuance costs. The General Fund transferred \$85,000 to the Debt Service Fund (Tax Fund) for reimbursement of a taxpayer overpayment refund.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

| | Years |
|---------------------|-------|
| Buildings | 40 |
| Water System | 10-45 |
| Wastewater System | 10-45 |
| All Other Equipment | 5-20 |

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

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:

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

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.

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 District 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. The District assigned \$295,093 of the General Fund fund balance to cover the budgeted 2018 deficit.

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 District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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 expenditures during the reporting period. Actual results could differ from those estimates.

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 3. LONG-TERM DEBT

| | Refunding Series 2011 | Refunding Series 2014 | |
|---|--------------------------|-------------------------|-------------------|
| | | Current Interest | Compound Interest |
| Amount Outstanding – March 31, 2017 | \$2,125,000 | \$2,260,000 | \$214,996 |
| Interest Rates | 2.25% - 4.00% | 2.00% - 3.50% | 4.10% |
| Maturity Dates – Serially Beginning/Ending | August 1, 2017/2022 | August 1, 2017/2028 | August 1, 2029 |
| Interest Payment Dates | August 1/ February 1 | August 1/ February 1 | At Maturity |
| Callable Dates | August 1, 2018* | August 1, 2022* | N/A* |

| | Refunding Series 2012 | Refunding Series 2015 | |
|---|--------------------------|-------------------------|-------------------|
| | | Current Interest | Compound Interest |
| Amount Outstanding – March 31, 2017 | \$3,715,000 | \$3,005,000 | \$509,996 |
| Interest Rates | 2.00% - 4.00% | 2.00% - 3.00% | 3.75% |
| Maturity Dates – Serially Beginning/Ending | August 1, 2017/2029 | August 1, 2017/2029 | August 1, 2030 |
| Interest Payment Dates | August 1/ February 1 | August 1/ February 1 | At Maturity |
| Callable Dates | August 1, 2020* | August 1, 2023* | N/A* |

* Or any date thereafter at a price of par plus unpaid accrued interest to the date fixed for redemption. For the Series 2011 bond issue, the bonds maturing August 1, 2022, are term bonds and subject to mandatory redemption beginning August 1, 2021. For the Series 2012 bond issue, the bonds maturing August 1, 2014, 2016, 2018, 2026, and 2028, are term bonds and are subject to mandatory redemption beginning August 1, 2012, 2015, 2017, 2025, and 2027, respectively. For the Series 2014 bond issue, the bonds maturing August 1, 2024, are term bonds and are subject to mandatory redemption beginning August 1, 2023. The par value of the Series 2014 Refunding compound interest bonds is \$214,996 and the maturity value is \$555,000. At March 31, 2017, the accreted value of these bonds is \$334,774, which includes accrued interest of \$119,778. Interest on these bonds will be paid at maturity. The par value of the Series 2015 Refunding Compound Interest bonds is \$509,996 and the maturity value is \$1,180,000. At March 31, 2017, the accreted value of these bonds is \$715,196, which includes accrued interest of \$205,200. Interest on these bonds will be paid at maturity.

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2017:

| | April 1, 2016 | Additions | Retirements | March 31, 2017 |
|----------------------|------------------|----------------------------|-------------|-------------------|
| Bonds Payable | \$ 12,559,992 | \$ | \$ 730,000 | \$ 11,829,992 |
| Unamortized Premiums | 303,898 | | 23,137 | 280,761 |
| Bonds Payable, Net | \$ 12,863,890 | \$ -0- | \$ 753,137 | \$ 12,110,753 |
| | | Amount Due Within One Year | | \$ 720,000 |
| | | Amount Due After One Year | | 11,390,753 |
| | | Bonds Payable, Net | | \$ 12,110,753 |

As of March 31, 2017, the debt service requirements on the outstanding bonds were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------|--------------|---------------|
| 2018 | \$ 720,000 | \$ 341,675 | \$ 1,061,675 |
| 2019 | 740,000 | 325,050 | 1,065,050 |
| 2020 | 765,000 | 305,737 | 1,070,737 |
| 2021 | 785,000 | 284,174 | 1,069,174 |
| 2022 | 805,000 | 262,363 | 1,067,363 |
| 2023-2027 | 4,610,000 | 858,019 | 5,468,019 |
| 2028-2031 | 3,404,992 | 1,126,509 | 4,531,501 |
| | \$ 11,829,992 | \$ 3,503,527 | \$ 15,333,519 |

As of March 31, 2017, the District had authorized but unissued bonds in the amount of \$19,355,000 for facilities and \$8,719,861 for refunding purposes. 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 and are further payable from net operating revenues.

During the year ended March 31, 2017, the District levied an ad valorem debt service tax rate of \$0.300 per \$100 of assessed valuation, which resulted in a tax levy of \$1,072,452 on the adjusted taxable valuation of \$357,485,451 for the 2016 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. The District's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$372,553 and the bank balance was \$405,625. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position for the year ended March 31, 2017, as listed below:

| | Cash |
|-------------------|------------|
| GENERAL FUND | \$ 182,669 |
| DEBT SERVICE FUND | 189,884 |
| TOTAL DEPOSITS | \$ 372,553 |

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

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District 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 Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. The District also invests in the Texas Short Term Asset Reserve Program ("TexSTAR"), an external public funds investment pool that is not SEC-registered. J. P. Morgan Investment Management Inc. provides investment management and FirstSouthwest, a division of Hilltop Securities Inc., provides participant services and marketing under an agreement with the TexSTAR Board of Directors. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investors Services Co. Investments held by TexSTAR are marked to market daily. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from TexSTAR.

