

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
FORT BEND AND HARRIS COUNTIES, TEXAS
ANNUAL AUDIT REPORT
SEPTEMBER 30, 2016

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February 9, 2017

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kingsbridge Municipal
Utility District
Fort Bend and Harris Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Kingsbridge Municipal Utility District, as of and for the year ended September 30, 2016, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of 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 of 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 assessment of the risk 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Kingsbridge Municipal Utility District as of September 30, 2016, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 24 be presented to supplement the basic financial statements. Such information, although not 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 25 to 43 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

Wolfe & Cozins, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Kingsbridge Municipal Utility District (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2016.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as security service and garbage collection, are minor activities and are not budgeted or accounted for as separate programs. 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 on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the fund is billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2016</u>	<u>2015*</u>	<u>Change</u>
Current and other assets	\$ 10,164,439	\$ 9,895,378	\$ 269,061
Capital assets	<u>25,277,067</u>	<u>24,987,368</u>	<u>289,699</u>
Total assets	<u>35,441,506</u>	<u>34,882,746</u>	<u>558,760</u>
Long-term liabilities	21,321,458	22,545,871	(1,224,413)
Other liabilities	<u>1,968,037</u>	<u>1,699,170</u>	<u>268,867</u>
Total liabilities	<u>23,289,495</u>	<u>24,245,041</u>	<u>(955,546)</u>
Net position:			
Invested in capital assets, net of related debt	2,620,636	1,180,307	1,440,329
Restricted	1,017,671	607,161	410,510
Unrestricted	<u>8,513,704</u>	<u>8,850,237</u>	<u>(336,533)</u>
Total net position	<u>\$ 12,152,011</u>	<u>\$ 10,637,705</u>	<u>\$ 1,514,306</u>

Summary of Changes in Net Position

	<u>2016</u>	<u>2015*</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 3,867,871	\$ 3,884,137	\$ (16,266)
Charges for services	2,957,830	2,850,715	107,115
Other revenues	<u>311,627</u>	<u>283,345</u>	<u>28,282</u>
Total revenues	<u>7,137,328</u>	<u>7,018,197</u>	<u>119,131</u>
Expenses:			
Service operations	4,733,019	4,690,344	42,675
Debt service	<u>890,003</u>	<u>852,966</u>	<u>37,037</u>
Total expenses	<u>5,623,022</u>	<u>5,543,310</u>	<u>79,712</u>
Change in net position	1,514,306	1,474,887	39,419
Net position, beginning of year	<u>10,637,705</u>	<u>9,162,818</u>	<u>1,474,887</u>
Net position, end of year	<u>\$ 12,152,011</u>	<u>\$ 10,637,705</u>	<u>\$ 1,514,306</u>

*Restated. See Note 9 of the Financial Statements.

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2016, were \$9,876,993, an increase of \$42,648 from the prior year.

The General Fund balance decreased by \$341,765, in accordance with the District's financial plan to use accumulated funds for current repairs and maintenance and improvements of District facilities.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance increased by \$384,413, in accordance with the District's financial plan.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison to actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of September 30, 2016, was expected to be \$6,303,560 and the actual end of year fund balance was \$8,486,072.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Land	\$ 807,173	\$ 807,173	\$ 0
Construction in progress	1,387,140	100,951	1,286,189
Water facilities	6,910,798	7,302,696	(391,898)
Sewer facilities	10,439,455	10,810,254	(370,799)
Drainage facilities	<u>5,732,501</u>	<u>5,966,294</u>	<u>(233,793)</u>
Totals	<u>\$ 25,277,067</u>	<u>\$ 24,987,368</u>	<u>\$ 289,699</u>

Changes to capital assets during the fiscal year ended September 30, 2016, are summarized as follows:

Additions:

Share of improvements at joint wastewater treatment plant	1,098,059
Sanitary sewer system engineering expenditures	188,130
Lift station improvements	<u>50,672</u>
Total additions to capital assets	1,336,861

Decreases:

Depreciation	<u>(1,047,162)</u>
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Net change to capital assets	<u>\$ 289,699</u>
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Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2016, are summarized as follows:

Bonded debt payable, beginning of year	\$ 23,650,000
Refunding bonds sold	6,100,000
Bonds refunded	(6,090,000)
Bonds paid	<u>(1,245,000)</u>
Bonded debt payable, end of year	<u>\$ 22,415,000</u>

At September 30, 2016, the District had \$24,470,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of A1 by Moody's. The Series 2007, 2011, 2012 and 2016 bonds are insured by Assured Guaranty Municipal Corp. The insured rating of the Series 2007, 2011 and 2012 bonds is A1 by Moody's. The insured rating of the Series 2016 bonds is AA by S&P. There were no changes in the bond ratings during the fiscal year ended September 30, 2016.

On January 28, 2016, the District issued \$6,100,000 in Series 2016 unlimited tax refunding bonds to refund \$6,090,000 of outstanding Series 2007 bonds. The net proceeds of \$6,221,016 (after payment of \$223,560 in underwriting fees, insurance and other issuance costs plus the District's contribution of \$113,000) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2007 bonds which were called and retired on March 1, 2016. As a result, the refunded bonds are considered defeased and the liability for these bonds has been removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$620,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$445,000.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$45,250,000 for the 2015 tax year (about 9%), due to the increase in assessed valuation on existing property.

Relationship to the City of Houston

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of June 18, 2004. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purpose of imposition of the City's Sales and Use Tax. No City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

Water Supply Issues

The District is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. On September 24, 2003, the Subsidence District issued a District Regulatory Plan (the "Plan") to reduce groundwater withdrawal through conversion to surface water or other alternative water sources in certain areas within the Subsidence District's jurisdiction. Under the Plan, the District was required to have a groundwater reduction plan ("GRP") approved by the Subsidence District by the beginning date of the District's permit term in 2008, or pay a disincentive fee for any groundwater withdrawn in excess of 40% of the District's total water demand. Additional disincentive fees would be imposed under the Plan if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2014, and exceeds 40% of the District's total water demand beginning January of 2025.

