

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2022

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

NOVEMBER 30, 2022

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET	8
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION	9
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	10
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES	11
NOTES TO THE FINANCIAL STATEMENTS	12-21
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	23
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES (NOT APPLICABLE)	
GENERAL FUND EXPENDITURES	25
INVESTMENTS	26
CHANGES IN ASSESSMENT RECEIVABLE	27-28
LONG-TERM DEBT SERVICE REQUIREMENTS (NOT APPLICABLE)	
CHANGE IN LONG-TERM BOND DEBT (NOT APPLICABLE)	
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND - FIVE YEARS	29-30
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	31-33

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Management District No. 1
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Harris County Municipal Management District No. 1 (the "District") as of and for the year ended November 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic 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 respective financial position of the governmental activities and major fund of the District as of November 30, 2022, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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 is the responsibility of management and, 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.

Board of Directors
Harris County Municipal
Management District No. 1

Supplementary 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 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

March 15, 2023

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED NOVEMBER 30, 2022**

Management’s discussion and analysis of Harris County Municipal Management District No. 1’s (the “District”) financial performance provides an overview of the District’s financial activities for the year ended November 30, 2022. 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 Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes other required and 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 financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective like that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all 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 Statement of Activities reports how the District’s net position changed during the current 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 one governmental fund type. The General Fund accounts for assessment revenues, operating costs and general expenditures.

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED NOVEMBER 30, 2022**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund financial 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 Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance 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"). The 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 exceeded liabilities by \$3,736,574 as of November 30, 2022.

The following is a comparative analysis of government-wide changes in net position:

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED NOVEMBER 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2022	2021	Change Positive (Negative)
Current and Other Assets	\$ 7,189,765	\$ 6,581,642	\$ 608,123
Capital Assets (Net of Accumulated Depreciation)	699,616	365,681	333,935
Total Assets	\$ 7,889,381	\$ 6,947,323	\$ 942,058
Total Liabilities	\$ 108,519	\$ 189,635	\$ 81,116
Deferred Inflows of Resources	\$ 4,044,288	\$ 3,657,958	\$ (386,330)
Net Position:			
Net Investment in Capital Assets	\$ 699,616	\$ 365,681	\$ 333,935
Unrestricted	3,036,958	2,734,049	302,909
Total Net Position	\$ 3,736,574	\$ 3,099,730	\$ 636,844

The following table provides a summary of the District's operations for the years ended November 30, 2022, and November 30, 2021.

	Summary of Changes in the Statement of Activities		
	2022	2021	Change Positive (Negative)
Revenues:			
Assessment Revenue	\$ 3,535,448	\$ 3,474,664	\$ 60,784
Other Revenues	50,127	47,259	2,868
Total Revenues	\$ 3,585,575	\$ 3,521,923	\$ 63,652
Expenses for Services	2,948,731	2,143,564	(805,167)
Change in Net Position	\$ 636,844	\$ 1,378,359	\$ (741,515)
Net Position, Beginning of Year	3,099,730	1,721,371	1,378,359
Net Position, End of Year	\$ 3,736,574	\$ 3,099,730	\$ 636,844

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED NOVEMBER 30, 2022**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's General Fund fund balance as of November 30, 2022, was \$3,033,398, an increase of \$313,660 during the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$65,872 more than budgeted. Actual expenditures were \$1,896,334 less than budgeted. This resulted in a positive budget variance of \$1,962,206. See the budget to actual comparison for further information.

CAPITAL ASSETS

Capital assets as of November 30, 2022, total \$699,616 (net of accumulated depreciation) and include district monuments and equipment.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2022	2021	Change Positive (Negative)
Capital Assets Not Being Depreciated			
Construction in Progress	\$ 59,815	\$ 114,364	\$ (54,549)
Capital Assets Net of Depreciation			
Buildings and Improvements	235,672	251,317	(15,645)
Other	404,129		404,129
Total Net Capital Assets	\$ 699,616	\$ 365,681	\$ 333,935

Additional information on the District's capital assets can be found in Note 4.

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District did not have long-term debt.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Management District No. 1, c/o Ms. Gabrielle Luevano, 9821 Katy Freeway, Suite 170, Houston, Texas 77024.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
NOVEMBER 30, 2022

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 33,724	\$	\$ 33,724
Investments	3,099,901		3,099,901
Receivables:			
Property Assessments	4,047,848		4,047,848
Prepaid Expenditures	8,292		8,292
Construction in Progress		59,815	59,815
Capital Assets, Net of Accumulated Depreciation		639,801	639,801
TOTAL ASSETS	\$ 7,189,765	\$ 699,616	\$ 7,889,381
LIABILITIES			
Accounts Payable	\$ 94,241	\$	\$ 94,241
Due to Taxpayer	14,278		14,278
TOTAL LIABILITIES	\$ 108,519	\$ -0-	\$ 108,519
DEFERRED INFLOWS OF RESOURCES			
Property Assessment	\$ 4,047,848	\$ (3,560)	\$ 4,044,288
FUND BALANCE			
Nonspendable: Prepaid Costs	\$ 8,292	\$ (8,292)	\$
Assigned to 2023 Budget Deficit	785,700	(785,700)	
Unassigned	2,239,406	(2,239,406)	
TOTAL FUND BALANCE	\$ 3,033,398	\$ (3,033,398)	\$ -0-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
	\$ 7,189,765		
NET POSITION			
Net Investment in Capital Assets		\$ 699,616	\$ 699,616
Unrestricted		3,036,958	3,036,958
TOTAL NET POSITION		\$ 3,736,574	\$ 3,736,574