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of March 31, 2017, the District had the following investments and maturities:

| Fund and Investment Type | Fair Value | Maturities of Less Than 1 Year |
|-----------------------------|---------------------|--------------------------------------|
| <u>GENERAL FUND</u> | | |
| TexPool | \$ 2,474,433 | \$ 2,474,433 |
| TexSTAR | 1,307,405 | 1,307,405 |
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | 1,266,598 | 1,266,598 |
| TexSTAR | 515,530 | 515,530 |
| TOTAL INVESTMENTS | \$ 5,563,966 | \$ 5,563,966 |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2017, the District's investments in TexPool and TexSTAR were rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexSTAR to have maturities of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there have been significant changes in values.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2017:

| | April 1, 2016 | Increases | Decreases | March 31, 2017 |
|--|----------------------|-------------------|-------------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 1,526,486 | \$ | \$ | \$ 1,526,486 |
| Construction in Progress | 293,746 | 248,242 | 439,319 | 102,669 |
| Total Capital Assets Not Being Depreciated | \$ 1,820,232 | \$ 248,242 | \$ 439,319 | \$ 1,629,155 |
| Capital Assets Subject to Depreciation | | | | |
| Buildings and Equipment | \$ 455,067 | \$ 9,538 | \$ | \$ 464,605 |
| Water System | 5,785,027 | 246,747 | | 6,031,774 |
| Wastewater System | 5,032,944 | 183,034 | | 5,215,978 |
| Total Capital Assets Subject to Depreciation | \$ 11,273,038 | \$ 439,319 | \$ - 0 - | \$ 11,712,357 |
| Accumulated Depreciation | | | | |
| Building and Equipment | \$ 208,535 | \$ 12,034 | \$ | \$ 220,569 |
| Water System | 1,674,401 | 126,167 | | 1,800,568 |
| Wastewater System | 1,217,102 | 130,461 | | 1,347,563 |
| Total Accumulated Depreciation | \$ 3,100,038 | \$ 268,662 | \$ - 0 - | \$ 3,368,700 |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | \$ 8,173,000 | \$ 170,657 | \$ - 0 - | \$ 8,343,657 |
| Total Capital Assets, Net of Accumulated Depreciation | \$ 9,993,232 | \$ 418,899 | \$ 439,319 | \$ 9,972,812 |

NOTE 7. MAINTENANCE TAX

On December 4, 1974, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.25 per \$100 of assessed valuation. During the year ended March 31, 2017, the District levied an ad valorem maintenance tax rate of \$0.105 per \$100 of assessed valuation, which resulted in a tax levy of \$375,358 on the adjusted taxable valuation of \$357,485,451 for the 2016 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

NOTE 8. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the "Authority"). The Authority's purpose is to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority charges \$2.40 per 1,000 gallons of water pumped from each well. The Authority also charges a surface water fee of \$2.85 per 1,000 gallons. During the current fiscal year, the District incurred costs totaling \$163,541 for pumpage fees and \$465,971 for purchased surface water.

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 8. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)

Capital Contribution Receivable

The District entered into a Capital Contribution Contract with the Authority in which the District paid \$1,213,095 to the Authority. During the current fiscal year, the District received credits of \$88,406 including a return of principal of \$37,958. Future repayments of capital contributions are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|-------------------|-------------------|---------------------|
| 2018 | \$ 39,923 | \$ 48,483 | \$ 88,406 |
| 2019 | 41,990 | 46,416 | 88,406 |
| 2020 | 44,163 | 44,243 | 88,406 |
| 2021 | 46,450 | 41,956 | 88,406 |
| 2022 | 48,854 | 39,552 | 88,406 |
| 2023-2027 | 284,925 | 157,105 | 442,030 |
| 2028-2032 | 366,709 | 75,321 | 442,030 |
| 2033-2034 | 103,748 | 3,418 | 107,166 |
| | <u>\$ 976,762</u> | <u>\$ 456,495</u> | <u>\$ 1,433,257</u> |

Chloramine Conversion Reimbursement

The Authority required the District to convert its water systems to chloramine disinfection for as long as it is connected to the Authority's system. The District has completed its chloramine conversion system which included reimbursable costs of \$300,627. The Authority calculated the reimbursement at 6% interest over a 30-year period. The District began receiving chloramine conversion credits on its March 2011 Authority billing. Total credits earned in the current fiscal year were \$21,840. Of this amount, \$5,141 was a return of principal with the balance being applicable to interest. The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

| Fiscal Year | Principal | Interest | Total |
|-------------|-------------------|-------------------|-------------------|
| 2018 | \$ 5,458 | \$ 16,382 | \$ 21,840 |
| 2019 | 5,795 | 16,045 | 21,840 |
| 2020 | 6,153 | 15,688 | 21,840 |
| 2021 | 6,532 | 15,308 | 21,840 |
| 2022 | 6,935 | 14,905 | 21,840 |
| 2023-2027 | 41,481 | 67,720 | 109,201 |
| 2028-2032 | 54,463 | 54,739 | 109,201 |
| 2033-2037 | 72,958 | 36,243 | 109,201 |
| 2038-2041 | 75,730 | 11,209 | 86,939 |
| | <u>\$ 275,505</u> | <u>\$ 248,239</u> | <u>\$ 523,744</u> |

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 9. STRATEGIC PARTNERSHIP AGREEMENT

Effective December 1, 2010, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the “Subject Tract” for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Subject Tract within the boundaries of the District.

The City imposes a sales and use tax within the boundaries of the Subject Tract at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City pays the District an amount equal to one-half of all sales and use tax revenues generated within the boundaries of the Subject Tract. During the year ended March 31, 2017, the District recorded revenues of \$343,445 from the City of Houston including \$76,239 which was receivable at year end.