The Texas Legislature has created the North Fort Bend Water Authority (the "Authority") and included the District within the boundaries of the Authority. The Authority was created to provide a regional entity to build the necessary facilities to meet the Subsidence District's requirements for conversion from ground water to surface water of all permit holders within its boundaries, including the District. Accordingly, the District is required to pay groundwater reduction plan fees to the Authority, and in turn is entitled to rely upon the Authority's GRP to achieve compliance with the Subsidence District's requirements. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. As of September 30, 2016, the Authority had established a pumpage fee of \$2.75 per 1,000 gallons of groundwater pumped and the rate is expected to increase in the future. As of September 30, 2016, the Authority had established a surface water fee of \$3.10 per 1,000 gallons of surface water purchased and the rate is expected to increase in the future.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that it will pass such fees through to its customers in higher water rates. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds. In the event the Authority fails to commence construction of surface water infrastructure by the deadline established by the Subsidence District, the District and others within the Authority's GRP group could be required to pay the disincentive fee on withdrawn groundwater. This disincentive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water rates. This disincentive fee would be in addition to the Authority's fee.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2016

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS							
Cash, including interest-bearing accounts, Note 7	\$ 272,687	\$ 275,348	\$ 210,761	\$	\$ 758,796	\$	\$ 758,796
Temporary investments, at cost, Note 7	8,165,677		766,943		8,932,620		8,932,620
Receivables:							
Property taxes	27,632		56,563		84,195		84,195
Accrued penalty and interest on property taxes					0	49,524	49,524
Service accounts	143,209				143,209		143,209
Sales and Use Taxes, Note 10	67,670				67,670		67,670
Due from participant in joint water plant, Note 9		14,837			14,837		14,837
Due from other funds	534	143,401			143,935	(143,935)	0
Deposits at joint facilities, Note 9	469,885				469,885	(379,885)	90,000
Prepaid expenditures		228			228		228
Groundwater bank certificates, at cost, Note 12	23,360				23,360		23,360
Capital assets, net of accumulated depreciation, Note 4:							
Capital assets not being depreciated					0	2,194,313	2,194,313
Depreciable capital assets					0	23,082,754	23,082,754
Total assets	\$ 9,170,654	\$ 433,814	\$ 1,034,267	\$ 0	\$ 10,638,735	24,802,771	35,441,506
LIABILITIES							
Accounts payable	\$ 384,637	\$ 17,182	\$ 2,881	\$	\$ 404,700		404,700
Construction contract payable	88,412				88,412		88,412
Accrued interest payable					0	62,705	62,705
Customer and builder deposits	40,500				40,500		40,500
Due to other funds	143,401		534		143,935	(143,935)	0
Other district equity in joint facilities					0	36,747	36,747
Long-term liabilities, Note 5:							
Due within one year					0	1,334,973	1,334,973
Due in more than one year					0	21,321,458	21,321,458
Total liabilities	656,950	17,182	3,415	0	677,547	22,611,948	23,289,495
DEFERRED INFLOWS OF RESOURCES							
Property tax revenues	27,632	0	56,563	0	84,195	(84,195)	0
FUND BALANCES / NET POSITION							
Fund balances:							
Nonspendable:							
Deposits at joint facilities, Note 9	469,885				469,885	(469,885)	0
Groundwater bank certificates, Note 12	23,360				23,360	(23,360)	0
Restricted for:							
Operating reserve, Note 9		416,632			416,632	(416,632)	0
Assigned to:							
Debt service			974,289		974,289	(974,289)	0
Unassigned	7,992,827				7,992,827	(7,992,827)	0
Total fund balances	8,486,072	416,632	974,289	0	9,876,993	(9,876,993)	
Total liabilities, deferred inflows, and fund balances	\$ 9,170,654	\$ 433,814	\$ 1,034,267	\$ 0	\$ 10,638,735		
Net position:							
Invested in capital assets, net of related debt						2,620,636	2,620,636
Restricted for debt service						1,017,671	1,017,671
Unrestricted						8,513,704	8,513,704
Total net position						\$ 12,152,011	\$ 12,152,011

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

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES							
Property taxes	\$ 1,342,410		\$ 2,471,914		\$ 3,814,324	\$ 13,265	\$ 3,827,589
Water service	667,424				667,424		667,424
Sewer service	1,035,616				1,035,616		1,035,616
Surface water fees, Note 11	955,566				955,566		955,566
From participants in joint water plant, Note 9		1,572,167			1,572,167	(1,404,777)	167,390
Penalty and interest	75,167		30,396		105,563	9,886	115,449
Tap connection and inspection fees	10,500				10,500		10,500
Sales and Use Taxes, Note 10	282,039				282,039		282,039
Accrued interest on bonds received at date of sale			15,443		15,443	(15,443)	0
Interest on deposits and investments	25,873	301	3,414		29,588		29,588
Other revenues	46,167				46,167		46,167
Total revenues	4,440,762	1,572,468	2,521,167	0	8,534,397	(1,397,069)	7,137,328
EXPENDITURES / EXPENSES							
Service operations:							
Purchased services, Note 9	1,908,697				1,908,697	(1,404,777)	503,920
Professional fees	215,957	2,225	7,419		225,601		225,601
Contracted services	75,496	67,723	60,442		203,661		203,661
Utilities	11,706	74,598			86,304		86,304
Surface water fees, Note 11		1,164,702			1,164,702		1,164,702
Repairs, maintenance and other operating expenditures	476,719	225,608			702,327		702,327
Security service	139,696				139,696		139,696
Garbage disposal	435,335				435,335		435,335
Administrative expenditures	168,610	37,612	4,639		210,861		210,861
Depreciation					0	1,047,162	1,047,162
Capital outlay / non-capital outlay	1,350,311				1,350,311	(1,336,861)	13,450
Debt service:							
Principal retirement			1,245,000		1,245,000	(1,245,000)	0
Refunding contribution/Bond iss. exp.			113,000		113,000	110,560	223,560
Interest and fees			706,254		706,254	(39,811)	666,443
Total expenditures / expenses	4,782,527	1,572,468	2,136,754	0	8,491,749	(2,868,727)	5,623,022
Excess (deficiency) of revenues over expenditures	(341,765)	0	384,413	0	42,648	1,471,658	1,514,306
OTHER FINANCING SOURCES (USES)							
Bonds issued, Note 5			6,100,000		6,100,000	(6,100,000)	0
Bond issuance premium, Note 5			231,576		231,576	(231,576)	0
Refunding bond issuance expenditures, Note 5			(110,560)		(110,560)	110,560	0
Payment to refunding escrow agent, Note 5			(6,221,016)		(6,221,016)	6,221,016	0
Total other financing sources (uses)	0	0	0	0	0	0	0
Net change in fund balances / net position	(341,765)	0	384,413	0	42,648	1,471,658	1,514,306
Beginning of year, restated, Note 9	8,827,837	416,632	589,876	0	9,834,345	803,360	10,637,705
End of year	\$ 8,486,072	\$ 416,632	\$ 974,289	\$ 0	\$ 9,876,993	\$ 2,275,018	\$ 12,152,011

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

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1: REPORTING ENTITY

Kingsbridge Municipal Utility District (the "District") was created by an order of the Texas Water Commission (now the Texas Commission on Environmental Quality) effective December 22, 1978, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on December 28, 1978, and the first bonds were sold on August 13, 1980. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of 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. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

The District is a participant in the Renn Road Wastewater Treatment Plant (the "Plant"). Oversight of the Plant is exercised by the Board of Directors of Renn Road Municipal Utility District. Based on the criteria established above, the Plant's financial activity has not been included in the District's financial statements. Transactions with and summary financial information of this joint venture are described in Note 9.