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

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
NOVEMBER 30, 2022**

Total Fund Balance - Governmental Fund \$ 3,033,398

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 699,616

Deferred inflows of resources related to assessment revenues for the 2021 assessments became part of recognized revenues in the governmental activities of the District. 3,560

Total Net Position - Governmental Activities \$ 3,736,574

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

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED NOVEMBER 30, 2022

	General Fund	Adjustments	Statement of Activities
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Assessment Revenue	\$ 3,546,199	\$ (10,751)	\$ 3,535,448
Penalty and Interest	9,903		9,903
Investment Revenues	<u>40,224</u>		<u>40,224</u>
TOTAL REVENUES	<u>\$ 3,596,326</u>	<u>\$ (10,751)</u>	<u>\$ 3,585,575</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Administrative			
Personnel	\$ 141,817	\$	\$ 141,817
Professional Fees	143,982		143,982
Contracted Services	54,764		54,764
Insurance	10,467		10,467
Depreciation		21,919	21,919
Other	83,054		83,054
Mobility, Transportation & Urban Design	1,792,471		1,792,471
Security and Public Safety	679,481		679,481
Building Relationships	20,776		20,776
Capital Outlay	<u>355,854</u>	<u>(355,854)</u>	<u> </u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 3,282,666</u>	<u>\$ (333,935)</u>	<u>\$ 2,948,731</u>
NET CHANGE IN FUND BALANCE	\$ 313,660	\$ (313,660)	
CHANGE IN NET POSITION		636,844	636,844
FUND BALANCE/NET POSITION -			
DECEMBER 1, 2021	<u>2,719,738</u>	<u>379,992</u>	<u>3,099,730</u>
FUND BALANCE/NET POSITION -			
NOVEMBER 30, 2022	<u>\$ 3,033,398</u>	<u>\$ 703,176</u>	<u>\$ 3,736,574</u>

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

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2022**

Net Change in Fund Balance - Governmental Fund	\$	313,660
--	----	---------

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

Governmental funds report assessment revenues when collected. However, in the Statement of Activities, revenues are recorded in the accounting period for which the assessments are levied.		(10,751)
---	--	----------

Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(21,919)
---	--	----------

Governmental funds report payments to Developers on long-term liabilities as expenditures in the year paid. However, in the government-wide financial statements, liabilities are reduced when payments are made and the Statement of Activities is not affected.		355,854
---	--	---------

Change in Net Position - Governmental Activities	\$	<u>636,844</u>
--	----	----------------

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

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Management District No. 1, also known as Memorial Management District, (the “District”) was created by the Texas Legislature under provisions of Senate Bill No. 1866, of the 76th Legislature, effective June 18, 1999, which was codified as Chapter 3810, Texas Special District Local Laws Code (formerly as subchapter H, of Chapter 376, Texas Local Government Code). The District is empowered to promote, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, arts entertainment, economic development, safety, and the public welfare in the District. The District’s Mission Statement is “To promote and ensure the long-term economic vibrancy of the area through comprehensive planning and urban design, creating and reinforcing the District as an outstanding place to live, work, shop, build, invest, or visit.” The Board of Directors held its first meeting on November 10, 1999.

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 Texas Commission on Environmental Quality.

The District is a political subdivision of the State of Texas governed by an appointed board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately appointed 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”).

The 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:

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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.
- 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.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

The District has one major governmental fund.

General Fund - To account for assessment revenues, operating costs and general expenditures.

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 assessments considered available by the District and included in revenue include assessments collected during the year and assessments collected after year-end, which were considered available to defray the expenditures of the current year. Deferred assessments revenues are those assessments 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 uses. 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 Fund 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.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Engineering fees and certain other costs are capitalized as part of the asset.

Individual tangible capital items, including infrastructure assets, with a useful life of at least two years and a total cost of \$5,000, and other capital assets, with a total cost of \$500 or more, are capitalized. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Street Lights	15
Signal Light Standards	15
Signs	15
Decorative Statues or Icons	15
Office Equipment	3
Vehicles	5
Other	5

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

On April 9, 2007, the District established a SEP IRA plan for its employees. The District agreed to contribute 10% of employee’s salary into the plan. To be eligible, employees must be hired for a regular full-time position, at least 21 years of age in the current year, not be union employees or non-resident aliens and do not earn less than \$550 in compensation for the year.

The Internal Revenue Service has determined that fees of office received by Directors are wages subject to federal income tax withholding for payroll tax purposes only.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Governmental Funds Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriate 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.

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 District does not have any restricted fund balances.

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. As of November 30, 2022, the District has assigned \$785,700 of the General Fund fund balance to cover a portion of the 2023 budget.

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.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

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 November 30, 2022, the carrying amount of the District’s deposits was \$33,724 and the bank balance was \$92,863. The bank balance was fully covered by federal depository insurance.

