

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
MAURICEVILLE, TX**

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

Mauriceville MUD

COUNTY OF: ORANGE }

I, TIM MCCARVER, PRESIDENT

(Name of Duly Authorized District Representative)

of the MAURICEVILLE MUNICIPAL UTILITY DISTRICT

(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the 20th day of November, 2018 its annual audit report for the fiscal year or period ended DECEMBER 31, 2017 and that copies of the annual audit have been filed in the district office, located at

15509 FM 1442 Orange, TX 77632

(Address of District)

The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements Texas Water Code Section 49.194

Date: November 20, 2018


By 
(Signature of District Representative)

Tim McCarver, President
(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this 20th day of November, 2018



(Seal)


(Signature of Notary)

My Commission Expires On: 10/01, 2020, Notary Public in and for the State of Texas.

Form TCEQ-0723 (Revised 10/2003)

MAURICEVILLE MUNICIPAL UTILITY DISTRICT

ORANGE, TEXAS

Management's Discussion and Analysis

For the year ended December 31, 2017

Our discussion and analysis of the Mauriceville Municipal Utility District's (District) financial performance provides an overview of the District's financial activities for the year ended December 31, 2017. Please read it in conjunction with the basic financial statements and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

- ❖ As a result of this year's operations, liabilities exceeded assets by \$ 3,836,553 (deficit) for the fiscal year reported. This compares to the previous year when liabilities exceeded assets by \$4,366,416 (deficit). The net assets increased by \$529,863 or 13.81%.
- ❖ Net Assets is comprised of accumulated operating deficits and the following factors affected the current year's deficit:
 - (1) The book value of all assets at December 31, 2017 was \$9,019,004. This amount for the prior year was \$9,661,547.
 - (2) The decrease in value is due to the non-cash expense of depreciation despite the debt reduction of \$1,185,000.
- ❖ Total spending for all District activities for 2017 was \$2,488,487 and the prior year was \$2,138,317. The difference is \$350,170.
- ❖ The District decreased by 237 water customers and 79 sewer customers for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis (MD&A); the Financial Section (basic financial statements); and Texas Required Supplemental Information. The financial section includes notes that disclose in more detail the financial operations and position of the District than is presented in the financial statements.

The Comparative Statement of Net Assets and the Comparative Statement of Revenues, Expenses and Change in Net Assets (Activity) provide both long range and short-term information about the District's overall financial status. The Comparative Statement of Net Assets includes all assets and liabilities and provides information about the nature and amounts of investments in resources

(assets) and the obligations to creditors (liabilities). This financial section reports net assets and how they have changed.

FINANCIAL ANALYSIS AS A WHOLE

Net assets increased by \$529,863 as a result of this year's operations. The District's overall financial position increased during 2017. The balance in net assets represents the accumulated results of all past years' operations. It means that if the District paid off all of its bills today, including all of the non-capital assets, there would be a deficit of \$3,836,553. More detail is provided in the following sections on budget and financial trends.

NET ASSETS – The table below summarizes the Comparative Statement of Net Assets.

Condensed Statement of Net Assets – TABLE 1				
	FY 2017	FY 2016	Dollar Change	Percent Change
Current Assets	1,247,363	1,170,325	77,038	6.58%
Capital Assets	5,937,464	6,663,542	(726,078)	-10.90%
Other Assets	1,834,177	1,827,680	6,497	0.36%
Total Assets	9,019,004	9,661,547	(642,543)	-6.65%
Long term debt outstanding	11,136,989	12,331,770	(1,194,781)	-9.69%
Other Liabilities	1,718,568	1,696,193	22,375	1.32%
Total Liabilities	12,855,557	14,027,963	(1,172,406)	-8.36%
Invested in Capital Assets, net of debt	(6,414,525)	(6,874,345)	459,820	6.69%
– Restricted	1,834,177	1,827,680	6,497	0.36%
– Unrestricted	743,795	680,249	63,546	9.34%
Total Net Assets	(3,836,553)	(4,366,416)	529,863	12.13%

CHANGES IN NET ASSETS – The table below summarizes the changes in Net Assets. As can be seen in Table 2 the District's revenues increased and the District's cash expenses also increased. When considered together this presents a challenge for management to increase revenues without increasing costs.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

TABLE 2

	FY 2017	FY 2016	Dollar Change	Percent Change
Operating Income	3,902,936	3,921,042	(18,106)	-0.46%
Non-operating income	214,667	16,009	198,658	1,240.91%
Total Revenue	4,117,603	3,937,051	180,552	4.59%
Depreciation	1,075,308	1,112,919	(37,611)	-3.38%
Other operating exp.	1,726,679	1,610,573	116,106	7.21%
Non-operating exp.	782,027	547,451	234,576	42.85%
Total Expenses	3,584,014	3,270,943	313,071	9.57%
Change in Net Assets	533,589	666,108	(132,519)	-19.89%

BUDGETARY HIGHLIGHTS As required by state statute the District adopts an annual budget to include operating, debt, and capital expenditures.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

Budget to Actual FY 2017- TABLE 3

	Amended Budget Amount	Actual Amount	Dollar Variance	Percent Variance
Operating Income	3,676,000	3,902,936	226,936	5.81%
Non-operating income	5,000	214,667	209,667	97.67%
Total Revenue	3,681,000	4,117,603	436,603	10.60%
Depreciation	-	1,075,308	(1,075,308)	-
Other operating exp.	1,706,620	1,726,679	(20,059)	-1.16%
Non-operating exp.	501,756	782,027	(280,271)	-35.84%
Total Expenses	2,208,376	3,584,014	(1,375,638)	-38.38%
Change in Net Assets	1,472,627	533,589	(939,038)	175.99%

Depreciation was not budgeted but is presented for comparability.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The cost of property, plant and equipment, net of accumulated depreciation as of December 31, 2017 was \$5,937,464. Major additions included the installation of new waste water pumps, replacement waste water pumps, new meters, replacement meters, and new trucks.

Fixed Asset additions for the year are:

Communication Equipment	\$ 7,250
Transportation Equipment	97,611
Sewer Lines and Grinders	235,438
Sewer Plant	443,144
Water Lines and Storage	<u>22,868</u>
Totals	\$ <u>806,311</u>

The District purchased three new vehicles to replace four vehicles that were flooded during Hurricane Harvey. The capitalized water lines and tanks includes the addition of 128 new meters while the capitalized sewer lines and pumps include the acquisition of 125 new waste water pumps.

Additional information on the changes in fixed assets and accumulated depreciation is found in the notes to the financial statements and Schedule I of the Texas Required Supplementary Information.

LONG TERM DEBT

Long term bond debt was reduced by \$1,185,000 for principal payments. Debt interest of \$487,720 was paid in 2017.

Long term debt for an outstanding loan with First Financial Bank was paid off in 2016.

ECONOMIC FACTORS AND RATES

The District has been implementing a fiscal management plan for the past several years. In March of 2004, the District sought the services of a Financial Advisor to explore refunding the District's debt to prevent default of the Bonds held by the Texas Water Development Board (TWDB). After several meetings with TWDB officials, it was agreed that the District's revenue would not meet the original projections made in the bond offering made by the District's then consulting engineer, and that the District would most likely default in the near future. A review of the District's past rate history evidenced a reverse effect when rate increases were implemented. As a result, raising the rates would have two negative effects, reducing income from current customers and adversely affecting future growth of the District's customer base.

As discussed above, the District obtained a deferral of its 1996 bond series, which resulted in the defeasance of those bonds and the issuance of the 2005 series bonds. This action provided the District time to plan for sufficient annual revenues to meet its new debt service obligation.

On July 25, 2007, the Texas Commission on Environmental Quality (TCEQ) conducted a hearing on an application for conversion of Mauriceville Special Utility District to a Municipal Utility District operating under Texas Water Code Chapter 54. The TCEQ accepted the District's application and allowed conversion to a Municipal Utility District. Now that the conversion is complete, the District is able to seek approval from the voters of the District to implement a property tax or convert the existing revenue bonds to general obligation bonds. Due to the current economic climate, the Board of Directors opted not to call a tax election as community feedback indicated little chance of support. The District increased its rates in August 2009 to raise sufficient revenue to service the bonded debt of the District.

For 2017 and 2016 there has been no increase in water or sewer rates.

ADDITIONAL STRATEGIES

BUDGET 2018

The goals for the 2018 budget year are to complete projects related to Hurricane Harvey; replace a service truck; reduce expenditures; increase customer service by reducing response time for new service installations; and a priority for customer requests for service, repairs, or no water. The District has included in its budget a continuation to expand district lines and capacity for future growth.

CONTACTING MANAGEMENT

This Annual Financial Report is designed to provide our citizens, customers, and others with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mauriceville Municipal Utility District General Manager, Bradley Haeggquist, 15509 FM 1442, Orange, Texas, 77632; Phone (409) 745-4797.

INDEPENDENT AUDITOR'S REPORT

**To: BOARD OF DIRECTORS
MAURICEVILLE MUNICIPAL UTILITY DISTRICT
ORANGE, COUNTY TEXAS**

We have audited the accompanying financial statements of Mauriceville Municipal Utility District and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the, Mauriceville Municipal Utility District and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

ASSUMPTION OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements are to be read with attention to the notes to the financial statements regarding inventory and certain estimates presented in the financial statements. Management lacked the skill, knowledge and experience to approve, authorize, review, and take responsibility for matters presented in the financial statements and the disclosures discussed in the notes to those financial statements over non-attest services we did to adjust the general ledger and draft the financial statements. As a result, the

governing board engaged a certified public accountant with current skill, knowledge and experience to assist them in performing the functions necessary to take responsibility for the financial statements as stipulated in current generally accepted auditing standards.

FEMA ASSISTANCE

As of the date of this report and its issuance FEMA has not given an estimate or agreed in writing to provide monetary assistance for damages caused by Hurricane Harvey in August 2017. The amount that might be received is not measurable or estimable. This situation is based on a lack of understanding of the policies and procedures of used by FEMA for determining assistance and there is no certainty that funds would be appropriated for the assistance.

Other Matters

REQUIRED INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MDA) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied the audit procedures performed for the financial statements taken as a whole to the information presented in the MDA in accordance with auditing standards generally accepted in the United States of America. The management discussion and analysis has been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, in our opinion are fairly presented in relation to the financial statements taken as a whole.

OTHER INFORMATION REQUIRED BY THE TEXAS COMMISSION OF ENVIRONMENTAL QUALITY (TCEQ)

Our audit was conducted for the purpose of forming an opinion on the Mauriceville Municipal Utility District's basic financial statements. The TCEQ section as listed in the table of contents is not a required part of the basic financial statements. We have applied the procedures performed for the basic financial statements taken as a whole to the information presented in the TCEQ section in accordance with auditing standards generally accepted in the United States of America. The TCEQ section, as listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole and, accordingly, in our opinion is fairly presented in relation to the financial statements taken as a whole.

Steirman, Whitfield and Co. PC

STEIRMAN, WHITFIELD AND CO. PC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
NOVEMBER 20, 2018

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION
MAURICEVILLE UTILITY DISTRICT
DECEMBER 31, 2017**

ASSETS**Current Assets:**

Cash and Cash Equivalents Unrestricted	\$ 546,431
Accounts Receivable-Net of Uncollectible Allowance	538,489
Inventories	162,443
Total Current Assets	1,247,363

Noncurrent Assets:**Capital Assets:**

Land Purchase and Improvements	745,548
Buildings	473,499
Accumulated Depreciation - Buildings	(130,901)
Machinery and Equipment	639,337
Accumulated Depreciation - Machinery & Equipment	(440,769)
Capital Assets	25,879,338
Accumulated Depreciation - Capital Assets	(21,228,588)
Bond Reserve Account - restricted CD	1,691,745
Bond Sinking Fund - restricted cash debt service	142,432
Total Noncurrent Assets	7,771,641

Total Assets**9,019,004****LIABILITIES****Current Liabilities:**

Accounts Payable	52,161
Payroll Liabilities Payable	5,539
Fees due TCEQ from Sewer Tax	16,878
Accrued Interest Payable	54,327
Bonds Payable - Current:	
Revenue Bonds Payable Current	1,215,000
Payable from Restricted Assets - Current:	
Security Deposits and Money due Developers	374,663
Total Current Liabilities	1,718,568

NonCurrent Liabilities:

Bonds Payable - Non-Current:	
Revenue Bonds Payable Long Term	11,350,000
Unamortized Premiums (Discounts) on Bonds	(213,011)
Total Noncurrent Liabilities	11,136,989

Total Liabilities**12,855,557****NET POSITION**

Capital Additions provided by Grant Funds	492,575
Unrestricted Net Position	(4,329,128)
Total Net Position	\$ (3,836,553)

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

EXHIBIT B

OPERATING REVENUES:

Water Sales	\$ 1,957,695
Waste Water Collection and Treatment Sales	1,503,735
Road Bores to Connect customers	14,830
Reconnection Fees and other Miscellaneous Fees	158,497
Water and Sewer Taps for initial service	242,915
NSF fees, call out fees, etc.	25,264
Total Operating Revenues	<u>3,902,936</u>

OPERATING EXPENSES:

Personnel Services - Salaries and Wages	671,715
Personnel Services - Employee Benefits	240,754
Purchased Professional & Technical Services	79,171
Purchased Property Services	453,686
Other Operating Expenses	236,530
Supplies	44,823
Depreciation	1,075,308
Total Operating Expenses	<u>2,801,987</u>
Operating Income	<u>1,100,949</u>

NON-OPERATING REVENUES (EXPENSES):

Grants (Not Capital grants)	20,000
Bond Issuance Cost	(20,219)
Investment Earnings	13,299
Insurance Recovery	128,626
Excess of insurance proceeds over lost basis	37,396
Refund on over recorded engineer fees	7,249
Workers Compensation Rebate from Premium Paid	8,097
Interest Expense - Non-Operating	(487,720)
Repairs for Hurricane beyond normal operations	(274,088)
Total Non-operating Revenue (Expenses)	<u>(567,360)</u>

Change in Net Position	533,589
Total Net Position - (Beginning)	(4,366,415)
Prior Period Adjustment	(3,727)
Total Net Position December 31 (Ending)	<u>\$ (3,836,553)</u>

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

EXHIBIT C (Cont'd)

<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,898,532
Cash Payments to Employees for Services	(912,330)
Cash Payments for Suppliers	(813,616)
Net Cash Provided by Operating Activities	<u>2,172,586</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in restricted assets	(6,497)
Increase (decrease) in security deposits	(13,316)
Cash from Non-capital Grant - SRA	20,000
Cash for refunded workers' compensation Insurance	8,097
Net Cash Provided by Non-Capital Financing Activities	<u>8,284</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(363,167)
Insurance Proceeds from Hurricane Harvey and other	180,159
Interest paid on debt	(502,804)
Principal paid on long term debt (bonds)	(1,185,000)
Principal paid on note payable	(21,117)
Non-Operating expenditures for Disaster recovery	(274,088)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(2,166,017)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>13,299</u>
Net Increase in Cash and Cash Equivalents	28,152
Cash and Cash Equivalents at Beginning of the Year:	<u>518,279</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 546,431</u>

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Reconciliation of Operating Income to Net Cash

<u>Provided By Operating Activities:</u>	
Operating Income:	\$ 1,100,949
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,075,308
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(4,404)
Decrease (increase) in Inventories	(46,390)
Increase (decrease) in Accounts Payable	47,123
Net Cash Provided by Operating Activities	<u>\$ 2,172,586</u>

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

**MAURICEVILLE MUNICIPAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Summary of Significant Accounting Policies

General Statement

The Mauriceville Special Municipal District was organized pursuant to the provisions of Section 59 of Article XVI of the Constitution of Texas by Order of the Texas Natural Resource Conservation Commission in Docket No. 94-0492-DIS and operates under Chapter 65 of the Texas Water Code, as amended. On July 25, 2007, the Texas Commission on Environmental Quality (TCEQ) conducted a hearing on an application for conversion of Mauriceville Special Municipal District to a municipal utility district operating under Texas Water Code Chapter 54. The TCEQ accepted the District's application and allowed conversion to a municipal utility district. This conversion permits the District, with voter approval, to levy and collect a property tax to meet the impending increases in the bonded debt service requirements.

An election was held in and throughout the District on January 21, 1995, confirming the creation of the MSUD. The District's first bonds were authorized by issuance effective April 11, 1996. On July 1, 1995, Mauriceville Special Utility District began operating the water system which was previously operated by the Mauriceville Water Supply Corp. The District acquired the title to the assets purchased from Mauriceville Water Supply Corp. on April 11, 1996 at the time of the issuance of the Utility System Revenue bonds. The proceeds of the bonds were used to pay off the notes payable to Farmers Home Administration by Mauriceville Water Supply Corp. The District has been using the assets of the Corporation to operate the water system since July 1, 1995, in accordance with a buy-sell agreement executed by the Board of Directors of both entities on March 20, 1995. The District received final approval in January 1996 for the bond issuance to retire the debt to Farmers Home Administration and transfer the assets of the Corporation to the District. The bond funding was received on April 11, 1996, and all outstanding debt of the Corporation retired. The assets were released by Farmers Home Administration to the District at that time. The Mauriceville Water Supply Corporation ceased operations upon the start of operating the Mauriceville Special Utility District. The general-purpose financial statements of the district have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units in the United States. The governmental accounting standards board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the District's significant accounting policies:

Reporting Entity

The Mauriceville Municipal District provides water and sewer services to the unincorporated area of Mauriceville, Texas which includes areas in Orange, Jasper and Newton counties. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by generally accepted accounting principles.

**MAURICEVILLE MUNICIPAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Based upon these principles, the basic criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant criterion is financial interdependency. Other factors affecting the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public services. Based upon these criteria, there are no component units to Mauriceville Municipal District, nor is the District a component unit of any other governmental body.

Starting on January 1, 2004 the District adopted the provisions of Statement No. 34 of Governmental Accounting Standards Board – *“Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.”* Statement 34 established standards for external financial reporting for all state and local governmental entities that includes a statement of net assets, a statement of activities, and a statement of cash flows. For Mauriceville Municipal District, the adoption of Statement 34 had no effect on the basic financial statements except for the classification of net assets in accordance with the statement and the reflection of capital contributions as a change (increase) in net assets.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting; revenues are recognized when earned and expenses are recognized when they are incurred.

Budget

The budget for the District is adopted on a basis generally consistent with generally accepted accounting principles (GAAP). Budget amounts are presented as originally budgeted or as amended by the District. The budget for 2017 did not include amounts for depreciation. Statement presentation does include the actual depreciation, although none was budgeted.

Cash and Investments

For purposes of the statement of cash flows, the District considers the definition of cash and cash equivalents to include certificates of deposit with an original term of three months or less to be cash. Texas Statute and the District's Investment Policy authorize the District to invest in U.S. Treasury Bills, Notes and Bonds which are backed by the full faith and credit of the United States Government, U.S. Governmental agency securities and insured time deposits issued by banks domiciled in the State of Texas.

**MAURICEVILLE MUNICIPAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Materials and Supplies Inventories

Inventories are valued at cost using the first-in, first-out basis which approximates market. Inventories consist of expendable supplies held for consumption and the cost thereof is recorded as an expense or is capitalized as new construction, as appropriate, as the individual inventory items are issued. Inventory consists mainly of items used to install new services and items used for ordinary system repairs.

Land, Buildings, and Equipment

Fixed assets have been acquired or constructed for the purpose of providing water and sewer services to the District's residents. Fixed assets are recorded at cost. Gifts or contributions of fixed assets are recorded at estimated fair market value upon receipt. Fixed assets are depreciated over their estimated useful lives on a straight-line basis. All expenditures related to Hurricane Harvey were recorded and presented as expenses and no attempt was made to determine if any of these expenditures would be normally capitalized in accordance with GAAP. The time constraints, reduction and replacement of capable accounting personnel, and the pre-occupation of management with the exigencies of concentrating all of their efforts to the restoration of full customer service rendered such an accounting treatment not practical or conceivable.

Accumulated Unpaid Vacation and Sick Pay

Accumulated unpaid vacation and sick pay are not accrued and the expenditures are recorded when paid. Accrued vacation and sick pay were not material for the year ended December 31, 2017.

Capitalized Project Costs

The District capitalizes and charges to capitalized project costs all costs incurred during the construction of its capital projects. These capitalized costs include; bond interest, accrued interest on investments purchased, attorney fees, and other start-up expenses of the project. Investment interest earnings are used to decrease these costs during the construction period. There was no capitalized interest during 2017.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the application of estimates and assumptions in the recording of assets, liabilities, income, and expenditures. Such estimates and assumptions have been used in the preparation of these financial statements. Actual results may vary from the estimates and assumptions presented in these statements.

**MAURICEVILLE MUNICIPAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

The principal estimates used in these financial statements are the estimated useful lives of fixed assets and the amortization of original bond discount reported as interest expense for the year then ended.

Note 2 - Cash and Investments

Following are the components of the District's cash and investments at December 31, 2017:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash	546,431	142,432	688,863
Investments (CDs)	<u>-0-</u>	<u>1,691,745</u>	<u>1,691,745</u>
Totals	<u>546,431</u>	<u>1,834,177</u>	<u>2,380,608</u>

Cash and Certificates of Deposit at the District's fiscal depository (bank) can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 Deposits which are collateralized with securities held by pledging financial institutions, trust departments, or agent in the entity's name.

Category 3 Deposits which are not collateralized.

Based on the above criteria all of the District's cash and CDs are considered category 1.

Note 3 - Property Taxes

The District was created as a special, non-taxing utility district. On July 25, 2007, the Texas Commission on Environmental Quality (TCEQ) conducted a hearing on an application for conversion of Mauriceville Special Municipal District to a municipal utility district operating under Texas Water Code Chapter 54. The TCEQ accepted the District's application and allowed conversion to a municipal utility district (MUD). This conversion permits the District, with voter approval, to levy and collect a property tax to meet the impending increases in the bonded debt service requirements. No tax has been levied since the conversion to a MUD.

**MAURICEVILLE MUNICIPAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 4 - Fixed Assets

There are no special Assessments debt. A summary of changes in fixed assets follows:

	<u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2017</u>
Land	745,548			745,548
Construction in Progress	443,144		443,144	-0-
Building	471,958			471,958
Office furniture	8,863			8,863
Computers	26,440			26,440
Storage shed	1,542			1,542
Equipment and tools	331,166			331,166
Communication	11,956	7,250		19,206
Transportation	242,563	97,611	86,512	253,662
Sewer lines & grinders	13,625,359	235,438	129,375	13,731,422
Sewer plant	2,628,389	443,144		3,071,533
Water Treatment plant	1,121,433			1,121,433
Wells	1,076,147			1,076,147
Water lines and storage	6,871,309	22,868	15,375	6,878,802
Total	<u>27,605,817</u>	<u>806,311</u>	<u>674,406</u>	<u>27,737,722</u>

Note 5 - Long Term Debt

Bond Payable at December 31, 2017, is the following:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	1,215,000	472,131	1,687,131
2019	1,250,000	435,681	1,685,681
2020	1,290,000	395,056	1,685,056
2021	1,335,000	349,906	1,684,906
2022	1,385,000	301,512	1,686,512
Thereafter	<u>6,090,000</u>	<u>642,963</u>	<u>6,732,963</u>
Totals	<u>12,565,000</u>	<u>2,597,249</u>	<u>15,162,249</u>

**MAURICEVILLE MUNICIPAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 6 - Pension Plan

The District and its employees do not participate in any of the authorized public retirement systems provided by the State of Texas or any of its political subdivisions.

The District approved a Section 457 plan during 2000. On July 1, 2007, the plan changed from an Enterprise plan to an Expert Plan with American Funds. This change was supported by employee vote at the May 17, 2007 board meeting. The plan is qualified and the contributions are considered deferred compensation for the employees. Since the amount contributed is not subject to the general creditors of the District, the funds are not presented in the financial statements. The District contributes 7% of each employee's base pay. However, this contribution is decided each year as part of the budget process and the District has no obligation to make this contribution in future years. The amount paid in 2017 was \$44,979.

Note 7 - Pledge of Revenues

The bonds are payable from the revenues of the district, and are secured by a lien on a pledge of revenues to be received from the operation of the District's water system.

Note 8 - Compliance with Debt Service Requirements

At December 31, 2017, the District was following its Debt Service requirements as required in the bonds' covenants. The District established a bank account titled Principal and Interest Fund for the purpose of aggregating funds available for the semi-annual debt service payments. This is a restricted account and is presented as a restricted asset in the financial statements. The actual title of the demand account is Principal and Interest account and is indeed a sinking fund as intended and named in the bond covenants.

Note 9 - Bond Reserve

The District has a certificate of deposit greater than \$1,689,646. This amount is the required balance established in the bonds covenant. The certificate of deposit in name and as presented in the statement of financial position are noted as restricted for this specific use.

Note 10 - Change in Accounting Principal

Generally accepted accounting standards (GAAP) as issued by the Governmental Accounting Standards Board (GASB) issued GASB Statement 63 which requires that bond issue costs be expensed in the year the costs occur. If there are unamortized bond issue costs that occurred in a prior year, those costs are to be reclassified to implement the intent of the new pronouncement. The current statement of activity presents the unamortized bond issue costs as a "reclassification" to comply with GAAP. The bonded debt outstanding is reduced by the amount of the paid discount and other financing fees. Accordingly, the amount presented is the actual cash amount of the debt if paid.

**MAURICEVILLE MUNICIPAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 11 – Economic Dependence

The District derives all of its operating revenue from the water and sewer users (customers) that reside within its geographic boundaries. Accordingly, it should be concluded that any events affecting the District's residents would impact the District's operations directly. It should be noted that the District is located in an area prone to hurricanes during the summer and fall.

Note 12 – Subsequent Events

Management has evaluated matters that might be subsequent events and has not identified any such matters from December 31, 2017 through November 20, 2018, which is the date the financial statements were available to be issued. The matters disclosed below should be read in conjunction with the financial statements taken as a whole.

HURRICANE HARVEY

- **NOTE 12 A – HURRICANE HARVEY**
The district sustained disastrous damage from Hurricane Harvey during the week starting August 20, 2017. There was significant physical damage. This included diminished water production and distribution, failure of grinder pumps for several hundred customers, and damage to the sanitary waste water collection lines throughout the collection system.
- **NOTE 12 B –** The district received payments from Texas Municipal League insurance alliance during 2017. The district received further payments to satisfy claims for damages during 2018. The final determination of full claim settlement has not been completed as of the date of the Independent Auditor's report associated with these financial statements. The payments received during 2017 are presented as non-operating revenues. Funds expended for repair of had damages related to these claims are presented as either an operating expense or a non-operating expenditure. The complexity and diversity of the expenditures to get the system up and operating with the least disservice to its customers did not permit an exact measurement of funds expended because insufficient detail was recorded at the time of the transaction to properly classify non-capital and capital expenditures. As explained in the District's summary of accounting policies in the first note to these statements there is or was not any detailed accounting for the classification between an expense or expenditure in the recording of amounts paid out as necessary to facilitate the District's restoration of full services to its customers.
- **NOTE 12 C –** Disaster assistance from the Federal Government through the Agency of Finance Emergency Management Assistance (FEMA) is still in process at the date of the Independent Auditor's Report. There is no absolute assurance will be made whole based on the District's representation of expenditures to effect necessary and immediate expenditures for recovery from the Hurricane's damages. The District will not recognize any possible funds paid either by FEMA or other insurance until received and the District is confident that the money is completely available to the District.

MAURICEVILLE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS-BUDGET TO ACTUAL
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Schedule D

	2017			2016		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Operating Revenues						
Charges for services	3,634,757	3,608,500	26,257	3,506,741	3,468,000	38,741
Tap fees	242,915	67,500	175,415	222,511	138,750	83,761
Other miscellaneous fees	25,264	-	25,264	191,790	198,754	(6,964)
	<u>3,902,936</u>	<u>3,676,000</u>	<u>226,936</u>	<u>3,921,042</u>	<u>3,805,504</u>	<u>115,538</u>
Operating Expenses						
Personnel	912,469	925,044	12,575	870,904	985,197	114,293
Professional fees	79,171	78,500	(671)	34,452	49,000	14,548
Purchased and contracted services	453,686	381,476	(72,210)	95,700	60,500	(35,200)
Other operating expenses and supplies	281,353	321,600	40,247	586,267	415,250	(171,017)
Bad debt write off	-	-	-	20,576	-	(20,576)
Depreciation and amortization	1,075,308	-	(1,075,308)	1,132,626	-	(1,132,626)
	<u>2,801,987</u>	<u>1,706,620</u>	<u>(1,095,367)</u>	<u>2,740,525</u>	<u>1,509,947</u>	<u>(1,230,578)</u>
Operating Income	<u>1,100,949</u>	<u>1,969,380</u>	<u>(868,431)</u>	<u>1,180,517</u>	<u>2,295,557</u>	<u>(1,115,040)</u>
Nonoperating Revenues (Expenses)						
	20,000	-	20,000	-	-	-
Bond Issuance Cost	(20,219)	-	(20,219)	-	-	-
Gain/(Loss) on sale of disposal of property	-	-	-	3,672	-	3,672
Trucks and Vehicles Destroyed by Hurricane	37,396	-	-	-	-	-
Interest income	13,299	5,000	8,299	8,452	5,000	3,452
Insurance Recovery	128,626	-	-	-	-	-
Interest expense	(487,720)	(501,756)	14,036	(530,418)	(530,447)	29
Miscellaneous Non-operating income	15,346	-	15,346	3,885	-	3,885
Miscellaneous Non-operating expenditure	(274,088)	-	(274,088)	-	-	-
	<u>(567,360)</u>	<u>(496,756)</u>	<u>(236,626)</u>	<u>(514,409)</u>	<u>(525,447)</u>	<u>11,038</u>
Net Income (Loss)	<u>533,589</u>	<u>1,472,624</u>	<u>(1,105,057)</u>	<u>666,108</u>	<u>1,770,110</u>	<u>(1,104,002)</u>
Retained Earnings						
Beginning of year	(4,366,415)			(5,032,524)		
Prior Period Adjustment	(3,727)					
End of year	<u>(3,836,553)</u>			<u>(4,366,415)</u>		

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

MAURICEVILLE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2017

1. Services provided by the District:

☒ Retail Water ☐ Wholesale Water ☐ Drainage
☒ Retail Sewer ☐ Wholesale Sewer ☐ Irrigation
☐ Parks/Recreations ☐ Fire Protection ☐ Security
☐ Solid Waste/Garbage ☐ Flood Control ☐ Roads
☐ Participants in joint venture, regional system and/or wastewater service (other than emergency interconnect)
☐ Other (specify): _____

2. Total water consumption during the fiscal year:

Gallons pumped into the system 233,766,000

Gallons billed to customers: 188,517,600

3. Retail rates based on 5/8" meter

Retail rates not applicable

The most prevalent type of meter (if not a 5/8") 5/8" is most prevalent

Based on Rate Order dated:

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
WATER:	\$ 26.12	0	Y	\$ 0.00	0
				\$ 4.89	0 to 7,999
				\$ 5.18	8,000 to Unlimited
SEWER:	\$ 29.35	0	Y	\$ 0.00	0
				\$ 4.25	0 to 7,999
				\$ 4.50	8,000 to Unlimited
SURCHARGE:	N/A				

Sewer usage employs winter averaging Yes ☐ No ☒ N/A ☐

Total water charges per 10,000 gallons usage (including surcharges) \$ 75.61

4. Number of retail water connections within the District as of fiscal year ended December 31, 2017:

Connections

Active Connections

Inactive Connections**

Single Family

None

Water 3,181 3,181
Sewer 2,381 2,381

PROVIDE SINGLE FAMILY EQUIVALENTS (SFE'S) FOR THE CONNECTIONS BELOW:

	No. of Active Connections	Active SFE Connections	Inactive SFE Connections
Multi-Family	3	55	-
Commercial	66		-
Other - recreational center, government and VFD: 1		1	-
TOTAL	70	56	-

5. Standby Fees: Does the District assess standby fees: Yes ___ No X
Have standby fees been levied in accordance with Water Code Section 49.321, thereby constituting a lien on property: Yes ___ No X

6. Anticipated sources of funds to be used for debt service payments in the District's following fiscal year:

- | | |
|---|--------------|
| a. Surplus construction funds | \$ -0- |
| b. Water and/or wastewater revenue | |
| c. Standby fees | \$ 1,687,131 |
| d. Beginning debt service fund balances | \$ -0- |
| e. Interest revenues | \$ -0- |
| f. Other (describe) | \$ -0- |

TOTAL ANTICIPATED FUNDS TO BE USED \$ 1,687,131

7. Location of District:

County(ies) in which district is located. Orange, Jasper, Newton

Is the District located entirely within one county: Yes ___ No X

Is the District within a city? Entirely ___ Partly ___ Not at all X

Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely ___ Partly X Not at all ___

ETJ's in which district is located. City of Orange, City of Vidor

Is the general membership of the Board appointed by an office outside the district?
Yes ___ No X

Name of Contact Person Brad Haeggquist, General Manager
Phone Number (409) 745-4882

* Number of connections relate to water service provided. Otherwise, number of wastewater connections is provided.

** "Inactive" means that water and sewer connections were made, but service is not being provided.

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

MAURICEVILLE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Schedule F

	<u>2017</u>	<u>2016</u>
<u>Personnel, including benefits</u>	912,469	870,904
<u>Professional Fees</u>		
Accounting and auditing	13,750	14,508
Legal	9,000	7,875
Engineering	26,087	12,069
Other Professional Fees	30,334	-
Total Professional Fees	<u>79,171</u>	<u>34,452</u>
<u>Purchased and Contracted Services</u>	2,858	95,700
<u>Utilities, Fuel and Chemicals</u>	127,958	178,121
<u>Repairs and Maintenance</u>	363,855	292,126
<u>Administrative Expenditures</u>		
Office supplies	26,355	4,010
Postage	18,469	17,264
Insurance	42,964	47,021
Other administrative expenses	152,580	47,723
Total Administrative Expenditures	<u>240,368</u>	<u>116,018</u>
<u>Bad Debt Expense</u>	-	20,576
<u>Depreciation and Amortization</u>	1,075,308	1,132,626
Total Operating Expenses	<u>2,801,987</u>	<u>2,740,523</u>
<u>Interest</u>	<u>487,720</u>	<u>530,419</u>
Total Expenses	<u><u>3,289,707</u></u>	<u><u>3,270,942</u></u>
Number of persons employed by the District	Full time	10
	Part time	1

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

MAURICEVILLE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF TEMPORARY INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule G

Restricted	Purpose	Identification or Certificate Number	Interest Rate	Maturity Date	Bank Balances at End of Year	Book Balances at End of Year
First Financial Bank - CD	Reserve	1052760-15	0.30%	8/15/2018	425,000	425,000
First Financial Bank - CD	Reserve	1052760-16	0.30%	3/12/2018	425,000	425,000
First Financial Bank - CD	Reserve	1052760-17	0.30%	6/15/2018	841,746	841,746
Total Water and Sewer Restricted Assets					1,691,746	1,691,746
Total					1,691,746	1,691,746

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
ANALYSIS OF TAXES RECEIVABLE
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

Schedule H

Mauriceville Special Utility District converted to a Municipal Utility District on July 25, 2007. It now has the authority to levy tax with voter approval. As of year end, the District had taken no such action and, therefore, had no taxes receivable at December 31, 2016 or 2017.

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
FIXED ASSET AND DEPRECIATION SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017**

Schedule I

FIXED ASSETS

		<u>1/1/2017</u>	<u>additions</u>	<u>deletions</u>	<u>12/31/2017</u>
19400	Land	745,548			745,548
19500	Construction in Progress	443,144		443,144	0
16100	Building	471,958			471,958
16200	Office furniture	8,863			8,863
16300	Computers	26,440			26,440
16400	Storage shed	1,542			1,542
16600	Equipment and tools	331,166			331,166
16700	Communication	11,956	7,250		19,206
16800	Transportation	242,563	97,611	86,512	253,662
17300	Sewer lines & grinders	13,625,359	235,438	129,375	13,731,422
17100	Sewer plant	2,628,389	443,144		3,071,533
17200	Water Treatment plant	1,121,433			1,121,433
17400	Wells	1,076,147			1,076,147
17800	Water lines and storage	6,871,309	22,868	15,375	6,878,802
	Total	27,605,817	806,311	674,406	27,737,722

ACCUMULATED DEPRECIATION

		<u>1/1/2017</u>	<u>additions</u>	<u>deletions</u>	<u>12/31/2017</u>
18405	Building	116,536	12,824		129,360
18410	Office furniture	8,863			8,863
18412	Computers	22,485	2,315		24,800
18415	Storage shed	1,542			1,542
18420	Equipment and tools	264,701	20,039		284,740
18425	Communication	6,927	1,524		8,451
18430	Transportation	167,798	18,690	72,574	113,914
18440	Sewer lines & grinders	11,500,753	685,335	129,375	12,056,713
18445	Sewer plant	2,355,244	153,011		2,508,255
18450	Water Treatment plant	1,121,235			1,121,235
18460	Wells	559,790	43,184		602,974
18480	Water lines and storage	4,831,294	138,386	15,375	4,954,305
	Total	20,957,168	1,075,308	217,324	21,815,152

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Schedule J

Due During Fiscal Years Ending	Series 2011 - \$19,355,000		
	Principal Due November 15	Interest Due May 15, November 15	Total
2018	1,215,000	472,131	1,687,131
2019	1,250,000	435,681	1,685,681
2020	1,290,000	395,056	1,685,056
2021	1,335,000	349,906	1,684,906
2022	1,385,000	301,512	1,686,512
2023	1,435,000	249,575	1,684,575
2024	1,490,000	192,175	1,682,175
2025	1,550,000	132,575	1,682,575
2026	1,615,000	68,638	1,683,638
	<u>12,565,000</u>	<u>2,597,249</u>	<u>15,162,249</u>

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
ANALYSIS OF CHANGES IN UTILITY SYSTEM REVENUE BONDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Schedule K

	<u>Series 2011</u>
Interest Rate	2.0 - 4.250%
Maturity Dates	11/15/2026
Bonds Outstanding at Beginning of Current Year	13,750,000
Bonds Sold	-
Retirements	<u>1,185,000</u>
Bonds Outstanding at End of Current Year	<u>12,565,000</u>
Interest Paid During the Current Year (cash basis)	<u>487,720</u>
Paying Agent's Name and City all issues U.S. Trust Co., 2001 Ross Ave., Dallas, Texas 75201	
Bonds Authorized	19,355,000
Bonds Issued	<u>19,355,000</u>
Remaining to be issued	<u>-</u>

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

MAURICEVILLE MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES -
FIVE YEARS ENDED DECEMBER 31, 2017

Schedule L

						Percentage of Revenues				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
REVENUES										
Water and sewer service	3,634,757	3,506,740	3,597,830	3,599,275	3,556,168	93.1%	89.4%	93.5%	94.6%	93.3%
Connection fees	242,915	222,511	236,946	204,225	191,437	6.2%	5.7%	6.2%	5.4%	5.0%
Miscellaneous fees	25,264	191,790	13,224	-	65,065	0.6%	4.9%	0.3%	0.0%	1.7%
TOTAL REVENUES	3,902,936	3,921,041	3,848,000	3,803,500	3,812,670	100%	100%	100%	100%	100%
EXPENDITURES										
Payroll expenses	912,469	870,904	911,839	970,186	944,355	23.4%	22.2%	23.7%	25.5%	24.8%
Professional fees	79,171	34,452	56,424	43,853	27,280	2.0%	0.9%	1.5%	1.2%	0.7%
Purchased and contracted services	453,686	273,821	219,111	265,393	266,010	11.6%	7.0%	5.7%	7.0%	7.0%
Consumable supplies and materials	281,353	408,144	314,319	420,827	270,810	7.2%	10.4%	8.2%	11.1%	7.1%
Bad Debt Expense	-	20,576	(3)	11,650	9,235	0.0%	0.5%	0.0%	0.3%	0.2%
Depreciation and amortization	1,075,308	1,132,626	1,155,590	1,135,167	1,122,219	27.6%	28.9%	30.0%	29.8%	29.4%
TOTAL EXPENDITURES	2,801,987	2,740,523	2,657,280	2,847,076	2,639,909	71.8%	69.9%	69.1%	74.9%	69.2%
OPERATING INCOME	1,100,949	1,180,518	1,190,720	956,424	1,172,761	28.2%	30.1%	30.9%	25.1%	30.8%
NON-OPERATING REVENUES (EXPENSES)										
Grants (not capital grants)	20,000	-	-	-	-	0.5%	-	-	-	-
Bond Issuance Cost	(20,219)	-	-	-	-	-0.5%	-	-	-	-
Gain/(Loss) on sale of disposal of property	-	-	-	-	-	0.0%	-	-	-	-
Trucks and Vehicles Destroyed by Hurricane Harvey	37,396	-	-	-	-	1.0%	-	-	-	-
Interest income	13,299	8,452	5,253	6,275	9,636	0.3%	0.2%	0.1%	0.2%	0.3%
Insurance Recovery	128,626	-	-	-	-	-	-	-	-	-
Interest expense	(487,720)	(530,419)	(552,465)	(588,816)	(610,317)	-12.5%	-13.5%	-14.4%	-15.5%	-16.0%
FEMA/Grants	-	-	-	56,007	-	0.0%	0.0%	0.0%	1.5%	0.0%
Other revenue	15,346	7,557	27,211	31,527	8,038	0.4%	0.2%	0.7%	0.8%	0.2%
Other (expense)	(274,088)	-	-	-	-	-7.0%	0.0%	0.0%	0.0%	0.0%
TOTAL	(567,360)	(514,410)	(520,001)	(495,007)	(592,643)	-14.5%	-13.1%	-13.5%	-13.0%	-15.5%
NET INCOME (LOSS)	533,589	666,108	670,719	461,417	580,118	13.7%	17.0%	17.4%	12.1%	15.2%

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

MAURICEVILLE MUNICIPAL UTILITY DISTRICT
INSURANCE COVERAGE
FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule M

Type of Coverage	Amount of Coverage	Insurer		
		Name	Type of Corporation Stock/Mutual	Policy Clause: Co-Insur.
Worker's Compensation				
Bodily Injury By Accident	1,000,000	Texas Municipal League	mutual	No
Bodily Injury By Disease	1,000,000	Texas Municipal League	mutual	No
Property				
Real and Personal	4,696,913	Texas Municipal League	mutual	No
Boiler and Machinery	100,000	Texas Municipal League	mutual	No
Mobile Equipment	243,090	Texas Municipal League	mutual	No
Employee Dishonesty	500,000	Texas Municipal League	mutual	No
Theft Disappearance and Destruction	25,000	Texas Municipal League	mutual	No
Computer Fraud	50,000	Texas Municipal League	mutual	No
Forgery or Alteration	100,000	Texas Municipal League	mutual	No
Liability:				
Each Occurrence				
General liability	2,000,000	Texas Municipal League	mutual	No
Errors and Omissions	2,000,000	Texas Municipal League	mutual	No
Automobile	1,000,000	Texas Municipal League	mutual	No
Automobile Physical Damage	Actual Cash Value	Texas Municipal League	mutual	No
Sewage Backup	25,000	Texas Municipal League	mutual	No
Cyber Liability				
Website Media Content	1,000,000	Texas Municipal League	mutual	No
Privacy Breach	25,000/incident	Texas Municipal League	mutual	No
Regulatory Defense	10,000	Texas Municipal League	mutual	No
Payment Card Industry Fines, Expenses, and Costs	5,000	Texas Municipal League	mutual	No
Cyber Extortion	10,000	Texas Municipal League	mutual	No
First Party Data Protection	10,000	Texas Municipal League	mutual	No
First Party Network Business Interruption	10,000	Texas Municipal League	mutual	No

* Property and casualty insurance for improvements to real estate and personal property are scheduled by property.

**Wind & Hail 2.5% Deductible

***Property deductible \$1,000.

****Additional coverage on Tanks, Wells and mobile equipment

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

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Schedule N

Name and Address	Elected and Expires or Date Hired	Fees and Expense Reimbursement Dec. 31, 2017	Title at Year End	Resident of District
<u>Board Members</u>				
Jayson D Scheiderer 5343 Michelle Road Orange, TX 77632	5/16 - Present	None	Former President	Yes
Tim McCarver 5570 Colony Lane Orange, TX 77632	5/18 - Present	None	President	Yes
Jon W Sherwin 5025 Michelle Circle Orange, TX 77632	05/14 - 05/18	None	Vice President	Yes
Russel R Love 7477 Circle 6 Orange, TX 77632	6/16 - 6/20	None	Director	Yes
Joseph Reimers 6827 Johnson Drive Orange, TX 77632	9/16 - 9/20	None	Director	Yes
Ted Williams P.O. Box 707 Mauriceville, TX 77626	10/16 - 10/20	None	Director	Yes

Note: No director is disqualified from serving on this board under the Texas Water Code.

**MAURICEVILLE MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Schedule N
(continued)**

Name and Address	Elected and Expires or Date Hired	Fees and Expense Reimbursement Dec. 31, 2017	Title at Year End	Resident of District
<u>Key Administrative Personnel</u>				
Brian B. Gipson 5690 Wayside Drive Vidor, TX 77662	10/14 - 02/18	\$ 102,503	Former General Manager	No
Bradley Haeggquist 2625 Mansfield Ferry Rd Vidor, TX 77662	05/18 - present	\$ -	General Manager	No
Kathy L. Bourgeois 5017 Lawndale Drive Orange, Texas 77630	12/98 - present	\$ 51,724	Billing Supervisor	No
Kristyn Porter 1444 Elizabeth Stone Bridge City, TX 77611	09/14 - 04/18	\$ 42,205	Bookkeeper	No
<u>Consultants</u>				
Steirman, Whitfield and Co. PC 109 Camellia Ave Orange, TX 77630	01/16 - present	\$ 13,750	Independent Auditor	No
George Barron 2000 U.S. 69 Access Rd Nederland, TX 77627	11/16 - present	\$ 9,000	Attorney	No

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



Certified Public Accountants & Consultants
 109 Camellia
 P.O. Box 2069
 Orange, Texas 77631
 Telephone: (409) 883-3350
 Fax: (409) 883-7904

JOEL E. STEIRMAN, CPA, CTIP, CGMA
 JANE M. WHITFIELD, CPA

November 20, 2018

To the Board of Directors,
 Mauriceville Municipal Utility District,
 Mauriceville, TX

We have audited the financial statements of the Mauriceville Municipal Utility District, Orange County, TX for the year ended December 31, 2017. 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 letter to you dated April 8, 2017. Professional standards also require that we communicate to you the following information related to our audit.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mauriceville Municipal Utility District, Orange County, TX are described in Note 1 to the financial statements. There was a new accounting policy changed during the year. Repairs made under a declared emergency due to Hurricane Harvey were expensed in their entirety. Capital improvements may have been expensed, but the amount was no significant to the statements taken as a whole. We noted no transactions entered into by Mauriceville Municipal Utility District, Orange County, TX 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.

Accounting estimates are an integral part of the financial statements prepared by management 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 Mauriceville Municipal Utility District, Orange County, TX's financial statements were:

Management's estimate of depreciation is based on estimated useful lives on the straight line basis. We evaluated the key factors and assumptions used to develop the depreciation expense for the year in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of allowance for bad debt and the current bad debt expense are based on analysis of accounts receivable at year end and past historical experience. We evaluated the key factors and assumptions used to develop the allowance for bad debt and the current bad debt expense for the year in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's reconstruction of ending inventory, determining repairs, and capital acquisitions. These transactions were not always clear and traceable a result of Hurricane Harvey where the knowledge to make the correct determination was not available. The bulk purchase of pumps, meters, distribution and

collections lines, and expenditures for lift stations, water treatment apparatus was obscured and the documents available could not be determined from the vendors' or District documents related to the documents were not available

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered significant difficulties in dealing with missing and incomplete documentation in performing and completing our audit. Further, due to the inability of our staff to function as planned, the audited statements are being issued considerably late, compared to previous years' practice.

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management by posting the adjustments we provided, were material, either individually or in the aggregate, to the financial statements taken as a whole. The required actions for our firm to maintain independence, for the non-audit work (primarily creation of records of original entry) were done to form the financial statements.

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 REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 20, 2018.

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 Mauriceville Municipal Utility District, Orange County, TX'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.

The District did engage an outside accountant to provide the necessary skill, knowledge and experience for management to understand and provide adequate oversight, approve, authorize the non-attest work, and take full responsibility, without equivocation, our non-attest work done related to the District's books and ledgers.

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 Mauriceville Municipal Utility District, Orange County, TX'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 applied the same audit procedures to Management Discussion & Analysis, which is 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 were engaged to compile information as stipulated in the Texas Commission Environment Quality's Water District Financial Management Guide, which accompany the financial statements, listed in the table of contents as TCEQ Supplementary Information. 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.

Please be advised of two things, *we are emphasizing these matters to support the activities that underly our independent for the non-attest services provided by us.* First, our firm performed non-attest services such as preparing documents and worksheets to measure and record financial transactions. This non-attest work provided basis for journal entries to complete the District's accounting records necessary in the fair presentation of financial statements in conformance with GAAP. This work was reviewed by an accountant of your choosing and has been represented to us that the skill, knowledge, and experience was obtained by management to fulfill the requirements established in our professional ethics to avoid our disclaiming an opinion for lack of independence and possible audit of records that could be considered our work product.

Second, there has been ongoing communications with management during the entire audit process about the lack of conformance with policies and procedures observed and tested in previous years for internal control over the fiscal and accounting functions of the District. We understand that the management in place at the time of our audit procedures were not the same individuals responsible for the implementation and maintenance of adequate controls during the period under audit. These matters have been reduced to writing and are contained in a management letter dated November 20, 2018. It is understanding that management will review our comments and will implement and conform to controls that will be as effective as those in place in prior years. We will provide assistance to management to create and monitor the system of internal control established by management. It is unlikely that the audit for the year ending December 31, 2018. We anticipate the implementation and conformance with these controls will reduce the audit fee for the year ending December 31, 2019.

When an auditor can assess risk as low, the audit procedures are, understandably, reduced. Management's implementation and monitoring of adequate internal directly reduces audit procedures by minimizing testing and evaluation, since the auditor can rely on the controls in place to lower the of risk not identifying a material misstatement in the financial statements. When risk is not assessed at a low level, the auditor must design and perform additional audit procedures (much more time and cost) to obtain adequate and appropriate audit evidence that conform to generally accepted auditing standards. Those standards require substantially more analysis, testing, and documentation because if risk is not assessed as low, the auditor must fully support the ultimate conclusion that the financial statements are without material misstatement. Which is the objective of a financial audit.

RESTRICTION ON USE

This information is intended solely for the use of Board of Directors and management of Mauriceville Municipal Utility District, Orange County, TX and is not intended to be, and should not be, used by anyone other than these specified parties.

Steirman, Whitfield and Co. PC

Steirman, Whitfield and Co. PC

Certified Public Accountants and Consultants

Orange, Texas 77630