The District is the owner and manager of the Kingsbridge Joint Water Supply Plant (the "Plant"). Oversight of the Plant is exercised by the Board of Directors of the District and financial activity of the Plant has been included as a component unit in the financial statements of the District. The Plant's General Fund has been reported as the Special Revenue Fund of the District. Transactions with this joint venture are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the Kingsbridge Joint Water Supply Plant.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 9,876,993
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		25,277,067
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (22,415,000)	
Less: Deferred charge on refunding (to be amortized as interest expense)	460,486	
Add: Net issuance premium (to be amortized as interest expense)	<u>(701,917)</u>	(22,656,431)
The assets in the special revenue fund are owned by the District and other participants in the joint venture:		
The District's equity	(379,885)	
Other participants' equity	<u>(36,747)</u>	(416,632)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	49,524	
Uncollected property taxes	<u>84,195</u>	133,719
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(62,705)</u>
Net position, end of year		<u>\$ 12,152,011</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ 42,648
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 1,336,861	
Depreciation	<u>(1,047,162)</u>	289,699
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Bonds issued	(6,100,000)	
Payment to escrow agent for refunding	6,221,016	
Principal reduction	<u>1,245,000</u>	1,366,016
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(33,983)	
Issuance premium net of discount	<u>(181,403)</u>	(215,386)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	9,886	
Uncollected property taxes	<u>13,265</u>	23,151
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>8,178</u>
Change in net position		<u>\$ 1,514,306</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 807,173	\$	\$	\$ 807,173
Construction in progress	<u>100,951</u>	<u>1,286,189</u>		<u>1,387,140</u>
Total capital assets not being depreciated	<u>908,124</u>	<u>1,286,189</u>	<u>0</u>	<u>2,194,313</u>
Depreciable capital assets:				
Water system	12,253,754	50,672		12,304,426
Sewer system	17,210,909			17,210,909
Drainage system	<u>10,511,440</u>			<u>10,511,440</u>
Total depreciable capital assets	<u>39,976,103</u>	<u>50,672</u>	<u>0</u>	<u>40,026,775</u>
Less accumulated depreciation for:				
Water system	(4,951,058)	(391,898)		(5,342,956)
Sewer system	(6,400,655)	(421,471)		(6,822,126)
Drainage system	<u>(4,545,146)</u>	<u>(233,793)</u>		<u>(4,778,939)</u>
Total accumulated depreciation	<u>(15,896,859)</u>	<u>(1,047,162)</u>	<u>0</u>	<u>(16,944,021)</u>
Total depreciable capital assets, net	<u>24,079,244</u>	<u>(996,490)</u>	<u>0</u>	<u>23,082,754</u>
Total capital assets, net	<u>\$ 24,987,368</u>	<u>\$ 289,699</u>	<u>\$ 0</u>	<u>\$ 25,277,067</u>
Changes to capital assets:				
Capital outlay		\$ 1,336,861	\$	
Less depreciation expense for the fiscal year		<u>(1,047,162)</u>		
Net increases / decreases to capital assets		<u>\$ 289,699</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 23,650,000	\$ 6,100,000	\$ 7,335,000	\$ 22,415,000	\$ 1,330,000
Less deferred amounts:					
For issuance (discounts) premiums	416,162	231,576	(54,179)	701,917	56,942
For refunding	<u>(259,101)</u>	<u>(235,368)</u>	<u>(33,983)</u>	<u>(460,486)</u>	<u>(51,969)</u>
Total bonds payable	<u>23,807,061</u>	<u>6,096,208</u>	<u>7,246,838</u>	<u>22,656,431</u>	<u>1,334,973</u>
Total long-term liabilities	<u>\$ 23,807,061</u>	<u>\$ 6,096,208</u>	<u>\$ 7,246,838</u>	<u>\$ 22,656,431</u>	<u>\$ 1,334,973</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Bonds payable, beginning of year		\$ 23,650,000
Bonds paid		(1,245,000)
Refunding bonds sold:		
Proceeds	\$ 6,331,576	
Premium	<u>(231,576)</u>	6,100,000
Bonds refunded		<u>(6,090,000)</u>
Bonds payable, end of year		<u>\$ 22,415,000</u>

As of September 30, 2016, the debt service requirements on the bonds payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,245,000	\$ 830,552	\$ 2,075,552
2017	1,300,000	789,502	2,089,502
2018	1,360,000	746,451	2,106,451
2019	1,415,000	699,961	2,114,961
2020	1,480,000	653,335	2,133,335
2021 - 2025	8,340,000	2,465,070	10,805,070
2026 - 2030	6,280,000	1,046,954	7,326,954
2031 - 2035	<u>2,230,000</u>	<u>265,604</u>	<u>2,495,604</u>
	<u>\$ 23,650,000</u>	<u>\$ 7,497,429</u>	<u>\$ 31,147,429</u>

Bonds voted	\$ 66,255,000
Bonds approved for sale and sold	41,785,000
Bonds voted and not issued	24,470,000
Refunding bonds voted	One and one-half times the amount of outstanding bonds
Refunding bonds approved for sale and sold	30,635,000

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The bond issues payable at September 30, 2016, were as follows:

	<u>Series 2007</u>	<u>Refunding Series 2011</u>	<u>Refunding Series 2012</u>
Amounts outstanding, September 30, 2016	\$210,000	\$7,385,000	\$8,720,000
Interest rates	4.00%	3.00% to 4.00%	2.00% to 3.50%
Maturity dates, serially beginning/ending	March 1, 2017	March 1, 2017/2026	March 1, 2017/2030
Interest payment dates	March 1	March 1/September 1	March 1/September 1
Callable dates	March 1, 2016*	March 1, 2018*	March 1, 2019*

*Or any date thereafter at par plus unpaid accrued interest, in whole or in part, at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Refunding Series 2016**</u>
Amounts outstanding, September 30, 2016	\$6,100,000
Interest rates	2.00% to 4.00%
Maturity dates, serially beginning/ending	March 1, 2017/2035
Interest payment dates	March 1/September 1
Callable dates	March 1, 2021*

*Or any date thereafter at par plus unpaid accrued interest, in whole or in part, at the option of the District.