The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position at November 30, 2022, as listed below:

	Cash
GENERAL FUND	\$ 33,724

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

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 3. 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. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. The District measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. As of November 30, 2022, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 3,099,901	\$ 3,099,901	\$ - 0 -	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At November 30, 2022, the District’s investment in TexPool was 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 investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended November 30, 2022:

	December 1, 2021	Increases	Decreases	November 30, 2022
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 114,364	\$ 355,854	\$ 410,403	\$ 59,815
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 312,883	\$	\$	\$ 312,883
Equipment	7,332			7,332
Other		410,403		410,403
Total Capital Assets Subject to Depreciation	<u>\$ 320,215</u>	<u>\$ 410,403</u>	<u>\$ - 0 -</u>	<u>\$ 730,618</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ 61,566	\$ 15,645	\$	\$ 77,211
Equipment	7,332			7,332
Other		6,274		6,274
Total Accumulated Depreciation	<u>\$ 68,898</u>	<u>\$ 21,919</u>	<u>\$ - 0 -</u>	<u>\$ 90,817</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 251,317</u>	<u>\$ 388,484</u>	<u>\$ - 0 -</u>	<u>\$ 639,801</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 365,681</u>	<u>\$ 744,338</u>	<u>\$ 410,403</u>	<u>\$ 699,616</u>

NOTE 5. ANNUAL AD VALOREM ASSESSMENT

In accordance with Chapter 3810, Texas Special District Local Laws Code, the District may levy ad valorem taxes or assessments, promote, develop, encourage, and maintain employment commerce, transportation, housing, tourism, recreation, arts, entertainment, economic development, safety, and the public welfare in the District.

On November 19, 2014, an order was approved granting petitions for a service plan and an assessment roll for the District. In addition, the order authorized levying annual assessments of \$0.10 per \$100 of valuation against property within the District for a ten-year period. The order provides for the Board to vary the rate of assessment each year, provided that in the second year the rate may not be increased by more than 5% over the initial year's rate, and in subsequent years the rate may not be increased by more than 5% over the maximum allowable rate of the previous year. The order specified the method of payment and the amount of annual installment of the assessment, providing for penalties and interest on delinquent assessments and authorizing the collection of the assessment.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 5. ANNUAL AD VALOREM ASSESSMENT (Continued)

The District levied the 2022 ad valorem assessment of \$0.10 per \$100 of assessed valuation, resulting in an assessment of \$4,044,288 on the taxable valuation of \$4,190,701,173. All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Assessments are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 6. 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. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, boiler and machinery, general liability, automobile, errors and omissions, law enforcement and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 7. REIMBURSEMENT AGREEMENTS

The District has entered into reimbursement agreements with MetroNational Corporation ("MetroNational") for shared funding for the burial of overhead electrical and other utility lines within the District. The approved projects consist of engineering design and burial of the overhead lines in 6 Phases. MetroNational agrees to make all payments necessary to fund the project. Upon completion of the project, the assets included in the project will be owned and operated by the utility providers in accordance with the applicable utility easement agreement. The District will have no responsibility, financial or otherwise, for the ownership and/or operation of the project.

The District agrees to reimburse MetroNational for actual funds advanced for project costs for each phase of the project in an amount not to exceed the lesser of 1) 60% of project cost estimates submitted in the reimbursement application package, or 2) 60% of the actual project costs (the "maximum reimbursement amount"). Upon completion of a Phase or Phases of the project, the District's auditor will perform an AUP to verify costs and expenses related to that Phase(s) of the project.

The District agrees to begin reimbursing the maximum reimbursement amount for each phase of the project upon the completion of each phase on the earliest date that funds are available from the District's assessment revenue (and from no other source of District funds). The District

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
NOVEMBER 30, 2022

NOTE 7. REIMBURSEMENT AGREEMENT (Continued)

agrees to continue to reimburse MetroNational the maximum reimbursement amount until the current agreement maximum reimbursement amount has been paid in full.

The District has entered into other reimbursement agreements with developers in the District for shared funding for the burial of overhead electrical and other utility lines. The approved projects consist of engineering design and burial of the overhead lines. The developers agree to make all payments necessary to fund the projects. Upon completion, the District agrees to reimburse the developers for actual funds advanced for project costs per agreements. During the current year, the District reimbursed a developer \$338,449 for burial of lines from Towne Centre 2 to 730 Town & County Boulevard.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1

REQUIRED SUPPLEMENTARY INFORMATION

NOVEMBER 30, 2022

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED NOVEMBER 30, 2022**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Assessment Revenue	\$ 3,527,154	\$ 3,546,199	\$ 19,045
Penalty and Interest		9,903	9,903
Investment Revenues	<u>3,300</u>	<u>40,224</u>	<u>36,924</u>
TOTAL REVENUES	<u>\$ 3,530,454</u>	<u>\$ 3,596,326</u>	<u>\$ 65,872</u>
EXPENDITURES			
Service Operations:			
Administrative			
Personnel	\$ 308,500	\$ 141,817	\$ 166,683
Professional Fees	83,000	143,982	(60,982)
Contracted Services	57,300	54,764	2,536
Insurance	12,600	10,467	2,133
Other	46,100	83,054	(36,954)
Mobility, Transportation & Urban Design	3,333,500	1,792,471	1,541,029
Security and Public Safety	736,200	679,481	56,719
Building Relationships	51,800	20,776	31,024
Capital Outlay	<u>550,000</u>	<u>355,854</u>	<u>194,146</u>
TOTAL EXPENDITURES	<u>\$ 5,179,000</u>	<u>\$ 3,282,666</u>	<u>\$ 1,896,334</u>
NET CHANGE IN FUND BALANCE	\$ (1,648,546)	\$ 313,660	\$ 1,962,206
FUND BALANCE - DECEMBER 1, 2021	<u>2,719,738</u>	<u>2,719,738</u>	
FUND BALANCE - NOVEMBER 30, 2022	<u>\$ 1,071,192</u>	<u>\$ 3,033,398</u>	<u>\$ 1,962,206</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

