



Trail of the Lakes Regional Sewage Treatment Plant Harris County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2024



Trail of the Lakes Regional Sewage Treatment Plant
Contents
September 30, 2024

| | |
|--|----------|
| Independent Auditor's Report..... | 1 |
|--|----------|

Basic Financial Statements

| | |
|--|---|
| Statement of Net Position and Governmental Fund Balance Sheet..... | 3 |
|--|---|

| | |
|--|---|
| Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance..... | 4 |
|--|---|

| | |
|-------------------------------------|---|
| Notes to Financial Statements | 5 |
|-------------------------------------|---|

Required Supplementary Information

| | |
|--|----|
| Budgetary Comparison Schedule – General Fund | 10 |
|--|----|

| | |
|---|----|
| Notes to Required Supplementary Information | 11 |
|---|----|

Independent Auditor's Report

Participants
Trail of the Lakes Regional
Sewage Treatment Plant
Harris County, Texas

Opinions

We have audited the financial statements of the governmental activities and general fund of Trail of the Lakes Regional Sewage Treatment Plant (the Plant), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the Plant's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Plant, as of September 30, 2024, and the respective changes in financial position thereof 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 (GAAS). 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 opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Plant are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of Trail of the Lakes Municipal Utility District that is attributable to the transactions of the Plant. They do not purport to, and do not, present fairly the financial position of Trail of the Lakes Municipal Utility District as of September 30, 2024, and the changes in its financial position 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 12 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 GAAS 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 GAAS, 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 Plant'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 Plant'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 budgetary comparison schedule, as listed in the table of contents, 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.

Management has omitted management's discussion and analysis, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Forvis Mazars, LLP

Houston, Texas
March 27, 2025

Trail of the Lakes Regional Sewage Treatment Plant
Statement of Net Position and Governmental Fund Balance Sheet
September 30, 2024

| | General Fund | Adjustments | Statement of Net Position |
|---|-------------------------|---------------------|--|
| Assets | | | |
| Cash | \$ 89,108 | \$ - | \$ 89,108 |
| Due from participants | 241,469 | - | 241,469 |
| Capital assets (net of accumulated depreciation): | | | |
| Infrastructure | - | 3,610,821 | 3,610,821 |
| Total assets | \$ 330,577 | \$ 3,610,821 | \$ 3,941,398 |
| Liabilities | | | |
| Accounts payable | \$ 78,704 | - | \$ 78,704 |
| Due to participants: | | | |
| Trail of the Lakes Municipal Utility District | 119,072 | - | 119,072 |
| Total liabilities | 197,776 | - | 197,776 |
| Fund Balance/Net Position | | | |
| Fund balance: | | | |
| Committed, wastewater collection and treatment | 132,801 | (132,801) | - |
| Total liabilities and fund balance | \$ 330,577 | | |
| Net position: | | | |
| Investment in capital assets | | 3,610,821 | 3,610,821 |
| Restricted for plant operations | | 132,801 | 132,801 |
| Total net position | | \$ 3,743,622 | \$ 3,743,622 |

**Trail of the Lakes Regional Sewage Treatment Plant
Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balance
Year Ended September 30, 2024**

| | General Fund | Adjustments | Statement of Activities |
|--|-------------------------|--------------------|--|
| Revenues | | | |
| Harris County Municipal Utility District No. 290 | \$ 411,213 | \$ - | \$ 411,213 |
| Trail of the Lakes Municipal Utility District | 443,336 | - | 443,336 |
| Investment income | 2 | - | 2 |
| Total revenues | 854,551 | - | 854,551 |
| Expenditures/Expenses | | | |
| Service operations: | | | |
| Audit fees | 3,300 | - | 3,300 |
| Legal fees | 365 | - | 365 |
| Postage and office supplies | 766 | - | 766 |
| Utilities | 116,797 | - | 116,797 |
| Repairs and maintenance | 209,706 | - | 209,706 |
| Insurance | 33,006 | - | 33,006 |
| Permit fees | 25,596 | - | 25,596 |
| Chemicals | 142,423 | - | 142,423 |
| Laboratory fees | 26,013 | - | 26,013 |
| Bookkeeping | 5,700 | - | 5,700 |
| Operator fees | 86,112 | - | 86,112 |
| Sludge disposal | 177,473 | - | 177,473 |
| Security expense | 4,329 | - | 4,329 |
| Capital outlay | 22,965 | (22,965) | - |
| Depreciation | - | 320,751 | 320,751 |
| Total expenditures/expenses | 854,551 | 297,786 | 1,152,337 |
| Excess of Revenues Over Expenditures | - | - | - |
| Change in Net Position | - | 297,786 | (297,786) |
| Fund Balance/Net Position | | | |
| Beginning of year | 132,801 | - | 4,041,408 |
| End of year | \$ 132,801 | \$ - | \$ 3,743,622 |

Note 1. Nature of Operations and Summary of Significant Accounting Policies

On June 27, 2001, Trail of the Lakes Municipal Utility District (the District), Harris County Municipal Utility District No. 290 (District No. 290) and Harris County Municipal Utility District No. 292 (District No. 292) entered into a 50-year agreement for the purpose of sharing the costs of constructing and operating a regional wastewater treatment plant, Trail of the Lakes Regional Sewage Treatment Plant (the Plant). The agreement was amended January 29, 2007, to provide for expansion of the Plant and to revise each district's share of ownership capacity as the result of the dissolution of District No. 292. The District is the operator of the Plant.

The Plant is governed by the District's Board of Directors (the Board). The Board sets the policies of the Plant. The accounting and reporting policies of the Plant conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The financial statements of the Plant present only the financial position and the changes in financial position of the Plant and do not present the financial statements of the District. The following is a summary of the significant accounting and reporting policies of the Plant:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the Plant. There are no component units that are legally separate entities for which the Plant is considered to be financially accountable. Accountability is defined as the Plant's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the Plant must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the Plant.

Government-Wide and Fund Financial Statements

In accordance with required reporting standards, the Plant reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the Plant. Governmental activities generally are financed through charges for services. The statement of activities reflects the revenues and expenses of the Plant.

The fund financial statements provide information about the Plant's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the Plant.

The Plant presents the following major governmental fund:

General Fund – The general fund accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is participant fees.

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Financial Statements
September 30, 2024

Fund Balance – Governmental Fund

The fund balance for the Plant's governmental fund can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the Plant's Board.

Assigned – Amounts intended to be used by the Plant for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The Plant considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The Plant applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The Plant considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the Plant. Expenditures are recorded when the related fund liability is incurred.

Pension Costs

The Plant does not participate in a pension plan and, therefore, has no pension costs.

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Financial Statements
September 30, 2024

Use of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the Plant as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives, as follows:

| | <u>Years</u> |
|--|--------------|
| Wastewater collection and treatment facilities | 10-45 |

Net Position/Fund Balance

Fund balance and net position are reported as restricted when contractual constraints are placed on them.

Reconciliation of Government-Wide and Fund Financial Statements

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

| | |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the fund financial statements. | <u>\$ 3,610,821</u> |
|---|---------------------|

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balance in the governmental fund statement of revenues, expenditures and changes in fund balance because:

| | |
|--|---------------------|
| Change in fund balance. | \$ - |
| Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expenditures in the current period. | <u>(297,786)</u> |
| Change in net position of governmental activities. | <u>\$ (297,786)</u> |

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Financial Statements
September 30, 2024

Note 2. Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Plant's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At September 30, 2024, none of the Plant's bank balances were exposed to custodial credit risk.

Note 3. Capital Assets

A summary of changes in capital assets for the year ended September 30, 2024, is presented below:

| Governmental Activities | Balances, Beginning of Year | Additions | Reclassifi- cations | Balances, End of Year |
|--|--|---------------------|--------------------------------|--------------------------------------|
| Capital assets, depreciable: | | | | |
| Wastewater collection and treatment facilities | \$ 8,829,123 | \$ 22,965 | \$ - | \$ 8,852,088 |
| Less accumulated depreciation: | | | | |
| Wastewater collection and treatment facilities | (4,920,516) | (320,751) | - | (5,241,267) |
| Total governmental activities, net | <u>\$ 3,908,607</u> | <u>\$ (297,786)</u> | <u>\$ -</u> | <u>\$ 3,610,821</u> |

Note 4. Sharing of Costs

Operating Costs

Under the terms of the amended agreement, the District owns 52% of the current sewage treatment plant capacity of 1.75 million gallons per day and District No. 290 owns 48%.

Participants are billed monthly for fixed costs based on ownership and variable costs based on the ratio of each participant's number of connections to total connections served by the Plant.

Operating Reserve

The District and District No. 290 have remitted \$68,887 and \$63,914 respectively, as an operating reserve.

Note 5. Insurance Coverage

At September 30, 2024, the Plant had real and personal property insurance coverage in the amount of \$12,250,000.

Note 6. Risk Management

The Plant is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Plant carries commercial insurance. The Plant has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Required Supplementary Information

**Trail of the Lakes Regional Sewage Treatment Plant
Budgetary Comparison Schedule – General Fund
Year Ended September 30, 2024**

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|-------------------|---|
| Revenues | | | |
| Harris County Municipal Utility District No. 290 | \$ 472,625 | \$ 411,213 | \$ (61,412) |
| Trail of the Lakes Municipal Utility District | 512,010 | 443,336 | (68,674) |
| Investment income | - | 2 | 2 |
| Total revenues | <u>984,635</u> | <u>854,551</u> | <u>(130,084)</u> |
| Expenditures | | | |
| Service operations: | | | |
| Audit fees | 3,200 | 3,300 | (100) |
| Legal fees | 3,000 | 365 | 2,635 |
| Engineering fees | 10,000 | - | 10,000 |
| Postage and office supplies | 1,100 | 766 | 334 |
| Utilities | 133,200 | 116,797 | 16,403 |
| Repairs and maintenance | 250,000 | 209,706 | 40,294 |
| Insurance | 30,235 | 33,006 | (2,771) |
| Permit fees | 22,300 | 25,596 | (3,296) |
| Chemicals | 140,000 | 142,423 | (2,423) |
| Laboratory fees | 20,000 | 26,013 | (6,013) |
| Bookkeeping | 7,000 | 5,700 | 1,300 |
| Operator fees | 82,600 | 86,112 | (3,512) |
| Sludge disposal | 272,000 | 177,473 | 94,527 |
| Security expense | 10,000 | 4,329 | 5,671 |
| Capital outlay | - | 22,965 | (22,965) |
| Total expenditures | <u>984,635</u> | <u>854,551</u> | <u>130,084</u> |
| Excess of Revenues Over Expenditures | - | - | - |
| Fund Balance, Beginning of Year | <u>132,801</u> | <u>132,801</u> | - |
| Fund Balance, End of Year | <u>\$ 132,801</u> | <u>\$ 132,801</u> | <u>\$ -</u> |

Trail of the Lakes Regional Sewage Treatment Plant
Notes to Required Supplementary Information
September 30, 2024

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the Plant's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The District's Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2024.

The Plant prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.