**On January 28, 2016, the District issued \$6,100,000 in Series 2016 unlimited tax refunding bonds to refund \$6,090,000 of outstanding Series 2007 bonds. The net proceeds of \$6,221,016 (after payment of \$223,560 in underwriting fees, insurance and other issuance costs plus the District's contribution of \$113,000) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2007 bonds which were called and retired on March 1, 2016. As a result, the refunded bonds are considered defeased and the liability for these bonds has been removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$620,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$445,000.

Developer Construction Commitments and Liabilities

At September 30, 2016, there were no developer construction commitments or liabilities.

NOTE 6: PROPERTY TAXES

The Fort Bend Central Appraisal District and the Harris County Appraisal District have the responsibility for appraising property for all taxing units within the respective counties as of January 1 of each year, subject to review and change by each county's Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held January 20, 1979, the voters within the District authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On October 8, 2015, the District levied the following ad valorem taxes for the 2015 tax year on the adjusted taxable valuation of \$538,647,080:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.4600	\$ 2,477,777
Maintenance	<u>0.2500</u>	<u>1,346,618</u>
	<u>\$ 0.7100</u>	<u>\$ 3,824,395</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2015 tax year total property tax levy	\$ 3,824,395
Appraisal district adjustments to prior year taxes	<u>3,194</u>
Statement of Activities property tax revenues	<u>\$ 3,827,589</u>

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$758,796 and the bank balance was \$886,162. Of the bank balance, \$438,665 was covered by federal insurance and \$447,497 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$8,932,620.

Deposits and temporary investments restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$ 210,761
Temporary investments	<u>766,943</u>
	<u>\$ 977,704</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2016, the District had physical damage and boiler and machinery coverage of \$6,712,000, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, consultant's crime coverage of \$100,000 and a tax assessor-collector bond of \$250,000.

NOTE 9: JOINT VENTURES

Water Supply Plant

The District has entered into a Purchase Agreement for Water Supply Plant and Water Supply Agreement with Fort Bend County Fresh Water Supply District No. 2 ("FW2"). Under the terms of the Agreement, FW2 purchased capacity for 441 equivalent single family connections for \$442,756. Upon the purchase, FW2 was responsible and liable for its pro rata ownership (8.82%) of the costs of any capital improvements as set forth in the Water Supply Agreement. The District is the owner and manager of the Kingsbridge Joint Water Supply Plant (the "Plant"). Oversight of the Plant is exercised by the Board of Directors of the District and financial activity of the Plant has been included in the financial statements of the District. The Plant's General Fund has been reported as the Special Revenue Fund of the District. Construction costs of the Plant are funded by the contribution of funds from each participating district. Expansion costs of the Plant are to be based upon each participant's share of the expansion. The Plant issues no debt.

Each participant is responsible only for its share of the operating costs of the Plant. Participants are billed a monthly amount which is based upon actual costs incurred during the prior month as allocated based upon capacity owned, the number of equivalent connections within each participating district, and the gallons billed by each participating district. The District has contributed \$379,885 of the Plant's \$416,632 operating reserve. The District's share of operating costs were \$1,404,777 for the fiscal year ended September 30, 2016.

During the fiscal year ended September 30, 2016, It was determined that surface water fees were incorrectly allocated between the District and FW2 in prior years. Accordingly, the District adjusted the beginning of year fund balances to properly state the financial position of the District. The effect of this adjustment was to decrease the General Fund beginning fund balance by \$17,411.

Wastewater Treatment Plant

The District is a participant in the Renn Road Municipal Utility District Regional Waste Treatment Plant (the "Plant"). As of September 30, 2016, the District owned 60% of the capacity in the Plant. Renn Road Municipal Utility District is the operator of the Plant and holds title for the benefit of the participants. Construction costs of the Plant were funded by the contribution of funds from each participating district. The Plant issues no debt. Each participant records its share of the capital assets of the joint venture in its financial statements.

Monthly operating costs are to be shared based on capacity acquired and the number of connections served. During the year ended September 30, 2016, the District accrued \$503,920 for operating expenditures and \$1,098,059 for capital outlay expenditures under the terms of the agreement. At September 30, 2016, the District had \$90,000 on deposit at the Plant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following summary financial data of the Plant's General Fund is presented for the Plant's fiscal year ended September 30, 2016:

	<u>Plant Total</u>	<u>District's Share</u>
Total assets	\$ 245,270	
Total liabilities	<u>(95,270)</u>	
Total fund equity	150,000	\$ 90,000
Operating reserves	<u>0</u>	<u>0</u>
Designated fund balance	<u>\$ 150,000</u>	<u>\$ 90,000</u>
Total revenues	\$ 2,670,082	\$ 1,601,979
Total expenditures	<u>(2,670,082)</u>	<u>(1,601,979)</u>
Excess revenues (expenditures)	0	0
Fund balance, beginning of year	<u>150,000</u>	<u>90,000</u>
Fund balance, end of year	<u>\$ 150,000</u>	<u>\$ 90,000</u>

NOTE 10: STRATEGIC PARTNERSHIP AGREEMENT

Effective June 18, 2004, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purpose of imposition of the City's Sales and Use Tax. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex all or part of the District or commence any action to annex all or part of the District for full purposes during the term of the Agreement.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$282,039 from the City for the fiscal year ended September 30, 2016, of which \$67,670 was receivable at that date.

NOTE 11: REGIONAL WATER AUTHORITY

The District is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. On September 24, 2003, the Subsidence District issued a District Regulatory Plan (the "Plan") to reduce groundwater withdrawal through conversion to surface water or other alternative water sources in certain areas within the Subsidence District's jurisdiction. Under the Plan, the District is required to have a groundwater reduction plan ("GRP") approved by the Subsidence District by the beginning date of the District's permit term in 2010, or pay a disincentive fee for any groundwater withdrawn in excess of 40% of the District's total water demand. Additional disincentive fees would be imposed under the Plan if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2014, and exceeds 40% of the District's total water demand beginning January of 2025.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Texas Legislature has created the North Fort Bend Water Authority (the "Authority") and included the District within the boundaries of the Authority. The Authority was created to provide a regional entity to build the necessary facilities to meet the Subsidence District's requirements for conversion from ground water to surface water of all permit holders within its boundaries, including the District. Accordingly, the District is required to pay groundwater reduction plan fees to the Authority, and in turn is entitled to rely upon the Authority's GRP to achieve compliance with the Subsidence District's requirements. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. As of September 30, 2016, the Authority had established a pumpage fee of \$2.75 per 1,000 gallons of groundwater pumped, payable monthly. The pumpage fee is expected to increase in the future. As of September 30, 2016, the Authority had established a surface water fee of \$3.10 per 1,000 gallons of surface water purchased, payable monthly. The surface water fee is expected to increase in the future. The well pumpage fees payable by the Joint Water Plant (see Note 9) to the Authority for the fiscal year ended September 30, 2016, were \$1,164,702. The District billed its customers \$955,566 during the fiscal year to pay for the District's share of fees charged by the Authority.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that it will pass such fees through to its customers in higher water and sewer rates. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds. In the event the Authority fails to commence construction of surface water infrastructure by the deadline established by the Subsidence District, the District and others within the Authority's GRP group could be required to pay the disincentive fee on withdrawn groundwater. This disincentive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water rates. This disincentive fee would be in addition to the Authority's fee.