NOVEMBER 30, 2022

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED NOVEMBER 30, 2022**

PERSONNEL EXPENDITURES (including benefits)	\$ 141,817
PROFESSIONAL FEES:	
Auditing	\$ 17,850
Legal	122,189
Delinquent Tax Attorney	3,943
	143,982
TOTAL PROFESSIONAL FEES	\$ 143,982
CONTRACTED SERVICES:	
Bookkeeping	\$ 15,599
Assessment Collector	39,165
	54,764
TOTAL CONTRACTED FEES	\$ 54,764
UTILITIES	\$ 2,341
ADMINISTRATIVE EXPENDITURES:	
Rent	\$ 19,243
Insurance	10,467
Legal Notices	1,528
Office Supplies and Postage	11,357
Marketing	407
Other	48,178
	91,180
TOTAL ADMINISTRATIVE EXPENDITURES	\$ 91,180
CAPITAL OUTLAY	\$ 355,854
MOBILITY, TRANSPORTATION & URBAN DESIGN	\$ 1,792,471
BUILDING RELATIONSHIPS	\$ 20,776
SECURITY	\$ 679,481
TOTAL EXPENDITURES	\$ 3,282,666

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
INVESTMENTS
NOVEMBER 30, 2022**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	<u>\$ 3,099,901</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
CHANGES IN ASSESSMENTS RECEIVABLE
FOR THE YEAR ENDED NOVEMBER 30, 2022**

	Assessments	
ASSESSMENT RECEIVABLE - DECEMBER 1, 2021	\$ 3,587,988	
Adjustments to Beginning Balance	(122,511)	\$ 3,465,477
Original 2022 Assessment Levy	\$ 4,044,288	
Adjustments to 2022 Assessment Levy		4,044,288
TOTAL TO BE ACCOUNTED FOR		\$ 7,509,765
ASSESSMENT COLLECTIONS:		
Prior Years	\$ 3,461,917	
Current Year		3,461,917
ASSESSMENT RECEIVABLE - NOVEMBER 30, 2022		\$ 4,047,848
ASSESSMENT RECEIVABLE BY YEAR:		
2022		\$ 4,044,288
2021		3,560
		\$ 4,047,848

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
CHANGES IN ASSESSMENTS RECEIVABLE
FOR THE YEAR ENDED NOVEMBER 30, 2022**

	2022	2021	2020	2019
PROPERTY VALUATIONS:				
Land, Improvements, Personal Property, Exemptions	<u>\$ 4,190,701,173</u>	<u>\$ 3,759,483,647</u>	<u>\$ 3,803,510,540</u>	<u>\$ 3,629,117,540</u>
ASSESSMENT RATES PER \$100 VALUATION:				
Assessment	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>
ASSESSMENT ROLLS*	<u>\$ 4,044,288</u>	<u>\$ 3,657,958</u>	<u>\$ 3,656,337</u>	<u>\$ 3,504,559</u>
PERCENTAGE OF ASSESSMENTS COLLECTED TO AMOUNT ASSESSED				
	<u>0.00</u> %	<u>99.90</u> %	<u>100.00</u> %	<u>100.00</u> %