NOTE 10. KLEINWOOD JOINT POWERS BOARD

The District is a participant in a joint wastewater treatment plant which provides treatment of wastewater for the following entities: Kleinwood MUD, Cy-Champ PUD, Harris County WCID 114, Klein ISD, Cypress Forest PUD, Louetta North PUD and Champions MUD. The agreement was effective April 9, 1992, and subsequently amended on June 1, 1993, September 8, 1997, July 25, 2005, September 9, 2013, and March 16, 2017. The fifth amendment provided for the purchase of an ownership interest in the plant by Champions Municipal Utility District from Cy-Champ PUD. Unless terminated earlier by mutual agreement of all the participants, the agreement will continue in force and effect until April 9, 2047.

The operating expenses of the Plant are allocated based on each participant’s number of connections. Capital costs are paid by each participant based on their ownership interest in the Plant. The District’s capacity ownership is 15%. Operating expenses of \$197,127 were incurred by the District for the year ended March 31, 2017. Summary financial activities of the regional wastewater treatment plant for the year ended May 31, 2016, are as follows:

| | |
|-----------------------------|-------------------|
| Total Assets | \$ 159,631 |
| Total Liabilities | <u>43,144</u> |
| Total Fund Balance | <u>\$ 116,487</u> |
| | |
| Total Revenues | \$ 1,217,585 |
| Total Expenditures | <u>1,217,585</u> |
| Net Change in Fund Balance | \$ -0- |
| | |
| Fund Balance – June 1, 2015 | <u>116,487</u> |
| Fund Balance – May 31, 2016 | <u>\$ 116,487</u> |

KLEINWOOD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 11. WATER SUPPLY AND WASTE DISPOSAL AGREEMENTS

On December 9, 1982, the District entered into a contract with Cypress Forest Public Utility District (Cypress Forest) to provide water and sanitary sewer services to an 8-acre tract within the District's boundaries. The term of the contract is 40 years and may be renewed on a year-to-year basis after that date. Any party may terminate the contract by giving a one-year written notice of termination. The District pays Cypress Forest an amount equal to 70% of the ad valorem taxes collected on the tract by March 1 of each year during the contract.

On March 18, 1987, the District entered into a contract with Harris County Municipal Utility District No. 24 (District No. 24) to provide water and sanitary sewer services to a 13-acre tract within the District's boundaries. The term of the contract is 40 years and may be renewed on a year-to-year basis after that date. Any party may terminate the contract by giving one year written notice of termination. The District pays District No. 24 an amount equal to 70% of the ad valorem taxes collected on the tract by March 1 of each year during the contract.

On April 16, 1989, the District entered into an emergency water supply contract with Cypress-Klein Utility District. This contract was amended on November 14, 2016. The contract provides for emergency water to be provided at a cost per 1,000 gallons of water of \$0.50 plus the surface water fee of the North Harris County Regional Water Authority for a period not to exceed 30 days. The contract is in effect until December 31, 2029, and will automatically renew each January 1 unless otherwise terminated by either party.

On October 7, 1976, the District entered into an emergency water supply contract with Harris County Water Control and Improvement District No. 114. This contract was amended on December 12, 2016. The contract provides for emergency water received to be repaid in kind or repaid at the rate paid by the supplying district per 1,000 gallons to purchase surface water plus an additional \$0.25 per 1,000 gallons of water taken.

NOTE 12. RISK MANAGEMENT

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

KLEINWOOD MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2017

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2017**

| | <u>Original and Final Budget</u> | <u>Actual</u> | Variance Positive (Negative) |
|--|--------------------------------------|---------------------|------------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 350,000 | \$ 352,075 | \$ 2,075 |
| Water Service | 425,000 | 401,260 | (23,740) |
| Wastewater Service | 220,000 | 215,073 | (4,927) |
| Water Authority Fees | 525,000 | 515,672 | (9,328) |
| Penalty and Interest | 15,000 | 9,055 | (5,945) |
| Tap Connection and Inspection Fees | 15,000 | 27,511 | 12,511 |
| Water Authority Credits | 88,907 | 110,246 | 21,339 |
| Sales Tax Revenues | 264,000 | 343,445 | 79,445 |
| Miscellaneous Revenues | <u>12,200</u> | <u>48,773</u> | <u>36,573</u> |
| TOTAL REVENUES | <u>\$ 1,915,107</u> | <u>\$ 2,023,110</u> | <u>\$ 108,003</u> |
| EXPENDITURES | | | |
| Services Operations: | | | |
| Professional Fees | \$ 255,000 | \$ 132,786 | \$ 122,214 |
| Contracted Services | 233,800 | 218,316 | 15,484 |
| Purchased Services/Pumpage Fees | 657,000 | 678,541 | (21,541) |
| Purchased Wastewater Service | 190,000 | 127,002 | 62,998 |
| Utilities | 84,600 | 65,093 | 19,507 |
| Repairs and Maintenance | 351,800 | 326,813 | 24,987 |
| Other | 163,000 | 125,288 | 37,712 |
| Capital Outlay | <u>278,000</u> | <u>248,242</u> | <u>29,758</u> |
| TOTAL EXPENDITURES | <u>\$ 2,213,200</u> | <u>\$ 1,922,081</u> | <u>\$ 291,119</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (298,093)</u> | <u>\$ 101,029</u> | <u>\$ 399,122</u> |
| OTHER FINANCING SOURCES(USES) | | | |
| Transfers Out | <u>\$ -0-</u> | <u>\$ (85,000)</u> | <u>\$ (85,000)</u> |
| NET CHANGE IN FUND BALANCE | \$ (298,093) | \$ 16,029 | \$ 314,122 |
| FUND BALANCE - APRIL 1, 2016 | <u>3,876,405</u> | <u>3,876,405</u> | <u> </u> |
| FUND BALANCE - MARCH 31, 2017 | <u>\$ 3,578,312</u> | <u>\$ 3,892,434</u> | <u>\$ 314,122</u> |

See accompanying independent auditor's report.