NOTE 12: GROUNDWATER BANK CERTIFICATES

The District has received Groundwater Bank certificates directly from the issuer, the Fort Bend Subsidence District (the "FBSD"). In late 2009, the FBSD adopted a policy detailing the issuance and redemption of Groundwater Bank certificates. These certificates expire in 20 years and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the FBSD. Certificates can also be used in lieu of a disincentive fee assessed by the FBSD for ground water pumpage in excess of the District's permit as amended. At September 30, 2016, the District had in its possession certificates totaling 56,112 thousand gallons of water. The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$23,360 at September 30, 2016.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 1,323,000	\$ 1,323,000	\$ 1,342,410	\$ 19,410
Water service	672,000	672,000	667,424	(4,576)
Sewer service	1,032,000	1,032,000	1,035,616	3,616
Surface water fees	820,520	820,520	955,566	135,046
Penalty	84,000	84,000	75,167	(8,833)
Tap connection and inspection fees	7,080	7,080	10,500	3,420
Sales and Use Taxes	240,000	240,000	282,039	42,039
Interest on deposits and investments	3,780	3,780	25,873	22,093
Inspection fees and other revenues	31,800	31,800	46,167	14,367
TOTAL REVENUES	<u>4,214,180</u>	<u>4,214,180</u>	<u>4,440,762</u>	<u>226,582</u>
EXPENDITURES				
Service operations:				
Purchased services	2,020,608	2,020,608	1,908,697	(111,911)
Professional fees	299,600	299,600	215,957	(83,643)
Contracted services	77,600	77,600	75,496	(2,104)
Utilities	9,600	9,600	11,706	2,106
Repairs, maintenance and other operating expenditures	516,520	516,520	476,719	(39,801)
Security service	128,400	128,400	139,696	11,296
Garbage disposal	433,031	433,031	435,335	2,304
Administrative expenditures	235,844	235,844	168,610	(67,234)
Capital outlay	3,017,254	3,017,254	1,350,311	(1,666,943)
TOTAL EXPENDITURES	<u>6,738,457</u>	<u>6,738,457</u>	<u>4,782,527</u>	<u>(1,955,930)</u>
EXCESS REVENUES (EXPENDITURES)	(2,524,277)	(2,524,277)	(341,765)	2,182,512
FUND BALANCE, BEGINNING OF YEAR	<u>8,827,837</u>	<u>8,827,837</u>	<u>8,827,837</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 6,303,560</u>	<u>\$ 6,303,560</u>	<u>\$ 8,486,072</u>	<u>\$ 2,182,512</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND

SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From participants in plant:				
Kingsbridge Municipal Utility District	\$ 1,553,162	\$ 1,553,162	\$ 1,404,777	\$ (148,385)
Fort Bend County Fresh Water Supply District No. 2	184,214	184,214	167,390	(16,824)
Interest on deposits and investments	<u>0</u>	<u>0</u>	<u>301</u>	<u>301</u>
TOTAL REVENUES	<u>1,737,376</u>	<u>1,737,376</u>	<u>1,572,468</u>	<u>(164,908)</u>
EXPENDITURES				
Service operations:				
Professional fees	79,200	79,200	2,225	(76,975)
Contracted services	67,256	67,256	67,723	467
Utilities	67,200	67,200	74,598	7,398
Surface water fees	1,062,000	1,062,000	1,164,702	102,702
Repairs, maintenance and other operating expenditures	448,900	448,900	225,608	(223,292)
Administrative expenditures	12,820	12,820	37,612	24,792
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>1,737,376</u>	<u>1,737,376</u>	<u>1,572,468</u>	<u>(164,908)</u>
EXCESS REVENUES (EXPENDITURES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Increase (decrease) in operating reserve	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE, BEGINNING OF YEAR	<u>416,632</u>	<u>416,632</u>	<u>416,632</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 416,632</u>	<u>\$ 416,632</u>	<u>\$ 416,632</u>	<u>\$ 0</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
SEPTEMBER 30, 2016

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2016

1. Services Provided by the District during the Fiscal Year:

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input checked="" type="checkbox"/> Security |
| <input checked="" type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other | | |

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$15.50	8,000	N	\$0.75 1.00 1.25	8,001 to 12,000 12,001 to 15,000 Over 15,000
WASTEWATER:	\$31.00		Y		

SURCHARGE: \$3.10 per 1,000 gallons of water used. – NFBWA surface water fees.

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$17.00 Wastewater: \$31.00 Surcharge: \$31.00

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES (Continued)
SEPTEMBER 30, 2016

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	2,526	2,493	1.0	2,493
1"	170	168	2.5	420
1-1/2"	30	29	5.0	145
2"	56	53	8.0	424
3"	1	1	15.0	15
4"	1	1	25.0	25
6"	1	1	50.0	50
8"	4	4	80.0	320
10"	0	0	115.0	0
Total Water	<u>2,789</u>	<u>2,750</u>		<u>3,892</u>
Total Wastewater	<u>2,687</u>	<u>2,654</u>	1.0	<u>2,654</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 399,747
 Gallons billed to customers (unaudited): 371,466