* Based upon adjusted assessment at time of audit for the period in which the assessment was levied.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2022	2021	2020
REVENUES			
Assessment Revenue	\$ 3,546,199	\$ 3,471,471	\$ 3,351,223
Penalty and Interest	9,903	375	2,929
Investment Revenues	40,224	4,264	14,675
Miscellaneous Revenues	<u> </u>	<u>42,620</u>	<u> </u>
TOTAL REVENUES	<u>\$ 3,596,326</u>	<u>\$ 3,518,730</u>	<u>\$ 3,368,827</u>
EXPENDITURES			
Service Operations:			
Administrative			
Personnel	\$ 141,817	\$ 284,855	\$ 229,878
Professional Fees	143,982	75,168	71,068
Contracted Services	54,764	52,022	50,787
Insurance	10,467	8,959	7,782
Other	83,054	33,585	25,205
Mobility, Transportation & Urban Design	1,792,471	2,000,113	2,419,543
Security and Public Safety	679,481	316,773	307,308
Building Relationships	20,776	37,230	41,746
Capital Outlay	<u>355,854</u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	<u>\$ 3,282,666</u>	<u>\$ 2,808,705</u>	<u>\$ 3,153,317</u>
NET CHANGE IN FUND BALANCE	\$ 313,660	\$ 710,025	\$ 215,510
BEGINNING FUND BALANCE	<u>2,719,738</u>	<u>2,009,713</u>	<u>1,794,203</u>
ENDING FUND BALANCE	<u>\$ 3,033,398</u>	<u>\$ 2,719,738</u>	<u>\$ 2,009,713</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2019	2018	2022	2021	2020	2019	2018
\$ 3,207,397	\$ 3,012,619	98.6 %	98.7 %	99.5 %	98.7 %	99.2 %
73	1,114	0.3		0.1		
41,619	18,449	1.1	0.1	0.4	1.3	0.6
166	4,950		1.2			0.2
<u>\$ 3,249,255</u>	<u>\$ 3,037,132</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 212,923	\$ 354,200	4.0 %	8.1 %	6.8 %	6.6 %	11.7 %
77,056	60,049	4.0	2.1	2.1	2.4	2.0
47,564	46,170	1.5	1.5	1.5	1.5	1.5
7,716	10,288	0.3	0.3	0.2	0.2	0.3
22,581	26,939	2.3	0.9	0.8	0.7	0.9
2,197,051	2,094,227	49.8	56.8	71.8	67.6	69.0
296,421	74,106	18.9	9.0	9.1	9.1	2.4
50,347	16,725	0.6	1.0	1.3	1.5	0.5
		9.9				
<u>\$ 2,911,659</u>	<u>\$ 2,682,704</u>	<u>91.3 %</u>	<u>79.7 %</u>	<u>93.6 %</u>	<u>89.6 %</u>	<u>88.3 %</u>
\$ 337,596	\$ 354,428	8.7 %	20.3 %	6.4 %	10.4 %	11.7 %
<u>1,456,607</u>	<u>1,102,179</u>					
<u>\$ 1,794,203</u>	<u>\$ 1,456,607</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
NOVEMBER 30, 2022**

District Mailing Address - Harris County Municipal Management District No. 1
9821 Katy Freeway, Suite 170
Houston, TX 77024

District Telephone Number - (713) 984-8737

Board Members	Term of Office (Appointed)	Fees of Office for the year ended <u>November 30, 2022</u>	Expense Reimbursements for the year ended <u>November 30, 2022</u>	<u>Title</u>
Ben Gillis	06/21 06/25 (Appointed)	\$ -0-	\$ -0-	President
Steven W. Goss	06/19 06/23 (Appointed)	\$ -0-	\$ -0-	Director
William M. Mosley, Jr.	08/21 06/23 (Appointed)	\$ -0-	\$ -0-	Director
Alan Steinberg	08/20 06/23 (Appointed)	\$ -0-	\$ -0-	Director
Ben Pisklak	06/21 06/25 (Appointed)	\$ -0-	\$ -0-	Assistant- Secretary
Christian Johnson	05/22 06/25 (Appointed)	\$ -0-	\$ -0-	Director

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
NOVEMBER 30, 2022**

Board Members	Term of Office (Appointed)	Fees of Office for the year ended <u>November 30, 2022</u>	Expense Reimbursements for the year ended <u>November 30, 2022</u>	<u>Title</u>
Beau Harrison	11/19 06/23 (Appointed)	\$ -0-	\$ -0-	Director
Dan M. Moody, III	06/19 06/23 (Appointed)	\$ -0-	\$ -0-	Secretary
Kirk Guilanshah	06/21 06/25 (Appointed)	\$ -0-	\$ -0-	Director
Perry Hicks	06/19 06/23 (Appointed)	\$ -0-	\$ -0-	Director
Robert Williamson	06/21 06/25 (Appointed)	\$ -0-	\$ -0-	Vice President

Submission date of most recent District Registration Form: June 6, 2022

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

**HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
NOVEMBER 30, 2022**

<u>Consultants:</u>	<u>Date Hired</u>	<u>Fees for the year ended November 30, 2022</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	09/25/03	\$ 122,189	General Counsel
McCall Gibson Swedlund Barfoot PLLC	10/10/02	\$ 17,850	Auditor
ETI Bookkeeping Services	12/17/01	\$ 15,599	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/01/02	\$ 3,943	Delinquent Assessment Attorney
Gabrielle Luevano	02/16/22	\$ 79,371	Executive Director
Pat Walters	03/07	\$ 36,800	Former Executive Director
Kenneth Byrd	06/11/02	\$ -0-	Investment Officer
Equi-Tax, Inc.	12/17/01	\$ 39,165	Assessment Collector

See accompanying independent auditor's report.

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

March 15, 2023

Board of Directors
Harris County Municipal
Management District No. 1
Harris County, Texas

We have audited the financial statements of the governmental activities and major fund of Harris County Municipal Management District No. 1 (the "District") for the year ended November 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 19, 2017, and subsequent audit continuance letters. Professional standards also require that we communicate to you the following information related to our audit. For the purposes of this letter, the term "management" refers to the Board of Directors and/or District consultants.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies used by the District, including new accounting policies, if any, that have been adopted and implemented during the current fiscal year, are discussed in Note 2. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. The financial statement disclosures are neutral, consistent, and clear.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were management's estimate of depreciable lives of capital assets. Depreciation of infrastructure assets is based on industry wide accepted estimated useful lives taken on a straight-line basis. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The District's bookkeeper and Board of Directors will be provided with all such adjustments.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 15, 2023.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to perform the following non-attest services for the District: (1) preparation of financial statements and related notes and schedules in conformity with accounting principles generally accepted in the United States of America and (2) preparation of capital asset schedules. These services were performed based on information provided by you. We performed these services in accordance with applicable professional standards. The non-attest services we performed are limited to those specifically defined and did not result in assuming management responsibilities.

