

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

AUGUST 31, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mayde Creek Municipal Utility District
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the Special Revenue Fund of the Mayde Creek Municipal Utility District (the "District"), also known as the Mayde Creek Regional Sewage Treatment Plant (the "Plant"), as of and for the year ended August 31, 2023, 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 August 31, 2023, 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 Plant, 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 Plant'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 August 31, 2023, 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 August 31, 2023, for Management's Discussion and Analysis of the entity as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

December 18, 2023

**MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
BALANCE SHEET – SPECIAL REVENUE FUND
AUGUST 31, 2023**

ASSETS	
Cash	\$ 60,945
Due from Participants-Operations:	
Mayde Creek Municipal Utility District	27,668
Ricewood Municipal Utility District	88,338
Clay Road Municipal Utility District	<u>26,317</u>
TOTAL ASSETS	<u>\$ 203,268</u>
 LIABILITIES	
Accounts Payable	<u>\$ 53,268</u>
 FUND BALANCE	
Restricted for Regional Sewage Treatment Plant Operations	<u>\$ 150,000</u>
TOTAL FUND BALANCE	<u>\$ 150,000</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 203,268</u>

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

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**MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - SPECIAL REVENUE FUND
FOR THE YEAR ENDED AUGUST 31, 2023**

REVENUES	
Mayde Creek Municipal Utility District	\$ 209,596
Ricewood Municipal Utility District	257,158
Clay Road Municipal Utility District	<u>188,183</u>
TOTAL REVENUES	<u>\$ 654,937</u>
EXPENDITURES	
Service Operations:	
Professional Fees	\$ 29,317
Contracted Services	78,638
Purchased Water Service	611
Utilities	127,392
Repairs and Maintenance	55,496
Other	340,183
Capital Outlay	<u>23,300</u>
TOTAL EXPENDITURES	<u>\$ 654,937</u>
NET CHANGE IN FUND BALANCE	\$ -0-
FUND BALANCE - SEPTEMBER 1, 2022	<u>150,000</u>
FUND BALANCE - AUGUST 31, 2023	<u><u>\$ 150,000</u></u>

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

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL – SPECIAL REVENUE FUND
FOR THE YEAR ENDED AUGUST 31, 2023

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Mayde Creek Municipal Utility District	\$ 201,497	\$ 208,371	\$ 209,596	\$ 1,225
Ricewood Municipal Utility District	293,708	303,727	257,158	(46,569)
Clay Road Municipal Utility District	187,837	194,244	188,183	(6,061)
Investment Revenues	200	200		(200)
TOTAL REVENUES	<u>\$ 683,242</u>	<u>\$ 706,542</u>	<u>\$ 654,937</u>	<u>\$ (51,605)</u>
EXPENDITURES				
Services Operations:				
Professional Fees:				
Auditing	\$ 12,500	\$ 12,500	\$ 12,000	\$ 500
Engineering	20,000	20,000	14,409	5,591
Legal	15,000	15,000	2,908	12,092
Contracted Services:				
Bookkeeping	16,000	16,000	42,300	(26,300)
Operator Fees	37,500	37,500	36,338	1,162
Purchased Water Service	2,850	2,850	611	2,239
Utilities:				
Electricity	130,000	130,000	126,723	3,277
Telephone	600	600	669	(69)
Repairs and Maintenance	105,412	105,412	55,496	49,916
Other Operating Expenditures:				
Chemicals	51,000	51,000	80,458	(29,458)
Insurance	19,930	19,930	21,026	(1,096)
Laboratory Fees	40,000	40,000	41,505	(1,505)
Office Costs	1,100	1,100	63	1,037
Permit Fees	13,000	13,000	19,230	(6,230)
Sludge Disposal	180,200	180,200	177,157	3,043
Other	1,000	1,000	744	256
Capital Outlay	37,150	60,450	23,300	37,150
TOTAL EXPENDITURES	<u>\$ 683,242</u>	<u>\$ 706,542</u>	<u>\$ 654,937</u>	<u>\$ 51,605</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ -0-	\$ -0-
FUND BALANCE - SEPTEMBER 1, 2022	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u></u>
FUND BALANCE - AUGUST 31, 2023	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ -0-</u>

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

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 1. CONTRACTUAL PROVISIONS AND CAPACITY OWNERSHIP

On March 5, 1979, Mayde Creek Municipal Utility District (the “District”), Clay Road Municipal Utility District (“Clay Road”) and Ricewood Municipal Utility District (“Ricewood”) executed a contract for the purpose of constructing, operating and maintaining a sewage treatment plant (the “Plant”). The term of the contract is 40 years. On December 9, 1982, and April 30, 1984, the districts executed amendments to provide for two expansions of the Plant. On March 18, 2003, the third amendment to the agreement was approved to provide for the sale of 135,000 gallons per day of capacity from Ricewood to the District. On December 1, 2004, the fourth amendment to the agreement was approved by which each district agreed to pay its prorata share of rehabilitative improvements to the Plant at an estimated total cost of \$2,529,984. Effective March 1, 2019, the fifth amendment to the agreement extend the term to June 10, 2019. Effective June 1, 2019, the sixth amendment to the agreement extend the term to August 10, 2019. Effective August 1, 2019, the seventh amendment to the agreement extend the term to October 10, 2019. The District operates the facilities and holds title for the benefit of the participants. On August 10, 2019, the parties executed an amended and restated waste disposal contract that supersedes and replaces the original contract in its entirety. The term of the contract is for a period of 10 years from the effective date and shall automatically renew for successive one-year terms thereafter, unless earlier terminated.