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KLEINWOOD MUNICIPAL UTILITY DISTRICT

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MARCH 31, 2017

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE CURRENT YEAR:

| | | | | | |
|--------------|--|-------|----------------------|--------------|------------|
| <u> X </u> | Retail Water | _____ | Wholesale Water | <u> X </u> | Drainage |
| <u> X </u> | Retail Wastewater | _____ | Wholesale Wastewater | _____ | Irrigation |
| _____ | Parks/Recreation | _____ | Fire Protection | <u> X </u> | Security |
| _____ | Solid Waste/Garbage | _____ | Flood Control | _____ | Roads |
| <u> X </u> | Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | | | |
| _____ | Other (specify): _____ | | | | |

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved January 26, 2017.

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1,000 Gallons over Minimum Use</u> | <u>Usage Levels</u> |
|-------------------------------|--------------------------|----------------------|----------------------|--|--|
| WATER: | \$ 7.50 | 5,000 | N | \$ 1.30 \$ 1.50 \$ 1.75 | 5,001 to 10,000 10,001 to 20,000 20,001 and up |
| WASTEWATER: | \$ 10.00 | | Y | | |
| SURCHARGE: | | | | | |
| Regional Water Authority Fees | \$2.40 per 1,000 gallons | | N | | |

District employs winter averaging for wastewater usage? _____ _____
Yes No X

Total monthly charges per 10,000 gallons usage: Water: \$14.00 Wastewater: \$10.00 Surcharge: \$24.00

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

2. RETAIL SERVICE PROVIDERS (Continued)

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 | | | x 1.0 | |
| ≤ ³ / ₄ " | <u>732</u> | <u>727</u> | x 1.0 | <u>727</u> |
| 1" | <u>73</u> | <u>71</u> | x 2.5 | <u>178</u> |
| 1½" | <u>26</u> | <u>26</u> | x 5.0 | <u>130</u> |
| 2" | <u>46</u> | <u>45</u> | x 8.0 | <u>360</u> |
| 3" | <u>4</u> | <u>4</u> | x 15.0 | <u>60</u> |
| 4" | <u>2</u> | <u>2</u> | x 25.0 | <u>50</u> |
| 6" | <u>2</u> | <u>2</u> | x 50.0 | <u>100</u> |
| 8" | | | x 80.0 | |
| 10" | | | x 115.0 | |
| Total Water Connections | <u><u>885</u></u> | <u><u>877</u></u> | | <u><u>1,605</u></u> |
| Total Wastewater Connections | <u><u>840</u></u> | <u><u>832</u></u> | x 1.0 | <u><u>1,708</u></u> |

3. TOTAL WATER CONSUMPTION DURING THE CURRENT YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

| | | |
|------------------------------|-------------|--|
| Gallons pumped into system: | 76,596,000 | Water Accountability Ratio: 96% (Gallons billed/Gallons pumped and purchased) |
| Gallons billed to customers: | 220,368,000 | |
| Gallons purchased: | 154,058,000 | From: <u>North Harris County Regional Water Authority</u> |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ___ No X

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely _____ Partly _____ Not at all X

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely X Partly _____ Not at all _____

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2017**

| | |
|---|----------------------------|
| PROFESSIONAL FEES: | |
| Auditing | \$ 14,000 |
| Engineering | 46,241 |
| Legal | 72,545 |
| TOTAL PROFESSIONAL FEES | <u>\$ 132,786</u> |
| PURCHASED SERVICES FOR RESALE: | |
| Purchased Surface Water | \$ 465,971 |
| Purchased Wastewater Service | 127,002 |
| Purchased Services from Other Districts | 49,029 |
| TOTAL PURCHASED SERVICES FOR RESALE | <u>\$ 642,002</u> |
| CONTRACTED SERVICES: | |
| Bookkeeping | \$ 18,200 |
| Operations and Billing | 65,812 |
| TOTAL CONTRACTED SERVICES | <u>\$ 84,012</u> |
| UTILITIES: | |
| Electricity | \$ 56,774 |
| Telephone | 8,319 |
| TOTAL UTILITIES | <u>\$ 65,093</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 326,813</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Director Fees | \$ 12,450 |
| Election Costs | 2,050 |
| Insurance | 26,586 |
| Office Supplies and Postage | 18,777 |
| Payroll Taxes | 952 |
| Other | 16,009 |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 76,824</u> |
| CAPITAL OUTLAY | <u>\$ 248,242</u> |
| TAP CONNECTIONS | <u>\$ 5,700</u> |
| SECURITY | <u>\$ 134,304</u> |
| OTHER EXPENDITURES: | |
| Chemicals | \$ 11,179 |
| Laboratory Fees | 831 |
| Permit Fees | 2,166 |
| Reconnection Fees | 2,456 |
| Inspection Fees | 22,965 |
| Water Authority Pumpage Fees | 163,541 |
| Regulatory Assessment | 3,167 |
| TOTAL OTHER EXPENDITURES | <u>\$ 206,305</u> |
| TOTAL EXPENDITURES | <u><u>\$ 1,922,081</u></u> |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
INVESTMENTS
MARCH 31, 2017**

| Funds | Identification or Certificate Number | Interest Rate | Maturity Date | Balance at End of Year | Accrued Interest Receivable at End of Year |
|--------------------------|---|------------------|------------------|----------------------------|---|
| <u>GENERAL FUND</u> | | | | | |
| TexPool | XXXX0003 | Varies | Daily | \$ 2,474,433 | \$ |
| TexSTAR | XXXX1110 | Varies | Daily | <u>1,307,405</u> | <u> </u> |
| TOTAL GENERAL FUND | | | | <u>\$ 3,781,838</u> | <u>\$ - 0 -</u> |
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0001 | Varies | Daily | \$ 1,266,598 | \$ |
| TexSTAR | XXXX0230 | Varies | Daily | <u>515,530</u> | <u> </u> |
| TOTAL DEBT SERVICE FUND | | | | <u>\$ 1,782,128</u> | <u>\$ - 0 -</u> |
| TOTAL - ALL FUNDS | | | | <u><u>\$ 5,563,966</u></u> | <u><u>\$ - 0 -</u></u> |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017**

| | Maintenance Taxes | | Debt Service Taxes | |
|-----------------------------|-------------------|-----------------|--------------------|------------------|
| TAXES RECEIVABLE - | | | | |
| APRIL 1, 2016 | \$ | 14,140 | \$ | 42,558 |
| Adjustments to Beginning | | | | |
| Balance | | <u>(26,454)</u> | \$ | <u>(76,399)</u> |
| | | \$ | (12,314) | \$ |
| | | | <u>(33,841)</u> | |
| Original 2016 Tax Levy | \$ | 345,417 | \$ | 986,905 |
| Adjustment to 2016 Tax Levy | | <u>29,941</u> | <u>375,358</u> | <u>85,547</u> |
| TOTAL TO BE | | | | |
| ACCOUNTED FOR | | \$ | 363,044 | \$ |
| | | | | 1,038,611 |
| TAX COLLECTIONS: | | | | |
| Prior Years | \$ | (15,466) | \$ | (42,971) |
| Current Year | | <u>367,541</u> | <u>352,075</u> | <u>1,050,118</u> |
| | | | | <u>1,007,147</u> |
| TAXES RECEIVABLE - | | | | |
| MARCH 31, 2017 | | <u>\$</u> | <u>10,969</u> | <u>\$</u> |
| | | | | <u>31,464</u> |
| TAXES RECEIVABLE BY | | | | |
| YEAR: | | | | |
| 2016 | | \$ | 7,817 | \$ |
| 2015 | | | 678 | 2,154 |
| 2014 | | | 881 | 2,690 |
| 2013 | | | 420 | 1,360 |
| 2012 | | | 278 | 834 |
| 2011 | | | 143 | 361 |
| 2010 | | | 128 | 321 |
| 2009 | | | 133 | 313 |
| 2008 | | | 159 | 374 |
| 2007 | | | 161 | 359 |
| 2006 | | | <u>171</u> | <u>364</u> |
| TOTAL | | <u>\$</u> | <u>10,969</u> | <u>\$</u> |
| | | | | <u>31,464</u> |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017**

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| PROPERTY VALUATIONS: | | | | |
| Land | \$ 95,343,543 | \$ 95,522,665 | \$ 90,288,659 | \$ 80,139,920 |
| Improvements | 346,382,544 | 327,826,034 | 305,147,776 | 279,576,898 |
| Personal Property | 21,362,605 | 20,377,403 | 19,638,055 | 19,208,661 |
| Exemptions | <u>(105,603,241)</u> | <u>(103,728,495)</u> | <u>(101,910,464)</u> | <u>(96,134,032)</u> |
| TOTAL PROPERTY VALUATIONS | <u>\$ 357,485,451</u> | <u>\$ 339,997,607</u> | <u>\$ 313,164,026</u> | <u>\$ 282,791,447</u> |
| TAX RATES PER \$100 VALUATION: | | | | |
| Debt Service | \$ 0.300 | \$ 0.327 | \$ 0.354 | \$ 0.405 |
| Maintenance | <u>0.105</u> | <u>0.103</u> | <u>0.116</u> | <u>0.125</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u>\$ 0.405</u> | <u>\$ 0.430</u> | <u>\$ 0.470</u> | <u>\$ 0.530</u> |
| ADJUSTED TAX LEVY* | <u>\$ 1,447,810</u> | <u>\$ 1,461,984</u> | <u>\$ 1,471,865</u> | <u>\$ 1,498,789</u> |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | <u>97.92 %</u> | <u>99.81 %</u> | <u>99.76 %</u> | <u>99.88 %</u> |

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.25 per \$100 of assessed valuation approved by voters on December 4, 1974.

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2017**

| S E R I E S - 2 0 1 1 R | | | |
|---|------------------------------|---|--------------|
| Due During Fiscal Years Ending March 31 | Principal Due August 1 | Interest Due August 1/ February 1 | Total |
| 2018 | \$ 530,000 | \$ 56,812 | \$ 586,812 |
| 2019 | 545,000 | 44,037 | 589,037 |
| 2020 | 250,000 | 33,475 | 283,475 |
| 2021 | 260,000 | 25,662 | 285,662 |
| 2022 | 265,000 | 16,300 | 281,300 |
| 2023 | 275,000 | 5,500 | 280,500 |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| | \$ 2,125,000 | \$ 181,786 | \$ 2,306,786 |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2017**

| S E R I E S - 2 0 1 2 R | | | |
|---|------------------------------|---|--------------|
| Due During Fiscal Years Ending March 31 | Principal Due August 1 | Interest Due August 1/ February 1 | Total |
| 2018 | \$ 15,000 | \$ 129,850 | \$ 144,850 |
| 2019 | 15,000 | 129,550 | 144,550 |
| 2020 | 330,000 | 124,450 | 454,450 |
| 2021 | 335,000 | 114,475 | 449,475 |
| 2022 | 360,000 | 105,850 | 465,850 |
| 2023 | 360,000 | 95,050 | 455,050 |
| 2024 | 635,000 | 75,150 | 710,150 |
| 2025 | 665,000 | 49,150 | 714,150 |
| 2026 | 185,000 | 32,150 | 217,150 |
| 2027 | 190,000 | 24,650 | 214,650 |
| 2028 | 205,000 | 17,775 | 222,775 |
| 2029 | 210,000 | 11,550 | 221,550 |
| 2030 | 210,000 | 4,200 | 214,200 |
| 2031 | | | |
| | \$ 3,715,000 | \$ 913,850 | \$ 4,628,850 |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2017**

| S E R I E S - 2 0 1 4 R | | | |
|---|------------------------------|---|--------------|
| Due During Fiscal Years Ending March 31 | Principal Due August 1 | Interest Due August 1/ February 1 | Total |
| 2018 | \$ 20,000 | \$ 77,525 | \$ 97,525 |
| 2019 | 20,000 | 77,125 | 97,125 |
| 2020 | 20,000 | 76,725 | 96,725 |
| 2021 | 20,000 | 76,300 | 96,300 |
| 2022 | 20,000 | 75,775 | 95,775 |
| 2023 | 25,000 | 75,100 | 100,100 |
| 2024 | 85,000 | 73,238 | 158,238 |
| 2025 | 80,000 | 70,350 | 150,350 |
| 2026 | 460,000 | 60,900 | 520,900 |
| 2027 | 480,000 | 44,450 | 524,450 |
| 2028 | 505,000 | 27,213 | 532,213 |
| 2029 | 525,000 | 9,188 | 534,188 |
| 2030 | 214,996 | 340,004 | 555,000 |
| 2031 | | | |
| | \$ 2,474,996 | \$ 1,083,893 | \$ 3,558,889 |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2017**

| S E R I E S - 2 0 1 5 R | | | |
|---|------------------------------|---|--------------|
| Due During Fiscal Years Ending March 31 | Principal Due August 1 | Interest Due August 1/ February 1 | Total |
| 2018 | \$ 155,000 | \$ 77,488 | \$ 232,488 |
| 2019 | 160,000 | 74,338 | 234,338 |
| 2020 | 165,000 | 71,087 | 236,087 |
| 2021 | 170,000 | 67,737 | 237,737 |
| 2022 | 160,000 | 64,438 | 224,438 |
| 2023 | 170,000 | 61,137 | 231,137 |
| 2024 | 175,000 | 57,469 | 232,469 |
| 2025 | 180,000 | 52,800 | 232,800 |
| 2026 | 320,000 | 45,300 | 365,300 |
| 2027 | 325,000 | 35,625 | 360,625 |
| 2028 | 335,000 | 25,725 | 360,725 |
| 2029 | 340,000 | 15,600 | 355,600 |
| 2030 | 350,000 | 5,250 | 355,250 |
| 2031 | 509,996 | 670,004 | 1,180,000 |
| | \$ 3,514,996 | \$ 1,323,998 | \$ 4,838,994 |

See accompanying independent auditor's report.

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**KLEINWOOD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2017**

ANNUAL REQUIREMENTS
FOR ALL SERIES

| Due During Fiscal Years Ending March 31 | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
|---|------------------------|-----------------------|--|
| 2018 | \$ 720,000 | \$ 341,675 | \$ 1,061,675 |
| 2019 | 740,000 | 325,050 | 1,065,050 |
| 2020 | 765,000 | 305,737 | 1,070,737 |
| 2021 | 785,000 | 284,174 | 1,069,174 |
| 2022 | 805,000 | 262,363 | 1,067,363 |
| 2023 | 830,000 | 236,787 | 1,066,787 |
| 2024 | 895,000 | 205,857 | 1,100,857 |
| 2025 | 925,000 | 172,300 | 1,097,300 |
| 2026 | 965,000 | 138,350 | 1,103,350 |
| 2027 | 995,000 | 104,725 | 1,099,725 |
| 2028 | 1,045,000 | 70,713 | 1,115,713 |
| 2029 | 1,075,000 | 36,338 | 1,111,338 |
| 2030 | 774,996 | 349,454 | 1,124,450 |
| 2031 | 509,996 | 670,004 | 1,180,000 |
| | <u>\$ 11,829,992</u> | <u>\$ 3,503,527</u> | <u>\$ 15,333,519</u> |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2017**

| Description | Original Bonds Issued | Bonds Outstanding April 1, 2016 |
|---|----------------------------------|---------------------------------------|
| Kleinwood Municipal Utility District | | |
| Waterworks and Sewer System Combination | | |
| Unlimited Tax and Revenue Refunding Bonds - Series 2011 | \$ 4,625,000 | \$ 2,645,000 |
| Kleinwood Municipal Utility District | | |
| Waterworks and Sewer System Combination | | |
| Unlimited Tax and Revenue Refunding Bonds - Series 2012 | 3,780,000 | 3,730,000 |
| Kleinwood Municipal Utility District | | |
| Waterworks and Sewer System Combination | | |
| Unlimited Tax and Revenue Refunding Bonds - Series 2014 | 2,544,996 | 2,494,996 |
| Kleinwood Municipal Utility District | | |
| Waterworks and Sewer System Combination | | |
| Unlimited Tax and Revenue Refunding Bonds - Series 2015 | <u>3,689,996</u> | <u>3,689,996</u> |
| TOTAL | <u>\$ 17,184,992</u> | <u>\$ 12,559,992</u> |
| Bond Authority: | | |
| | <u>Tax and Revenue Bonds</u> | <u>Refunding Bonds</u> |
| Amount Authorized by Voters | \$ 39,310,000 | \$ 11,455,000 |
| Amount Issued | <u>19,955,000</u> | <u>2,735,139</u> |
| Remaining to be Issued | <u>\$ 19,355,000</u> | <u>\$ 8,719,861</u> |
| Debt Service Fund cash and investment balances as of March 31, 2017: | | <u>\$ 1,972,012</u> |
| Average annual debt service payment (principal and interest) for remaining term of all debt: | | <u>\$ 1,095,251</u> |

See Note 3 for interest rate, interest payment dates and maturity dates.

See accompanying independent auditor's report.

| <u>Current Year Transactions</u> | | | | |
|----------------------------------|--------------------|-------------------|---|--|
| <u>Bonds Sold</u> | <u>Retirements</u> | | <u>Bonds Outstanding March 31, 2017</u> | <u>Paying Agent</u> |
| | <u>Principal</u> | <u>Interest</u> | | |
| \$ | \$ 520,000 | \$ 67,975 | \$ 2,125,000 | Wells Fargo Bank, N.A. Houston, TX |
| | 15,000 | 130,112 | 3,715,000 | Wells Fargo Bank, N.A. Dallas, TX |
| | 20,000 | 77,925 | 2,474,996 | Wells Fargo Bank, N.A. Minneapolis, MN |
| | 175,000 | 80,788 | 3,514,996 | Bank of New York Mellon Trust Co., N.A. Dallas, TX |
| <u>\$ - 0 -</u> | <u>\$ 730,000</u> | <u>\$ 356,800</u> | <u>\$ 11,829,992</u> | |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FIVE YEARS**

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 |
| REVENUES | | | |
| Property Taxes | \$ 352,075 | \$ 350,211 | \$ 357,277 |
| Water Service | 401,260 | 411,346 | 434,344 |
| Wastewater Service | 215,073 | 221,994 | 223,166 |
| Water Authority Fee | 515,672 | 454,127 | 461,095 |
| Penalty and Interest | 9,055 | 9,524 | 10,507 |
| Tap Connection and Inspection Fees | 27,511 | 54,228 | 111,944 |
| Water Authority Credits | 110,246 | 110,246 | 110,246 |
| Sales Tax Revenues | 343,445 | 311,936 | 286,773 |
| Miscellaneous Revenues | 48,773 | 21,677 | 15,155 |
| TOTAL REVENUES | \$ 2,023,110 | \$ 1,945,289 | \$ 2,010,507 |
| EXPENDITURES | | | |
| Professional Fees | \$ 132,786 | \$ 265,339 | \$ 210,899 |
| Contracted Services | 218,316 | 201,387 | 214,634 |
| Purchased Services | 515,000 | 456,305 | 482,597 |
| Purchased Wastewater Service | 127,002 | 91,489 | 138,013 |
| Utilities | 65,093 | 77,340 | 66,058 |
| Repairs and Maintenance | 326,813 | 416,657 | 220,631 |
| Water Authority Pumpage Fees | 163,541 | 142,928 | 131,966 |
| Other | 125,288 | 180,323 | 123,694 |
| Capital Outlay | 248,242 | 241,337 | 110,412 |
| TOTAL EXPENDITURES | \$ 1,922,081 | \$ 2,073,105 | \$ 1,698,904 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 101,029 | \$ (127,816) | \$ 311,603 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In(Out) | \$ (85,000) | \$ | \$ |
| Developer Advances | | | |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ (85,000) | \$ - 0 - | \$ - 0 - |
| NET CHANGE IN FUND BALANCE | \$ 16,029 | \$ (127,816) | \$ 311,603 |
| BEGINNING FUND BALANCE | 3,876,405 | 4,004,221 | 3,692,618 |
| ENDING FUND BALANCE | \$ 3,892,434 | \$ 3,876,405 | \$ 4,004,221 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|----------------|-----------------|----------------|
| 2014 | 2013 | 2017 | 2016 | 2015 | 2014 | 2013 |
| \$ 355,405 | \$ 390,407 | 17.5 % | 18.1 % | 17.7 % | 17.6 % | 19.6 % |
| 476,819 | 477,897 | 19.8 | 21.1 | 21.6 | 23.7 | 24.0 |
| 223,115 | 216,127 | 10.6 | 11.4 | 11.1 | 11.1 | 10.8 |
| 502,219 | 520,201 | 25.5 | 23.3 | 22.9 | 24.9 | 26.1 |
| 13,066 | 11,322 | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 |
| 122,064 | 117,283 | 1.4 | 2.8 | 5.6 | 6.1 | 5.9 |
| 110,246 | 110,246 | 5.4 | 5.7 | 5.5 | 5.5 | 5.5 |
| 205,865 | 129,156 | 17.0 | 16.0 | 14.3 | 10.2 | 6.5 |
| 5,204 | 20,850 | 2.4 | 1.1 | 0.8 | 0.3 | 1.0 |
| <u>\$ 2,014,003</u> | <u>\$ 1,993,489</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 276,849 | \$ 306,789 | 6.6 % | 13.6 % | 10.5 % | 13.7 % | 15.4 % |
| 209,926 | 195,403 | 10.8 | 10.4 | 10.7 | 10.4 | 9.8 |
| 296,635 | 294,896 | 25.5 | 23.5 | 24.0 | 14.7 | 14.8 |
| 193,006 | 209,539 | 6.3 | 4.7 | 6.9 | 9.6 | 10.5 |
| 60,806 | 77,845 | 3.2 | 4.0 | 3.3 | 3.0 | 3.9 |
| 152,380 | 198,355 | 16.2 | 21.4 | 11.0 | 7.6 | 10.0 |
| 217,546 | 306,211 | 8.1 | 7.3 | 6.6 | 10.8 | 15.4 |
| 293,270 | 203,430 | 6.2 | 9.3 | 6.2 | 14.6 | 10.2 |
| 578,449 | 48,070 | 12.3 | 12.4 | 5.5 | 28.7 | 2.4 |
| <u>\$ 2,278,867</u> | <u>\$ 1,840,538</u> | <u>95.2 %</u> | <u>106.6 %</u> | <u>84.7 %</u> | <u>113.1 %</u> | <u>92.4 %</u> |
| \$ (264,864) | \$ 152,951 | <u>4.8 %</u> | <u>(6.6) %</u> | <u>15.3 %</u> | <u>(13.1) %</u> | <u>7.6 %</u> |
| \$ 207,059 | \$ 84,536 | | | | | |
| 52,226 | | | | | | |
| <u>\$ 259,285</u> | <u>\$ 84,536</u> | | | | | |
| \$ (5,579) | \$ 237,487 | | | | | |
| <u>3,698,197</u> | <u>3,460,710</u> | | | | | |
| <u>\$ 3,692,618</u> | <u>\$ 3,698,197</u> | | | | | |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND – FIVE YEARS**

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 |
| REVENUES | | | |
| Property Taxes | \$ 1,007,147 | \$ 1,111,137 | \$ 1,090,704 |
| Penalty and Interest | 17,884 | 9,107 | 7,462 |
| Miscellaneous Revenues | 5,991 | 2,140 | 602 |
| TOTAL REVENUES | \$ 1,031,022 | \$ 1,122,384 | \$ 1,098,768 |
| EXPENDITURES | | | |
| Other Expenditures | \$ 76,189 | \$ 50,204 | \$ 49,912 |
| Debt Service Principal | 730,000 | 635,000 | 635,000 |
| Debt Service Interest and Fees | 359,400 | 380,313 | 424,790 |
| Bond Issuance Costs | | 152,629 | 130,363 |
| TOTAL EXPENDITURES | \$ 1,165,589 | \$ 1,218,146 | \$ 1,240,065 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ (134,567) | \$ (95,762) | \$ (141,297) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | \$ 85,000 | \$ | \$ |
| Proceeds from Sale of Refunding Bonds | | 3,689,996 | 2,544,996 |
| Transfer to Refunded Bond Escrow Agent | | (3,740,960) | (2,588,225) |
| Bond Premium | | 210,139 | 169,151 |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ 85,000 | \$ 159,175 | \$ 125,922 |
| NET CHANGE IN FUND BALANCE | \$ (49,567) | \$ 63,413 | \$ (15,375) |
| BEGINNING FUND BALANCE | 1,999,427 | 1,936,014 | 1,951,389 |
| ENDING FUND BALANCE | \$ 1,949,860 | \$ 1,999,427 | \$ 1,936,014 |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | 877 | 876 | 871 |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | 832 | 828 | 825 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|-----------------|----------------|-----------------|
| 2014 | 2013 | 2017 | 2016 | 2015 | 2014 | 2013 |
| \$ 1,163,017 | \$ 1,301,541 | 97.7 % | 99.0 % | 99.2 % | 99.1 % | 98.4 % |
| 8,525 | 16,942 | 1.7 | 0.8 | 0.7 | 0.7 | 1.3 |
| 1,963 | 4,047 | 0.6 | 0.2 | 0.1 | 0.2 | 0.3 |
| <u>\$ 1,173,505</u> | <u>\$ 1,322,530</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 32,658 | \$ 41,926 | 7.4 % | 4.5 % | 4.5 % | 2.8 % | 3.2 % |
| 575,000 | 765,000 | 70.8 | 56.6 | 57.8 | 49.0 | 57.8 |
| 499,852 | 674,899 | 34.9 | 33.9 | 38.7 | 42.6 | 51.0 |
| | | | 13.6 | 11.9 | | |
| <u>\$ 1,107,510</u> | <u>\$ 1,481,825</u> | <u>113.1 %</u> | <u>108.6 %</u> | <u>112.9 %</u> | <u>94.4 %</u> | <u>112.0 %</u> |
| \$ 65,995 | \$ (159,295) | <u>(13.1) %</u> | <u>(8.6) %</u> | <u>(12.9) %</u> | <u>5.6 %</u> | <u>(12.0) %</u> |
| \$ | \$ | | | | | |
| <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | | | | | |
| \$ 65,995 | \$ (159,295) | | | | | |
| 1,885,394 | 2,044,689 | | | | | |
| <u>\$ 1,951,389</u> | <u>\$ 1,885,394</u> | | | | | |
| 832 | 827 | | | | | |
| 744 | 797 | | | | | |

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2017**

District Mailing Address - Kleinwood Municipal Utility District
Coats Rose, P.C.
9 Greenway Plaza, Suite 1100
Houston, TX 77046

District Telephone Number - (713) 651-0111

| Board Members | Term of Office (Elected or Appointed) | Fees of Office for the year ended March 31, 2017 | Expense Reimbursements for the year ended March 31, 2017 | Title |
|----------------------|--|---|--|--|
| Robert Ehmann | 05/13 05/17 (Elected) | \$ 1,500 | \$ -0- | President |
| David Guerrero | 05/15 05/19 (Elected) | \$ 1,500 | \$ -0- | Vice President |
| Jeff Gobbell | 05/15 05/19 (Elected) | \$ 3,750 | \$ -0- | Secretary/ Treasurer |
| Joseph Fratangelo | 05/15 05/19 (Elected) | \$ 3,600 | \$ -0- | Assistant Vice President/ Assistant Secretary |
| Sherry Allard | 05/13 05/17 (Elected) | \$ 2,100 | \$ 691 | Assistant Secretary |

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
May 25, 2017.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060). Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**KLEINWOOD MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2017**

| Consultants: | <u>Date Hired</u> | <u>Fees for the year ended March 31, 2017</u> | <u>Title</u> |
|---|-------------------|---|----------------------------|
| Coats Rose, P.C. | 07/24/80 | \$ 79,878 | General Counsel |
| McCall Gibson Swedlund Barfoot PLLC | 08/30/77 | \$ 14,000 | Auditor |
| Claudia Redden & Associates, LLC | 02/28/78 | \$ 24,826 | Bookkeeper |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. | 04/25/02 | \$ 5,862 | Delinquent Tax Attorney |
| Jones & Carter, Inc. | 02/22/79 | \$ 51,409 | Engineer |
| Blich Associates, Inc. | 03/11/97 | \$ -0- | Financial Advisor |
| Environmental Development Partners | 04/11/08 | \$ 283,142 | Operator |
| Wheeler & Associates | 12/17/75 | \$ 29,388 | Tax Assessor/ Collector |
| Harris County | Annually | \$ 134,304 | Security |

See accompanying independent auditor's report.