We applied certain limited procedures to the Management's Discussion and Analysis and the budgetary comparison schedule for the General Fund, which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information required by the Texas Commission on Environmental Quality, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors of the District and is not intended to be, and should not be, used by anyone other than the specified party.

Sincerely,



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

Memorial Management District General Fund
Trial Balance Worksheet - Grouped by Type

Account	Type	Description	11/30/21 Adjusted Balance	11/30/22 Unadjusted Balance	Adjusting JE Adjustments	11/30/22 Adjusted Balance	11/30/22 WP Reference
1-1113	A	WELLS FARGO-2451	2,601,769.70	33,723.53		33,723.53	B-1
1-1120	A	TEXPOOL	347,008.84	3,099,901.13		3,099,901.13	B-1
1-1150.S00	A	2019 Assessment/Receivables	0.00	11,117.62		0.00	
		GF 3 Adjust tax accounts per analysis			(11,117.62)		
1-1150.T00	A	2020 Assessment/Receivables	0.00	10,627.54		0.00	
		GF 3 Adjust tax accounts per analysis			(10,627.54)		
1-1150.U00	A	2021 Assessment/Receivables	3,587,987.83	(97,956.30)		4,047,847.53	D-1
		GF 3 Adjust tax accounts per analysis			4,145,803.83		
1-1160	A	PREPAID INS	8,322.99	8,870.86		8,291.97	W-4-3
		GF 2 Reverse entry made in prior year in error--Bookkeeper please don't reverse-it should fix balance problem in this account			(547.87)		
		GF 4 Adjust prepaid insurance balance to agree to current year--reverse prepaid recorded for prior year duplicate payment			(31.02)		
1-1800	A	OTHER RECEIVABLE	9,993.06	9,993.06		0.00	W-4-3
		GF 4 Adjust prepaid insurance balance to agree to current year--reverse prepaid recorded for prior year duplicate payment			(9,993.06)		
1-1950	A	PREPAID SECURITY	26,560.00	26,560.00		0.00	W-4
		GF 5 Reverse prior year prepaid security			(26,560.00)		
		Total Assets	<u>6,581,642.42</u>	<u>3,102,837.44</u>	<u>4,086,926.72</u>	<u>7,189,764.16</u>	
1-2000	L	ACCOUNTS PAYABLE--Auditor should not make entries to this account	(53,617.53)	52,361.09		(475.87)	N-1
		GF 2 Reverse entry made in prior year in error--Bookkeeper please don't reverse-it should fix balance problem in this account			(52,836.96)		
1-2005	L	Accounts Payable--Auditor Adjustment	(113,292.24)	(158,214.78)		(83,808.64)	N-1
		GF 1 Reverse prior year auditor accounts payable entry			113,292.24		
		GF 2 Reverse entry made in prior year in error--Bookkeeper please don't reverse-it should fix balance problem in this account			44,922.54		
		GF 7 Record additional payable per analysis--Bookkeeper this entry should reverse on 12/01/22			(83,808.64)		
1-2100	L	PAYROLL LIABILITIES	(2,151.25)	(1,736.66)		(1,736.66)	Pass
1-2130	L	RETAINAGE PAYABLE	(1,321.88)	(1,321.88)		0.00	Pass
		GF 1 Reverse prior year auditor accounts payable entry			1,321.88		
1-2161	L	Unclaimed Property	0.00	(8,219.84)		(8,219.84)	D-4
1-2175	L	DUE TO TAXPAYER OVERPAYMENT	(19,252.02)	73,239.17		(14,277.70)	D-4
		GF 3 Adjust tax accounts per analysis			(87,516.87)		
		Total Liabilities	<u>(189,634.92)</u>	<u>(43,892.90)</u>	<u>(64,625.81)</u>	<u>(108,518.71)</u>	
1-3000	Q	F/B UNALLOCATED FUND BALANCE	(2,009,712.56)	(2,009,712.56)		A (2,009,712.56)	A A-1