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 93%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT					
Purchased services:					
Water service	\$1,404,777	\$	\$	\$	\$1,404,777
Sewer service	503,920				503,920
	<u>1,908,697</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,908,697</u>
Professional fees:					
Auditing	10,600	2,225			12,825
Legal	106,730		7,419		114,149
Financial advisor	750				750
Engineering	97,877				97,877
	<u>215,957</u>	<u>2,225</u>	<u>7,419</u>	<u>0</u>	<u>225,601</u>
Contracted services:					
Bookkeeping	29,483	9,450			38,933
Operation and billing	46,013	58,273			104,286
Tax assessor-collector			36,433		36,433
Central appraisal district			24,009		24,009
	<u>75,496</u>	<u>67,723</u>	<u>60,442</u>	<u>0</u>	<u>203,661</u>
Utilities	<u>11,706</u>	<u>74,598</u>	<u>0</u>	<u>0</u>	<u>86,304</u>
Surface water fees:					
Ground water pumpage fees		109,886			109,886
Purchased surface water		1,054,816			1,054,816
	<u>0</u>	<u>1,164,702</u>	<u>0</u>	<u>0</u>	<u>1,164,702</u>
Repairs, maintenance and other operating expenditures:					
Repairs and maintenance	389,761	213,720			603,481
Laboratory costs	35,203				35,203
Inspection costs	32,374				32,374
Reconnection costs	10,694				10,694
TCEQ assessment	8,687				8,687
Other	0	11,888			11,888
	<u>476,719</u>	<u>225,608</u>	<u>0</u>	<u>0</u>	<u>702,327</u>
Security service	<u>139,696</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>139,696</u>
Garbage disposal	<u>435,335</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>435,335</u>
Administrative expenditures:					
Director's fees	29,100				29,100
Office supplies and postage	38,339	796			39,135
Insurance	6,853	9,460	1,250		17,563
Website and newsletter	75,721	27,356			103,077
Permit fees	5,877				5,877
Other	12,720		3,389		16,109
	<u>168,610</u>	<u>37,612</u>	<u>4,639</u>	<u>0</u>	<u>210,861</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICTEXPENDITURES (Continued)FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY					
Authorized expenditures	\$ 1,347,861	\$	\$	\$	\$ 1,347,861
Tap connection costs	2,450				2,450
	<u>1,350,311</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,350,311</u>
DEBT SERVICE					
Principal retirement	<u>0</u>	<u>0</u>	<u>1,245,000</u>	<u>0</u>	<u>1,245,000</u>
Refunding contribution	<u>0</u>	<u>0</u>	<u>113,000</u>	<u>0</u>	<u>113,000</u>
Interest and fees:					
Interest			703,879		703,879
Paying agent fees			2,375		2,375
	<u>0</u>	<u>0</u>	<u>706,254</u>	<u>0</u>	<u>706,254</u>
TOTAL EXPENDITURES	<u>\$ 4,782,527</u>	<u>\$1,572,468</u>	<u>\$ 2,136,754</u>	<u>\$ 0</u>	<u>\$ 8,491,749</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS					
Cash receipts from revenues excluding maintenance taxes	\$ 3,080,425	\$1,603,163	\$ 2,521,167	\$	\$ 7,204,755
Maintenance tax collections			1,342,410		1,342,410
Maintenance tax transfers	1,343,169				1,343,169
Proceeds from sale of bonds			6,331,576		6,331,576
Overpayments from taxpayers			18,936		18,936
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>4,423,594</u>	<u>1,603,163</u>	<u>10,214,089</u>	<u>0</u>	<u>16,240,846</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS					
Cash disbursements for:					
Current expenditures	3,270,579	1,584,328	71,640		4,926,547
Capital outlay	1,261,899				1,261,899
Debt service			2,064,254		2,064,254
Payment to refunding escrow agent			6,221,016		6,221,016
Refunding bond issuance expenditures			110,560		110,560
Decrease in customer and builder deposits	75				75
Maintenance tax transfers			1,343,169		1,343,169
Refund of taxpayer overpayments			18,936		18,936
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>4,532,553</u>	<u>1,584,328</u>	<u>9,829,575</u>	<u>0</u>	<u>15,946,456</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	(108,959)	18,835	384,514	0	294,390
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>8,547,323</u>	<u>256,512</u>	<u>593,190</u>	<u>0</u>	<u>9,397,025</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 8,438,364</u>	<u>\$ 275,347</u>	<u>\$ 977,704</u>	<u>\$ 0</u>	<u>\$ 9,691,415</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
SCHEDULE OF TEMPORARY INVESTMENTS
SEPTEMBER 30, 2016

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
TexPool				
No. 791200003	Market	On demand	<u>\$ 8,165,677</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
TexPool				
No. 791200002	Market	On demand	<u>\$ 766,943</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 8,932,620</u>	<u>\$ 0</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 22,400	\$ 48,530
Additions and corrections to prior year taxes	<u>1,024</u>	<u>2,170</u>
Adjusted receivable, beginning of year	23,424	50,700
2015 ADJUSTED TAX ROLL	<u>1,346,618</u>	<u>2,477,777</u>
Total to be accounted for	1,370,042	2,528,477
Tax collections: Current tax year	(1,336,252)	(2,458,704)
Prior tax years	<u>(6,158)</u>	<u>(13,210)</u>
RECEIVABLE, END OF YEAR	<u>\$ 27,632</u>	<u>\$ 56,563</u>
RECEIVABLE, BY TAX YEAR		
PRIOR	\$ 440	\$ 1,405
2006	234	679
2007	641	1,588
2008	798	1,693
2009	845	1,791
2010	1,299	2,754
2011	1,622	3,439
2012	2,958	6,271
2013	3,318	7,033
2014	5,111	10,837
2015	<u>10,366</u>	<u>19,073</u>
RECEIVABLE, END OF YEAR	<u>\$ 27,632</u>	<u>\$ 56,563</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 122,613,749	\$ 122,143,027	\$ 119,533,913	\$ 119,526,575
Improvements	470,326,457	417,011,021	392,310,440	381,689,452
Personal property	39,064,993	36,987,987	35,668,372	30,404,984
Less exemptions	<u>(93,358,119)</u>	<u>(82,741,696)</u>	<u>(75,054,105)</u>	<u>(75,742,033)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 538,647,080</u>	 <u>\$ 493,400,339</u>	 <u>\$ 472,458,620</u>	 <u>\$ 455,878,978</u>
WAITING FOR BREAKDOWNS				
TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.46000	\$ 0.53000	\$ 0.53000	\$ 0.53000
Maintenance tax rates*	<u>0.25000</u>	<u>0.25000</u>	<u>0.25000</u>	<u>0.25000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.71000</u>	 <u>\$ 0.78000</u>	 <u>\$ 0.78000</u>	 <u>\$ 0.78000</u>
 TAX ROLLS	 <u>\$ 3,824,395</u>	 <u>\$ 3,848,522</u>	 <u>\$ 3,685,177</u>	 <u>\$ 3,555,856</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.2 %</u>	 <u>99.6 %</u>	 <u>99.7 %</u>	 <u>99.7 %</u>

*Maximum tax rate approved by voters on January 20, 1979: \$0.25

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
SEPTEMBER 30, 2016

<u>Series 2007</u>			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2017	\$ 210,000	\$ 4,200	\$ 214,200
<u>Series 2011</u>			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2017	\$ 590,000	\$ 271,338	\$ 861,338
2018	625,000	247,037	872,037
2019	655,000	221,437	876,437
2020	690,000	197,987	887,987
2021	715,000	176,018	891,018
2022	745,000	149,500	894,500
2023	780,000	119,000	899,000
2024	820,000	87,000	907,000
2025	860,000	53,400	913,400
2026	905,000	18,100	923,100
TOTALS	\$ 7,385,000	\$ 1,540,817	\$ 8,925,817

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
SEPTEMBER 30, 2016

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2012</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2017	\$ 500,000	\$ 250,025	\$ 750,025
2018	515,000	239,875	754,875
2019	530,000	228,100	758,100
2020	545,000	214,662	759,662
2021	565,000	200,788	765,788
2022	585,000	186,412	771,412
2023	600,000	170,100	770,100
2024	625,000	151,725	776,725
2025	645,000	132,675	777,675
2026	670,000	112,950	782,950
2027	695,000	90,738	785,738
2028	720,000	65,975	785,975
2029	745,000	40,337	785,337
2030	780,000	13,650	793,650
TOTALS	<u>\$ 8,720,000</u>	<u>\$ 2,098,012</u>	<u>\$ 10,818,012</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2016

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2016</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2017	\$ 30,000	\$ 205,600	\$ 235,600
2018	245,000	202,850	447,850
2019	250,000	197,900	447,900
2020	265,000	191,425	456,425
2021	270,000	183,400	453,400
2022	280,000	175,150	455,150
2023	290,000	166,600	456,600
2024	305,000	157,675	462,675
2025	310,000	148,450	458,450
2026	320,000	139,000	459,000
2027	330,000	129,250	459,250
2028	350,000	117,300	467,300
2029	360,000	103,100	463,100
2030	375,000	88,400	463,400
2031	390,000	75,050	465,050
2032	405,000	61,100	466,100
2033	425,000	44,500	469,500
2034	440,000	27,200	467,200
2035	460,000	9,200	469,200
TOTALS	<u>\$ 6,100,000</u>	<u>\$ 2,423,150</u>	<u>\$ 8,523,150</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2016

Due During Fiscal Years Ending September 30	Annual Requirements for All Series		
	Total Principal Due	Total Interest Due	Total
2017	\$ 1,330,000	\$ 731,163	\$ 2,061,163
2018	1,385,000	689,762	2,074,762
2019	1,435,000	647,437	2,082,437
2020	1,500,000	604,074	2,104,074
2021	1,550,000	560,206	2,110,206
2022	1,610,000	511,062	2,121,062
2023	1,670,000	455,700	2,125,700
2024	1,750,000	396,400	2,146,400
2025	1,815,000	334,525	2,149,525
2026	1,895,000	270,050	2,165,050
2027	1,025,000	219,988	1,244,988
2028	1,070,000	183,275	1,253,275
2029	1,105,000	143,437	1,248,437
2030	1,155,000	102,050	1,257,050
2031	390,000	75,050	465,050
2032	405,000	61,100	466,100
2033	425,000	44,500	469,500
2034	440,000	27,200	467,200
2035	460,000	9,200	469,200
TOTALS	<u>\$ 22,415,000</u>	<u>\$ 6,066,179</u>	<u>\$ 28,481,179</u>

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>(1)</u>
Bond Series:	2007
Interest Rate:	4.00%
Dates Interest Payable:	March 1
Maturity Dates:	March 1, 2017
Bonds Outstanding at Beginning of Current Year	\$ 6,500,000
Less Retirements	<u>(6,290,000)</u>
Bonds Outstanding at September 30, 2016	<u>\$ 210,000</u>
Current Year Interest Paid	<u>\$ 12,400</u>

Bond Descriptions and Original Amount of Issue

(1) Kingsbridge Municipal Utility District Unlimited Tax Bonds, Series 2007 (\$7,225,000)

Paying Agent/Registrar

(1) Wells Fargo Bank Texas, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 66,255,000	\$ 0	See Note 3
Amount Issued:	41,785,000		
Remaining to be Issued:	24,470,000		

Net Debt Service Fund deposits and investments balances as of September 30, 2016: \$ 416,632
Average annual debt service payment for remaining term of all debt: 1,499,009

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>Totals</u>
Bond Series:	2011	2012	2016	
Interest Rate:	3.00% to 4.00%	2.00% to 3.50%	2.00% to 4.00%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	March 1/ September 1	
Maturity Dates:	March 1, 2017/2026	March 1, 2017/2030	March 1, 2017/2035	
Bonds Outstanding at Beginning of Current Year	\$ 7,945,000	\$ 9,205,000	\$	\$ 23,650,000
Add Bonds Sold			6,100,000	6,100,000
Less Retirements	<u>(560,000)</u>	<u>(485,000)</u>	<u>0</u>	<u>(7,335,000)</u>
Bonds Outstanding at September 30, 2016	<u>\$ 7,385,000</u>	<u>\$ 8,720,000</u>	<u>\$ 6,100,000</u>	<u>\$ 22,415,000</u>
Current Year Interest Paid	<u>\$ 294,338</u>	<u>\$ 259,875</u>	<u>\$ 137,266</u>	<u>\$ 703,879</u>

Bond Descriptions and Original Amount of Issue

- (2) Kingsbridge Municipal Utility District Unlimited Tax Refunding Bonds, Series 2011 (\$8,170,000)
- (3) Kingsbridge Municipal Utility District Unlimited Tax Refunding Bonds, Series 2012 (\$9,435,000)
- (4) Kingsbridge Municipal Utility District Unlimited Tax Refunding Bonds, Series 2016 (\$6,100,000)

Paying Agent/Registrar

- (2) (3) Wells Fargo Bank Texas, N.A., Dallas, Texas
- (4) Amegy Bank, a division of ZB, N.A.

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND
FOR YEARS ENDED SEPTEMBER 30

	<u>AMOUNT*</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
REVENUES										
Property taxes	\$ 1,342,410	\$ 1,231,510	\$ 1,176,399	\$ 1,144,829	\$ 1,151,943	30.3 %	29.4 %	28.4 %	27.4 %	29.3 %
Water service	667,424	661,798	665,480	671,973	760,035	15.0	15.7	16.0	16.1	19.3
Sewer service	1,035,616	1,036,618	1,026,307	1,055,262	948,951	23.3	24.6	24.7	25.2	24.1
Surface water fees	955,566	866,608	786,501	744,016	655,081	21.5	20.6	18.9	17.8	16.6
Penalty	75,167	72,993	82,301	85,505	62,101	1.7	1.7	2.0	2.0	1.6
Tap connection and inspection fees	10,500	22,188	4,381	65,826	21,516	0.2	0.5	0.1	1.6	0.5
Sales and Use Taxes	282,039	277,902	376,215	373,090	317,038	6.4	6.6	9.1	8.9	8.0
Interest on deposits and investments	25,873	4,522	2,688	6,358	6,122	0.6	0.1	0.1	0.2	0.2
Other revenues	46,167	31,644	30,502	35,040	16,872	1.0	0.8	0.7	0.8	0.4
TOTAL REVENUES	4,440,762	4,205,783	4,150,774	4,181,899	3,939,659	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased services*	1,908,697	1,816,493	1,762,740	1,484,577	1,371,965	42.9	43.2	42.5	35.5	34.7
Professional fees	215,957	264,103	261,735	238,400	196,457	4.9	6.3	6.3	5.7	5.0
Contracted services	75,496	70,350	69,835	72,377	368,556	1.7	1.7	1.7	1.7	9.4
Utilities	11,706	8,948	8,948	7,436	11,081	0.3	0.2	0.2	0.2	0.3
Repairs, maintenance and other operating expenditures	476,719	496,623	536,956	463,602	322,828	10.8	11.8	12.9	11.1	8.2
Security service	139,696	125,392	8,192	0	0	3.1	3.0	0.2	0.0	0.0
Garbage disposal	435,335	430,408	420,908	495,957	523,128	9.8	10.2	10.1	11.9	13.3
Administrative expenditures	168,610	168,840	158,349	231,199	188,140	3.8	4.0	3.8	5.5	4.8
Capital outlay	1,350,311	136,843	1,122,410	1,316,772	536,008	30.4	3.3	27.0	31.5	13.6
TOTAL EXPENDITURES	4,782,527	3,518,000	4,350,073	4,310,320	3,518,163	107.7	83.7	104.7	103.1	89.3
EXCESS REVENUES (EXPENDITURES)	\$ (341,765)	\$ 687,783	\$ (199,299)	\$ (128,421)	\$ 421,496	(7.7) %	16.3 %	(4.7) %	(3.1) %	10.7 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,750	2,752	2,754	2,755	2,737					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,654	2,656	2,660	2,509	2,672					

*Restated for years prior to 2016.

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED SEPTEMBER 30

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
REVENUES										
Property taxes	\$ 2,471,914	\$ 2,611,185	\$ 2,493,966	\$ 2,427,628	\$ 2,442,638	98.1 %	98.5 %	98.8 %	97.9 %	98.1 %
Penalty and interest	30,396	40,782	29,805	48,323	29,782	1.2	1.5	1.2	2.0	1.2
Accrued interest on bonds received at date of sale	15,443	0	0	0	14,214	0.6	0.0	0.0	0.0	0.6
Interest on deposits and investments	<u>3,414</u>	<u>599</u>	<u>399</u>	<u>1,481</u>	<u>2,301</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>
TOTAL REVENUES	<u>2,521,167</u>	<u>2,652,566</u>	<u>2,524,170</u>	<u>2,477,432</u>	<u>2,488,935</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	7,419	11,006	6,597	13,903	7,940	0.3	0.4	0.3	0.6	0.3
Contracted services	60,442	61,848	60,484	55,141	57,520	2.4	2.3	2.4	2.2	2.3
Other expenditures	4,639	5,671	6,853	5,584	5,879	0.2	0.2	0.3	0.2	0.2
Debt service:										
Principal retirement	1,245,000	1,855,000	1,785,000	1,655,000	1,720,000	49.3	70.0	70.7	66.8	69.1
Refunding contribution	113,000	0	0	0	7,000	4.5	0.0	0.0	0.0	0.3
Interest and fees	<u>706,254</u>	<u>891,351</u>	<u>970,476</u>	<u>1,045,389</u>	<u>1,285,560</u>	<u>28.0</u>	<u>33.6</u>	<u>38.4</u>	<u>42.2</u>	<u>51.7</u>
TOTAL EXPENDITURES	<u>2,136,754</u>	<u>2,824,876</u>	<u>2,829,410</u>	<u>2,775,017</u>	<u>3,083,899</u>	<u>84.7</u>	<u>106.5</u>	<u>112.1</u>	<u>112.0</u>	<u>123.9</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 384,413</u>	<u>\$ (172,310)</u>	<u>\$ (305,240)</u>	<u>\$ (297,585)</u>	<u>\$ (594,964)</u>	<u>15.3 %</u>	<u>(6.5) %</u>	<u>(12.1) %</u>	<u>(12.0) %</u>	<u>(23.9) %</u>

KINGSBRIDGE MUNICIPAL UTILITY DISTRICTBOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2016

Complete District Mailing Address: Kingsbridge Municipal Utility District
 c/o Johnson Petrov LLP
 2929 Allen Parkway, Suite 3150
 Houston, Texas 77019

District Business Telephone No.: 713-489-8977

Submission date of the most recent District Registration Form: November 6, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Robert C. Shindler, Jr. 14526 Royal Hill Dr. Houston, Texas 77083	Elected 5/10/14- 5/05/18	\$ 7,200	\$ 530	President
John Buhner 15203 Del Barton Houston, Texas 77083	Elected 5/10/14- 5/05/18	3,750	107	Vice President
Juanita Yarneau 14427 Royal Hill Houston, Texas 77083	Elected 5/07/16- 5/02/20	5,250	1,230	Secretary
Carl A. Peters 8811 Norham Dr. Houston, Texas 77083	Elected 5/07/16- 5/02/20	7,200	1,137	Treasurer/ Investment Officer
John Pertgen 14514 Legend Falls Ct. Houston, Texas 77083	Elected 5/07/16- 5/02/20	5,700	915	Director

See accompanying independent auditor's report.

KINGSBRIDGE MUNICIPAL UTILITY DISTRICTBOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2016

<u>CONSULTANTS</u>			
<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Johnson Petrov LLP 2929 Allen Parkway, Suite 3150 Houston, Texas 77019	3/06/97	\$ 106,730 63,500 Bonds	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008	3/14/96	7,419	Delinquent Tax Attorney
McLennan & Associates, L.P. 3100 S. Gessner, Suite 310 Houston, Texas 77063	3/10/05	40,524 1,540 Bonds	Bookkeeper
Si Environmental, LLC 6420 Reading Road Rosenberg, Texas 77471	6/14/12	464,955	Operator
Blue Umbrella 14100 Old Richmond Road, Suite B Sugar Land, Texas 77498	12/08/11	108,082	Website/ Communication Consultant
Miller & Associates 3664 Walnut Bend Lane, Suite C100 Houston, Texas 77042	7/21/88	286,007	Engineer
Bob Leared 11111 Katy Freeway, Suite 725 Houston, Texas 77079	2/08/79	38,078	Tax Assessor- Collector
Fort Bend Central Appraisal District 2801 B. F. Terry Rosenberg, Texas 77471	Legislative Action	23,270	Central Appraisal District
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	739	Central Appraisal District
The GMS Group, Inc. 5075 Westheimer, Suite 1175 Houston, Texas 77056	4/03/97	750 62,035 Bonds	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C-2 Stafford, Texas 77477	Prior to 10/01/92	12,825 500 Bonds	Independent Auditor

See accompanying independent auditor's report.