	<u>Capacity in Gallons Per Day</u>	<u>Percentage of Total Capacity</u>
Mayde Creek Municipal Utility District	590,000	29.50
Ricewood Municipal Utility District	860,000	43.00
Clay Road Municipal Utility District	<u>550,000</u>	<u>27.50</u>
Total	<u>2,000,000</u>	<u>100.00</u>

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 August 31, 2023, 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.

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.

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB has established the criteria for determining whether 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.

Financial Statement Presentation

These financial statements present only financial statements of the Special Revenue Fund of the District and have not been prepared to present, in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting, the District as a whole. However, the annual financial report of the District has been prepared in accordance with this GASB standard and can be obtained by contacting the District's attorney, Ms. Angie Lutz, Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027. Specifically, certain information was omitted from these financial statements of the Plant, such as:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the District's governmental activities.

The transactions of the Plant are accounted for in the following fund:

Special Revenue Fund

To account for financial resources collected and administered by the District for the operation of a regional sewage treatment plant.

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.

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget

An annual unappropriated budget is adopted for the Special Revenue Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original Special Revenue Fund budget for the current year was amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund presents the amended 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 Plant. 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 Plant 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. The Plant does not have any unassigned fund balances.

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.

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 3. 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 will not be able to recover 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 Plant's deposits was \$60,945 and the bank balance was \$107,990. The bank balance was fully covered by federal depository insurance.

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 Plant funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the Plant'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 Plant'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 Plant 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

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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.

As of August 31, 2023, the Plant did not own any investments.

Restrictions

All cash of the Special Revenue Fund is restricted for the regional sewage treatment plant operations.

NOTE 4. RISK MANAGEMENT

Each 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 each district carries commercial insurance. Insurance coverage carried by the District on the Plant is listed below. As related to the Plant, there have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

<u>Type of Coverage</u>	<u>From To</u>	<u>Limits of Coverage</u>	<u>Insurer/Name</u>
PROPERTY	09/30/22	\$ 4,125,000	CUMIS Insurance Society, Inc.
Flood	09/30/23	2,000,000	
Earth Movement		2,500,000	
Extra Expense		250,000	
Deductible – Per Occurrence		5,000	
BOILER AND MACHINERY	09/30/22	\$ 4,125,000	Liberty Mutual Fire Insurance Company
Extra Expense	09/30/23	500,000	
Deductible		10,000	
Deductible - Submersibles		25,000	
POLLUTION LIABILITY	09/30/22 09/30/23	\$ 1,000,000	CUMIS Insurance Society, Inc
POLLUTANT CLEANUP AND REMEDICATION	09/30/22 09/30/23	\$ 1,000,000	CUMIS Insurance Society, Inc

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 5. OPERATING COSTS AND RESERVE FOR OPERATIONS

Each district is billed monthly based upon actual costs incurred during the prior month as follows:

Fixed costs - include regular, monthly costs that do not fluctuate on the basis of the amount of waste treatment. Allocations are based upon each district's pro rata share of capacity owned in the plant.

Variable costs - consist of operation and maintenance expenses, which shall be paid by each party based on the average number of active connections during the previous 12-month period.

Under the terms of the contract between the districts, a reasonable operating reserve consisting of at least two months estimated operating costs will be established. The Board has determined that a reserve of \$150,000 is reasonable. Each district has paid their pro-rata share of the reserve based upon capacity owned in the Plant.

Reserve as of August 31, 2023:

Mayde Creek Municipal Utility District	\$	44,250
Ricewood Municipal Utility District		64,500
Clay Road Municipal Utility District		<u>41,250</u>
Total	\$	<u>150,000</u>

NOTE 6. CAPITAL ASSETS

Legal ownership of the Plant is shared by each participant; therefore, each participant records their ownership share of the capital asset and depreciates the asset over its estimated useful life.

The following information is provided for the benefit of the participants. This schedule was prepared according to the District's capital asset policy which has a threshold of \$5,000 and a useful life of at least two years. Depreciation is calculated using no salvage value and the straight-line method of depreciation. The estimated useful lives for the Plant components range from 10-45 years.

MAYDE CREEK REGIONAL SEWAGE TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 6. CAPITAL ASSETS (Continued)

	September 1, 2022	Increases	Decreases	August 31, 2023
Capital Assets Not Being Depreciated				
Construction in Progress	\$ - 0 -	\$ 23,300	\$ 23,300	\$ - 0 -
Capital Assets Subject to Depreciation	\$ 8,300,061	\$ 23,300	\$ - 0 -	\$ 8,323,361
Less Accumulated Depreciation	\$ 3,830,953	\$ 261,786	\$ - 0 -	\$ 4,092,739
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 4,469,108	\$ (238,486)	\$ - 0 -	\$ 4,230,622
Total Capital Assets, Net of Accumulated Depreciation	\$ 4,469,108	\$ (215,186)	\$ 23,300	\$ 4,230,622

<u>Contributions on Completed Facilities</u>	
Mayde Creek Municipal Utility District	\$ 2,782,709
Ricewood Municipal Utility District	3,423,102
Clay Road Municipal Utility District	2,117,550
Total	\$ 8,323,361