**Memorial Management District
Trial Balance Worksheet - Grouped by Type**

A-1-1

Account	Type	Description	11/30/21 Adjusted Balance	11/30/22 Unadjusted Balance	Adjusting JE Adjustments	11/30/22 Adjusted Balance	11/30/22 WP Reference
1-3009	Q	DEFERRED REVENUES-UNCOLLECTED	(3,672,269.48)	37,932.16		(4,047,847.53)	D-1
		GF 3 Adjust tax accounts per analysis			(4,085,779.69)		
1-3900	Q	RETAINED EARN-F/B FUND	0.00	(710,025.46)		A (710,025.46)	A
		Total Equity	<u>(5,681,982.04)</u>	<u>(2,681,805.86)</u>	<u>(4,085,779.69)</u>	<u>(6,767,585.55)</u>	Sum A (2,719,738.02)
		Total Liabilities & Equity	<u>(5,871,616.96)</u>	<u>(2,725,698.76)</u>	<u>(4,150,405.50)</u>	<u>(6,876,104.26)</u>	✓
1-4320	R	PROPERTY ASSESSMENT	(3,471,470.51)	(3,555,362.47)		(3,546,198.84)	D-1
		GF 3 Adjust tax accounts per analysis			9,163.63		
1-4321	R	MISCELLANEOUS INCOME	(40,887.56)	0.00		48,178.00	W-1
		GF 3 Adjust tax accounts per analysis			48,178.00		
1-4331	R	PENALTY & INTEREST	(374.67)	(1,013.24)		(9,902.72)	D-2
		GF 3 Adjust tax accounts per analysis			(8,889.48)		
1-4332	R	15% Penalty-Delin Atty Fees	0.00	3,157.40		3,943.14	W-4-1
		GF 3 Adjust tax accounts per analysis			785.74		
1-4333	R	MISC. GRANT/PAYMENTS	(14,584.99)	0.00		0.00	V-1
1-5380	R	Misc. Income	(1,732.93)	0.00		0.00	Pass
1-5391	R	INTEREST INCOME	(4,264.15)	(40,224.46)		(40,224.46)	W-1
		Total Revenue	<u>(3,533,314.81)</u>	<u>(3,593,442.77)</u>	<u>49,237.89</u>	<u>(3,544,204.88)</u>	
1-6111	E	ADMIN EXP: SALARIES & WAGES	251,063.36	116,171.65		a 116,171.65	W-4-2
1-6113	E	ADMIN EXP: EMPLOYEE BENEFITS	29,526.79	22,611.41		a 23,358.07	W-4
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			746.66		
1-6214	E	ADMIN EXP: PAYROLL TAXES	4,186.43	2,235.90		a 2,235.90	W-4-2
1-6320	E	ADMIN EXP: LEGAL FEES	62,417.84	113,830.56		122,189.40	W-2
		GF 1 Reverse prior year auditor accounts payable entry			(7,186.26)		
		GF 7 Record additional payable per analysis--Bookkeeper this entry should reverse on 12/01/22			15,545.10		
1-6321	E	ADMIN EXP: AUDITING FEES	12,750.00	17,850.00		17,850.00	W-4-1
1-6331	E	ADMIN EXP: ASSESSOR COLLECTOR	37,962.99	39,164.52		39,164.52	W-4-1
1-6333	E	ADMIN EXP: BOOKKEEPING	14,059.03	15,599.16		15,599.16	Pass
1-6340	E	ADMIN EXP: COURIER & POSTAGE	310.82	265.43		b 265.43	Pass
1-6351	E	ADMIN EXP: TELEPHONE/INTERNET	2,022.47	2,341.36		2,341.36	Pass
1-6353	E	ADMIN EXP: INSURANCE & SURETY BOND	8,959.10	(7,715.17)		10,466.84	W-4-3
		GF 2 Reverse entry made in prior year in error--Bookkeeper please don't reverse-it should fix balance problem in this account			8,157.93		
		GF 4 Adjust prepaid insurance balance to agree to current year--reverse prepaid recorded for prior year duplicate payment			10,024.08		
1-6354	E	ADMIN EXP: LEGAL NOTICES	440.00	1,528.00		1,528.00	Pass

A-1-1

**Memorial Management District
Trial Balance Worksheet - Grouped by Type**

A-1-2

Account	Type	Description	11/30/21 Adjusted Balance	11/30/22 Unadjusted Balance	Adjusting JE Adjustments	11/30/22 Adjusted Balance	11/30/22 WP Reference
1-6358	E	ADMIN EXP: OFFICE RENT	14,735.20	19,243.00		19,243.00	W-4
1-6400	E	Mobility, Transport & Urban Des	0.00	746.66		0.00	
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			(746.66)		
1-6401.001	E	DIRECT ENGINEERING: BLK	44,266.00	12,115.00		c 10,472.50	I-2
		GF 1 Reverse prior year auditor accounts payable entry			(1,642.50)		
1-6401.B00	E	MOB, TRA & URB: Direct Engineering - Bike-Ped Construction	571.00	0.00		0.00	Pass
1-6403.A00	E	MOB, TRA & URB: DISTRICT MAINT-SCH MAINT	658,044.34	646,860.78		d 646,860.78	I-2
1-6403.B00	E	MOB, TRA & URB: DISTRICT MAINT-WATER	144,744.20	234,213.64		d 228,332.07	I-2
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			(5,881.57)		
1-6403.C00	E	MOB, TRA & URB: DISTRICT MAINT- ELECTRICITY	24,275.31	24,373.02		d 24,373.02	I-2
1-6403.D00	E	MOB, TRA & URB: DISTRICT MAINT-IRRIGATION REPAIR	63,919.76	52,845.34		d 56,644.36	I-2
		GF 1 Reverse prior year auditor accounts payable entry			(2,082.55)		
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			5,881.57		
1-6403.E00	E	MOB, TRA & URB: DISTRICT MAINT-LANDSCAPE	223,253.20	350,577.60		d 376,694.14	I-2
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			14,100.00		
		GF 7 Record additional payable per analysis-- Bookkeeper this entry should reverse on 12/01/22			12,016.54		
1-6403.F00	E	MOB, TRA & URB: DISTRICT MAINT-HARDSCAPE	122,704.52	75,091.92		d 62,139.92	I-2
		GF 1 Reverse prior year auditor accounts payable entry			(16,081.00)		
		GF 7 Record additional payable per analysis-- Bookkeeper this entry should reverse on 12/01/22			3,129.00		
1-6403.G00	E	MOB, TRA & URB: DISTRICT MAINT-SIGNS	3,736.00	0.00		0.00	Pass
1-6403.L00	E	MOB, TRA & URB DIST. MAINT. LAKE	31,155.30	31,075.52		d 30,680.52	I-2
		GF 1 Reverse prior year auditor accounts payable entry			(395.00)		
1-6413	E	MOB, TRA & URB: CAPITAL MAINT/PROJ	1,380.19	438,145.00		c 345,381.40	I-2
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			(92,763.60)		
1-6414	E	MOB, TRA & URB: UTILITY BURIAL	565,937.80	338,448.72		d 338,448.72	I-2
1-6414.D00	E	Mobility, Transport & Urban Design: Maintenance-Holiday Decor	0.00	11,546.63		d 11,546.63	I-2

A-1-2

**Memorial Management District
Trial Balance Worksheet - Grouped by Type**

A-1-3

Account	Type	Description	11/30/21 Adjusted Balance	11/30/22 Unadjusted Balance	Adjusting JE Adjustments	11/30/22 Adjusted Balance	11/30/22 WP Reference
1-6416	E	MOB. TRA & URB: HOLIDAY LIGHTS	16,323.41	16,750.83		d 16,750.83	I-2
1-6550	E	ADMIN EXP: OFFICE SUPPLIES	2,501.49	5,282.34		b 5,282.34	Pass
1-6560	E	ADMIN EXP: PAYROLL EXP	78.12	51.56		a 51.56	W-4-2
1-6602	E	Security & Public Safety:Unscheduled Program Activities	0.00	61,625.00		61,625.00	I-2
1-6603	E	SECURITY & PUBLIC SAFETY: SECURITY AND SAFETY NETWORK	316,773.00	538,178.00		617,856.00	W-4
		GF 5 Reverse prior year prepaid security			26,560.00		
		GF 7 Record additional payable per analysis--Bookkeeper this entry should reverse on 12/01/22			53,118.00		
1-6700.01	E	BUILDING RELATIONSHIPS	0.00	14,386.40		14,386.40	W-1
1-6702	E	BUILDING RELATIONSHIPS: WEBSITE HOSTING	37,229.90	9,440.00		6,390.00	W-1
		GF 1 Reverse prior year auditor accounts payable entry			(3,050.00)		
1-6708	E	BUILDING RELATIONSHIPS: ADV/SIGNAGE/PROMOTIONAL	150.00	406.76		406.76	Pass
1-7000	E	CAPITAL OUTLAY	114,386.81	0.00		0.00	I-2
		GF 1 Reverse prior year auditor accounts payable entry			(84,176.81)		
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			84,176.81		
1-7395	E	ADMIN EXP: MISCELLANEOUS EXP	13,424.97	11,017.55		b 5,808.70	Pass
		GF 2 Reverse entry made in prior year in error--Bookkeeper please don't reverse-it should fix balance problem in this account			304.36		
		GF 6 Reclass expenses per review--FOR REPORT ONLY--bookkeeper doesn't need to make this entry			(5,513.21)		
Total Expense			<u>2,823,289.35</u>	<u>3,216,304.09</u>	<u>14,240.89</u>	<u>3,230,544.98</u>	
Totals			<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
Net Profit/(Loss)			<u>710,025.46</u>	<u>377,138.68</u>	<u>(63,478.78)</u>	<u>A 313,659.90</u>	

Sum A (3,033,397.92)

A-1-3

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

March 15, 2023

Board of Directors
Harris County Municipal
Management District No. 1
Harris County, Texas

In planning and performing our audit of the financial statements of Harris County Municipal Management District No. 1 (the “District”) as of and for the year ended November 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the District’s financial statements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weaknesses

Last year, and again this year, we observed the following deficiencies in the District’s internal controls that we consider to be material weaknesses.

The District’s management consists of an appointed Board of Directors (the “Directors”). Some Districts also have employees that function as a component of management. In most cases, the day-to-day operations are performed by private companies (“Consultants”) under contract with the District. The Directors, and from time-to-time employees, of the District supervise the performance of the Consultants; however, although the Consultants can be part of the District’s system of internal control, the Consultants are not members of management. Ultimately, the Directors, and from time-to-time employees, of the District are responsible for the design and implementation of the system of internal control.

Material Weaknesses (Continued)

As is common within the system of internal control of most small organizations, the accounting function of the District does not include preparation of the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the District's system of internal control over financial reporting.

During the course of performing an audit, we prepared various entries to present the financial statements on the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. In addition, the District's Management relies on the District's auditor to prepare the capital asset and depreciation schedules and post adjustments related to the presentation of the capital assets in the government-wide financial statements. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. Auditing standards do not make exceptions for reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of auditing standards to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the material weaknesses above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor.

Management's Response

The District's Board of Directors is appointed from the general population and do not necessarily have governmental accounting expertise. The Board engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal and professional engineering services. Based on the auditor's unmodified opinion and after reading the financial statements, the Board believes the financial statements to be materially correct. The Board does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas