

Cornerstones Municipal Utility District

Fort Bend and Harris Counties, Texas

Independent Auditor's Report and Financial Statements

September 30, 2017



Cornerstones Municipal Utility District
September 30, 2017

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities of Cornerstones Municipal Utility District (the District), which are comprised of a statement of net position as of September 30, 2017, and a statement of activities for the year then ended; as well as the accompanying financial statements of each major fund, which for governmental funds are comprised of a balance sheet as of September 30, 2017, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 major fund of the District as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary information listed in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

BKD, LLP

Houston, Texas
February 4, 2018

Cornerstones Municipal Utility District

Management's Discussion and Analysis

September 30, 2017

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

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, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste 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, liabilities, and deferred inflows and outflows of resources of 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 assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' 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. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 year.

Cornerstones Municipal Utility District

Management's Discussion and Analysis (Continued)

September 30, 2017

Although the statement of activities looks different from a commercial enterprise's statement of income, 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 Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes 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, sewer and drainage 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 assets, liabilities, and deferred inflows and outflows of resources 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 is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to 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.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2017	2016
Current and other assets	\$ 3,888,788	\$ 3,701,596
Capital assets	7,104,887	7,181,743
Total assets	10,993,675	10,883,339
Deferred outflows of resources	3,434	4,141
Total assets and deferred outflows of resources	\$ 10,997,109	\$ 10,887,480
Long-term liabilities	\$ 1,884,741	\$ 2,347,785
Other liabilities	306,555	214,729
Total liabilities	2,191,296	2,562,514
Net position:		
Net investment in capital assets	5,223,580	4,838,099
Restricted	194,432	194,038
Unrestricted	3,387,801	3,292,829
Total net position	\$ 8,805,813	\$ 8,324,966

The total net position of the District increased by \$480,847, or about 6 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

Summary of Changes in Net Position

	2017	2016
Revenues:		
Property taxes	\$ 1,263,178	\$ 1,263,756
Sales tax rebates	185,893	199,530
Charges for services	1,777,137	1,649,925
Other revenues	109,491	71,686
Total revenues	3,335,699	3,184,897
Expenses:		
Services	2,442,410	1,975,043
Depreciation	371,241	362,348
Debt service	41,201	62,475
Total expenses	2,854,852	2,399,866
Change in net position	480,847	785,031
Net position, beginning of year	8,324,966	7,539,935
Net position, end of year	\$ 8,805,813	\$ 8,324,966

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2017, were \$3,532,252, an increase of \$97,288 from the prior year.

The general fund's fund balance increased by \$96,079 due to service, sales tax rebate and property tax revenues exceeding service operations and capital outlay expenditures.

The debt service fund's fund balance increased by \$1,209 due to property tax revenues exceeding principal and interest requirements.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to water revenues, capital outlay and professional fees expenditures being lower than anticipated and regional water authority fees being greater than anticipated. In addition, sales tax rebates revenues were not budgeted. The fund balance as of September 30, 2017, was expected to be \$2,924,024 and the actual end-of-year fund balance was \$3,359,403.

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2017	2016
Land and improvements	\$ 460,190	\$ 460,190
Construction in progress	280,546	164,036
Water facilities	1,974,400	2,086,191
Wastewater facilities	3,339,160	3,347,511
Drainage facilities	1,050,591	1,123,815
Total capital assets	\$ 7,104,887	\$ 7,181,743

During the current year, additions to capital assets were as follows:

Construction in progress related to sanitary sewer cleaning and televising, Phase 2, water well No. 2, and well No. 2 discharge line	\$ 169,423
Sanitary sewer rehabilitation, Phase 1	128,212
Total additions to capital assets	\$ 297,635

Debt

The changes in the debt position of the District during the fiscal year ended September 30, 2017, are summarized as follows.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

Long-term debt payable, beginning of year	\$	2,347,785
Decreases in long-term debt		<u>(463,044)</u>
Long-term debt payable, end of year	\$	<u><u>1,884,741</u></u>

At September 30, 2017, the District had \$6,465,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$4,210,000 authorized, but unissued, for refunding purposes.

The District's bonds carry an underlying rating of "A+" by Standard & Poor's. The Series 2011 refunding bonds carry a "AA" rating by virtue of insurance issued by Assured Guaranty Municipal Corp.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent, except as set forth below.

Strategic Partnership Agreement

Effective May 14, 2013, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years following the date of the Agreement, at which time the City has the option to annex the District if it chooses to do so.

Cornerstones Municipal Utility District
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 771,930	\$ 62,750	\$ 834,680	\$ -	\$ 834,680
Certificates of deposit	586,894	-	586,894	-	586,894
Short-term investments	2,099,127	104,564	2,203,691	-	2,203,691
Receivables:					
Property taxes	12,603	10,240	22,843	-	22,843
Service accounts	149,733	-	149,733	-	149,733
Sales tax rebates	27,649	-	27,649	15,795	43,444
Accrued penalty and interest	-	-	-	11,343	11,343
Accrued interest	2,218	-	2,218	-	2,218
Interfund receivable	-	7,342	7,342	(7,342)	-
Operating reserve	30,000	-	30,000	-	30,000
Prepaid expenditures	3,942	-	3,942	-	3,942
Capital assets (net of accumulated depreciation):					
Land and improvements	-	-	-	460,190	460,190
Construction in progress	-	-	-	280,546	280,546
Infrastructure	-	-	-	6,364,151	6,364,151
Total assets	<u>3,684,096</u>	<u>184,896</u>	<u>3,868,992</u>	<u>7,124,683</u>	<u>10,993,675</u>
Deferred Outflows of Resources					
Deferred amount on debt refundings	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,434</u>	<u>3,434</u>
Total assets and deferred outflows of resources	<u>\$ 3,684,096</u>	<u>\$ 184,896</u>	<u>\$ 3,868,992</u>	<u>\$ 7,128,117</u>	<u>\$ 10,997,109</u>

Cornerstones Municipal Utility District
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
September 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Liabilities					
Accounts payable	\$ 248,254	\$ 1,807	\$ 250,061	\$ -	\$ 250,061
Customer deposits	48,100	-	48,100	-	48,100
Retainage payable	4,494	-	4,494	-	4,494
Due to others	3,900	-	3,900	-	3,900
Interfund payable	7,342	-	7,342	(7,342)	-
Long-term liabilities:					
Due within one year	-	-	-	450,000	450,000
Due after one year	-	-	-	1,434,741	1,434,741
Total liabilities	312,090	1,807	313,897	1,877,399	2,191,296
Deferred Inflows of Resources					
Deferred property tax revenues	12,603	10,240	22,843	(22,843)	0
Fund Balances/Net Position					
Fund balances:					
Nonspendable, prepaid expenditures	3,942	-	3,942	(3,942)	-
Restricted, unlimited tax bonds	-	172,849	172,849	(172,849)	-
Assigned:					
Operating reserve	30,000	-	30,000	(30,000)	-
Future expenditures	3,149,800	-	3,149,800	(3,149,800)	-
Unassigned	175,661	-	175,661	(175,661)	-
Total fund balances	3,359,403	172,849	3,532,252	(3,532,252)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 3,684,096	\$ 184,896	\$ 3,868,992		
Net position:					
Net investment in capital assets				5,223,580	5,223,580
Restricted for debt service				194,432	194,432
Unrestricted				3,387,801	3,387,801
Total net position				\$ 8,805,813	\$ 8,805,813

Cornerstones Municipal Utility District
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended September 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 737,483	\$ 526,610	\$ 1,264,093	\$ (915)	\$ 1,263,178
Sales tax rebates	186,642	-	186,642	(749)	185,893
Water service	634,838	-	634,838	-	634,838
Sewer service	460,681	-	460,681	-	460,681
Regional water fee	681,618	-	681,618	-	681,618
Penalty and interest	26,292	20,874	47,166	(258)	46,908
Tap connection and inspection fees	37,435	-	37,435	-	37,435
Investment income	20,366	2,806	23,172	-	23,172
Contractual payment	-	1,976	1,976	-	1,976
	<u>2,785,355</u>	<u>552,266</u>	<u>3,337,621</u>	<u>(1,922)</u>	<u>3,335,699</u>
Total revenues					
Expenditures/Expenses					
Service operations:					
Purchased services	290,732	-	290,732	-	290,732
Regional water fee	750,157	-	750,157	-	750,157
Professional fees	137,356	3,478	140,834	-	140,834
Contracted services	335,819	29,877	365,696	-	365,696
Utilities	81,041	-	81,041	-	81,041
Recreational facilities	32,825	-	32,825	-	32,825
Repairs and maintenance	303,666	-	303,666	385,393	689,059
Other expenditures	75,519	6,952	82,471	5,000	87,471
Tap connections	4,595	-	4,595	-	4,595
Capital outlay	677,566	-	677,566	(677,566)	-
Depreciation	-	-	-	371,241	371,241
Debt service:					
Principal retirement	-	425,000	425,000	(425,000)	-
Interest and fees	-	85,750	85,750	(44,549)	41,201
	<u>2,689,276</u>	<u>551,057</u>	<u>3,240,333</u>	<u>(385,481)</u>	<u>2,854,852</u>
Total expenditures/expenses					
Excess of Revenues Over Expenditures	96,079	1,209	97,288	(97,288)	
Change in Net Position				480,847	480,847
Fund Balances/Net Position					
Beginning of year	3,263,324	171,640	3,434,964	-	8,324,966
End of year	<u>\$ 3,359,403</u>	<u>\$ 172,849</u>	<u>\$ 3,532,252</u>	<u>\$ 0</u>	<u>\$ 8,805,813</u>

Cornerstones Municipal Utility District

Notes to Financial Statements

September 30, 2017

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

Cornerstones Municipal Utility District (the District) was created by an order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective February 23, 1978, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District also provides solid waste disposal service.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

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

Government-wide and Fund Financial Statements

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, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Cornerstones Municipal Utility District

Notes to Financial Statements

September 30, 2017

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

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

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

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

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

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

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

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

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

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

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Cornerstones Municipal Utility District

Notes to Financial Statements

September 30, 2017

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis.

Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2017, include collections during the current period or within 60 days of year-end related to the 2016 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended September 30, 2017, the 2016 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

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

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

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

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds 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 debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally, it is the District's policy to use restricted resources first.

Reconciliation of Government-wide and Fund Financial Statements

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 7,104,887
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	22,843
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	11,343
Sales tax rebates are not receivable in the current period and are not reported in the funds.	15,795

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	\$ 3,434
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	(1,884,741)
Adjustment to fund balances to arrive at net position.	<u>\$ 5,273,561</u>

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

Change in fund balances.	\$ 97,288
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and noncapitalized costs exceeded capital outlay expenditures in the current year.	(84,068)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	425,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(1,922)
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 governmental funds.	<u>44,549</u>
Change in net position of governmental activities.	<u>\$ 480,847</u>

Note 2: Deposits, Investments and Investment Income

Deposits

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

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

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

At September 30, 2017, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At September 30, 2017, the District had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
TexPool	<u>\$ 2,203,691</u>	<u>\$ 2,203,691</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2017, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet at September 30, 2017, as follows:

Carrying value:		
Deposits	\$	1,421,574
Investments		2,203,691
Total	\$	3,625,265

Included in the following statement of net position captions:

Cash	\$	834,680
Certificates of deposit		586,894
Short-term investments		2,203,691
Total	\$	3,625,265

Investment Income

Investment income of \$23,172 for the year ended September 30, 2017, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended September 30, 2017, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Reclassi- fications	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 460,190	\$ -	\$ -	\$ 460,190
Construction in progress	164,036	169,423	(52,913)	280,546
Total capital assets, non-depreciable	624,226	169,423	(52,913)	740,736

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Governmental Activities (Continued)	Balances, Beginning of Year	Additions	Reclassi- fications	Balances, End of Year
Capital assets, depreciable:				
Water production and distribution facilities	\$ 4,470,814	\$ -	\$ -	\$ 4,470,814
Wastewater collection and treatment facilities	7,291,583	128,212	49,663	7,469,458
Drainage facilities	3,284,971	-	-	3,284,971
Total capital assets, depreciable	<u>15,047,368</u>	<u>128,212</u>	<u>49,663</u>	<u>15,225,243</u>
Less accumulated depreciation:				
Water production and distribution facilities	(2,384,623)	(111,791)	-	(2,496,414)
Wastewater collection and treatment facilities	(3,944,072)	(186,226)	-	(4,130,298)
Drainage facilities	(2,161,156)	(73,224)	-	(2,234,380)
Total accumulated depreciation	<u>(8,489,851)</u>	<u>(371,241)</u>	<u>0</u>	<u>(8,861,092)</u>
Total governmental activities, net	<u>\$ 7,181,743</u>	<u>\$ (73,606)</u>	<u>\$ (3,250)</u>	<u>\$ 7,104,887</u>

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended September 30, 2017, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 2,125,000	\$ 425,000	\$ 1,700,000	\$ 450,000
Add premiums on bonds	222,785	38,044	184,741	-
Total governmental activities long-term liabilities	<u>\$ 2,347,785</u>	<u>\$ 463,044</u>	<u>\$ 1,884,741</u>	<u>\$ 450,000</u>

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

General Obligation Bonds

	Refunding Series 2011
Amount outstanding, September 30, 2017	\$1,700,000
Interest rates	4.00%
Maturity dates, serially beginning/ending	October 1, 2018/2021
Interest payment dates	April 1/ October 1
Callable date	N/A

Annual Debt Service Requirements

The District has been paying the amount due October 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in future years. The schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at September 30, 2017.

Year	Principal	Interest	Total
2018	\$ 450,000	\$ 68,000	\$ 518,000
2019	465,000	50,000	515,000
2020	490,000	31,400	521,400
2021	295,000	11,800	306,800
Total	\$ 1,700,000	\$ 161,200	\$ 1,861,200

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

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Bonds voted	\$ 22,545,000
Bonds sold	16,080,000
Refunding bonds voted	13,000,000
Refunding bond authorization used	8,790,000

Note 5: Significant Bond Resolution and Commission Requirements

The Bond Resolution requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended September 30, 2017, the District levied an ad valorem debt service tax at the rate of \$0.1250 per \$100 of assessed valuation, which resulted in a tax levy of \$527,221 on the taxable valuation of \$421,776,901 for the 2016 tax year. The interest and principal requirements paid from the tax revenues and available resources are \$510,000.

Note 6: Maintenance Taxes

At an election held April 1, 1978, voters authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended September 30, 2017, the District levied an ad valorem maintenance tax at the rate of \$0.1750 per \$100 of assessed valuation, which resulted in a tax levy of \$738,110 on the taxable valuation of \$421,776,901 for the 2016 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of September 30, 2017, the Authority was billing the District \$3.05 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

Note 8: Water Supply Agreements

On September 15, 1986, the District and Memorial Municipal Utility District (Memorial) entered into a cost-sharing agreement for the construction and financing of an extension to the waterline system on Mason Road. The District was responsible for the design and construction of the waterline and has paid all construction and related costs. The waterline is owned 50 percent by each district.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

The District has also entered into an emergency water agreement with Cinco Municipal Utility District No. 1 (Cinco No. 1) dated September 11, 1986. Under the agreement, as amended, the using district will pay the supplying district \$1.25 per 1,000 gallons of water.

On January 20, 1997, amended August 25, 2016, the District entered into an emergency water supply agreement with Harris County Municipal Utility District No. 81 (District No. 81). The supplying district will receive payment on an "in-kind" basis or at the rate of \$0.75 per 1,000 gallons of water supplied.

The District has also entered into an amended and restated water supply contract with Memorial dated September 1, 2000, which was amended June 9, 2004, March 1, 2007, June 2, 2008, and August 4, 2008. Under the agreement, the receiving district will pay at the same rate charged to commercial customers of the District pursuant to the District's rates in effect at the time interim water service is supplied.

The District incurred no costs under these agreements during the current year.

Note 9: Regional Sewage Treatment Plant

On May 15, 1978, the District, Memorial, Mason Creek Utility District (Mason Creek) and District No. 81 entered into a 40-year agreement to construct and operate the Cinco Regional Sewage Treatment Plant (the Plant) and trunk sewer lines. This agreement has been amended on August 25, 1978, June 14, 1979, and September 13, 1982. On July 31, 1987, this agreement was amended to include Cinco No. 1, whereby Cinco No. 1 will lease temporary excess capacity in the Plant from Memorial. A sixth amendment was made to the contract on August 18, 1987. In addition, Cinco No. 1 has purchased a pro rata share of excess capacity in the trunk sewer conveyance line from each of the original participants.

On December 11, 1997, the participants in the Plant entered into a restated agreement and was extended for a 40-year term from that date. The restated agreement amended the manner in which monthly operating costs are shared. The restatement also redefined the participants' responsibility for the maintenance of joint conveyance lines whereby costs are shared based on capacity in the lines owned by the participants. On May 1, 2005, the restated agreement was amended to remove Cinco No. 1 as a party to the agreement.

Construction and related costs were shared based on the pro rata share of capacity acquired by each participant. The District's share of construction and related costs was \$1,957,772.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Each participant's capacity and percent of ownership are as follows:

Participants	Gallons-per-day Capacity	Percentage
The District	1,000,000	33.33
Memorial	940,000	31.33
Mason Creek	500,000	16.67
District No. 81	560,000	18.67
Totals	<u>3,000,000</u>	<u>100.00</u>

Memorial holds title for the benefit of the participants. During 1993, District No. 81 became the operator of the Plant. Participants are billed monthly for the fixed and variable operating costs of the Plant based on each participant's percentage of ownership in the Plant and number of pro rata connections, respectively. During the current year, the District was billed \$290,732 for its share of operating costs. The District has paid \$30,000 as its share of the operating and maintenance reserve.

The following schedule is condensed audited financial information of the Plant as of and for the year ended December 31, 2016:

	General Fund
Total assets	<u>\$ 200,438</u>
Total liabilities	\$ 80,438
Total fund balance	<u>120,000</u>
Total liabilities and fund balance	<u>\$ 200,438</u>
Total revenues	\$ 769,819
Total expenditures	<u>769,819</u>
Excess revenues	<u>\$ 0</u>

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Note 10: Strategic Partnership Agreement

Effective May 14, 2013, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. During the current year, the District recorded \$185,893 in revenues related to the Agreement.

Note 11: Risk Management

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

Required Supplementary Information

Cornerstones Municipal Utility District
Budgetary Comparison Schedule – General Fund
Year Ended September 30, 2017

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 720,000	\$ 737,483	\$ 17,483
Sales tax rebates	-	186,642	186,642
Water service	691,800	634,838	(56,962)
Sewer service	460,000	460,681	681
Regional water fee	680,000	681,618	1,618
Penalty and interest	25,500	26,292	792
Tap connection and inspection fees	24,000	37,435	13,435
Investment income	6,500	20,366	13,866
	<u>2,607,800</u>	<u>2,785,355</u>	<u>177,555</u>
Expenditures			
Service operations:			
Purchased services	310,000	290,732	19,268
Regional water fee	700,000	750,157	(50,157)
Professional fees	191,100	137,356	53,744
Contracted services	341,400	335,819	5,581
Utilities	98,500	81,041	17,459
Recreational facilities	43,000	32,825	10,175
Repairs and maintenance	327,500	303,666	23,834
Other expenditures	95,600	75,519	20,081
Tap connections	-	4,595	(4,595)
Capital outlay	840,000	677,566	162,434
	<u>2,947,100</u>	<u>2,689,276</u>	<u>257,824</u>
Excess (Deficiency) of Revenues Over Expenditures	(339,300)	96,079	435,379
Fund Balance, Beginning of Year	<u>3,263,324</u>	<u>3,263,324</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 2,924,024</u></u>	<u><u>\$ 3,359,403</u></u>	<u><u>\$ 435,379</u></u>

Cornerstones Municipal Utility District
Notes to Required Supplementary Information
September 30, 2017

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2017.

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

Other Information

Cornerstones Municipal Utility District
Other Schedules Included Within This Report
September 30, 2017

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-26
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Cornerstones Municipal Utility District
Schedule of Services and Rates
Year Ended September 30, 2017

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input checked="" type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input 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 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 18.00	10,000	N	\$ 2.00	10,001 to 20,000
				\$ 3.00	20,001 to 30,000
				\$ 4.00	30,001 to No Limit
Wastewater:	\$ 23.10	30,000	N	\$ 1.00	30,001 to No Limit
Regional water fee:	\$ 3.05	1,000	N	\$ 3.05	1 to No Limit

Does the District employ winter averaging for wastewater usage?

Yes No

Total charges per 10,000 gallons usage (including fees):

Water \$ 48.50 Wastewater \$ 23.10

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	1,088	1,075	x1.0	1,075
1"	340	338	x2.5	845
1 1/2"	21	21	x5.0	105
2"	58	58	x8.0	464
3"	-	-	x15.0	-
4"	1	1	x25.0	25
6"	1	1	x50.0	50
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	1,509	1,494		2,564
Total wastewater	1,445	1,432	x1.0	1,432

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	246,869
Gallons billed to customers:	232,669
Water accountability ratio (gallons billed/gallons pumped):	94.25%

*"ESFC" means equivalent single-family connections

Cornerstones Municipal Utility District
Schedule of General Fund Expenditures
Year Ended September 30, 2017

Personnel (including benefits)		\$ -
Professional Fees		
Auditing	\$ 15,000	
Legal	62,496	
Engineering	59,860	
Financial advisor	-	
	-	137,356
Purchased Services for Resale		
Bulk water and wastewater service purchases		290,732
Regional Water Fee		750,157
Contracted Services		
Bookkeeping	22,200	
General manager	-	
Appraisal district	-	
Tax collector	-	
Secretary	1,800	
Other contracted services	89,997	
	89,997	113,997
Utilities		81,041
Repairs and Maintenance		303,666
Administrative Expenditures		
Directors' fees	23,550	
Office supplies	16,222	
Insurance	11,543	
Other administrative expenditures	24,204	
	24,204	75,519
Capital Outlay		
Capitalized assets	290,423	
Expenditures not capitalized	387,143	
	387,143	677,566
Tap Connection Expenditures		4,595
Solid Waste Disposal		221,822
Fire Fighting		-
Parks and Recreation		32,825
Other Expenditures		-
		-
Total expenditures		\$ 2,689,276

Cornerstones Municipal Utility District
Schedule of Temporary Investments
September 30, 2017

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificates of Deposit				
No. 1852002435	0.75%	03/06/18	\$ 96,437	\$ 412
No. 5598	1.16%	03/22/18	244,232	1,490
No. 2559000003	1.30%	08/25/18	246,225	316
TexPool	1.02%	Demand	<u>2,099,127</u>	<u>-</u>
			2,686,021	2,218
Debt Service Fund				
TexPool	1.02%	Demand	<u>104,564</u>	<u>-</u>
Totals			<u><u>\$ 2,790,585</u></u>	<u><u>\$ 2,218</u></u>

Cornerstones Municipal Utility District
Analysis of Taxes Levied and Receivable
Year Ended September 30, 2017

	Maintenance Taxes	Debt Service Taxes
	<u> </u>	<u> </u>
Receivable, Beginning of Year	\$ 12,961	\$ 10,797
Additions and corrections to prior years' taxes	<u>(985)</u>	<u>(1,168)</u>
Adjusted receivable, beginning of year	<u>11,976</u>	<u>9,629</u>
2016 Original Tax Levy	698,648	499,034
Additions and corrections	<u>39,462</u>	<u>28,187</u>
Adjusted tax levy	<u>738,110</u>	<u>527,221</u>
Total to be accounted for	750,086	536,850
Tax collections: Current year	(732,906)	(523,505)
Prior years	<u>(4,577)</u>	<u>(3,105)</u>
Receivable, end of year	<u><u>\$ 12,603</u></u>	<u><u>\$ 10,240</u></u>
Receivable, by Years		
2016	\$ 5,203	\$ 3,717
2015	1,684	1,095
2014	1,309	1,034
2013	993	840
2012	781	660
2011	780	698
2010	551	551
2009	516	545
2008	523	581
2007	153	211
2006	<u>110</u>	<u>308</u>
Receivable, end of year	<u><u>\$ 12,603</u></u>	<u><u>\$ 10,240</u></u>

Cornerstones Municipal Utility District
Analysis of Taxes Levied and Receivable (Continued)
Year Ended September 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Property Valuations				
Land	\$ 101,226,456	\$ 94,302,546	\$ 91,931,466	\$ 84,229,635
Improvements	425,994,670	394,932,510	340,619,042	294,566,689
Personal property	16,871,076	15,989,242	14,939,518	13,319,204
Exemptions	<u>(122,315,301)</u>	<u>(114,088,986)</u>	<u>(87,251,996)</u>	<u>(63,579,352)</u>
 Total property valuations	 <u>\$ 421,776,901</u>	 <u>\$ 391,135,312</u>	 <u>\$ 360,238,030</u>	 <u>\$ 328,536,176</u>
 Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.1250	\$ 0.1300	\$ 0.1500	\$ 0.1650
Maintenance tax rates*	<u>0.1750</u>	<u>0.2000</u>	<u>0.1900</u>	<u>0.1950</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.3000</u>	 <u>\$ 0.3300</u>	 <u>\$ 0.3400</u>	 <u>\$ 0.3600</u>
 Tax Levy	 <u>\$ 1,265,331</u>	 <u>\$ 1,290,747</u>	 <u>\$ 1,224,809</u>	 <u>\$ 1,182,730</u>
 Percent of Taxes Collected to Taxes Levied**	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>

*Maximum tax rate approved by voters: \$0.25 on April 1, 1978

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Cornerstones Municipal Utility District
Schedule of Long-term Service Requirements by Years
September 30, 2017

Due During Fiscal Years Ending September 30	Refunding Series 2011		
	Principal Due October 1	Interest Due April 1, October 1	Total
2018	\$ 450,000	\$ 68,000	\$ 518,000
2019	465,000	50,000	515,000
2020	490,000	31,400	521,400
2021	295,000	11,800	306,800
Totals	<u>\$ 1,700,000</u>	<u>\$ 161,200</u>	<u>\$ 1,861,200</u>

The District pays the amount due October 1 and this schedule has been prepared assuming this practice will continue in the future.

Cornerstones Municipal Utility District
Changes in Long-term Bonded Debt
Year Ended September 30, 2017

	Bond Issue
	Refunding Series 2011
Interest rates	4.00%
Dates interest payable	April 1/October 1
Maturity dates	October 1, 2018/2021
Bonds outstanding, beginning of current year	\$ 2,125,000
Retirements, principal	425,000
Bonds outstanding, end of current year	\$ 1,700,000
Interest paid during current year	\$ 85,000

Paying agent's name and address:

Series 2011 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 22,545,000	0	\$ 13,000,000
Amount authorization used	\$ 16,080,000	0	\$ 8,790,000
Remaining to be issued	\$ 6,465,000	0	\$ 4,210,000

Debt service fund cash and temporary investment balances as of September 30, 2017: \$ 167,314

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 465,300

Cornerstones Municipal Utility District
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended September 30,

	Amounts				
	2017	2016	2015	2014	2013
General Fund					
Revenues					
Property taxes	\$ 737,483	\$ 767,032	\$ 682,981	\$ 634,546	\$ 601,724
Sales tax rebates	186,642	199,945	182,165	184,131	-
Water service	634,838	604,218	600,166	636,140	654,973
Sewer service	460,681	455,162	467,310	461,577	440,786
Regional water fee	681,618	590,545	516,978	491,125	467,153
Penalty and interest	26,292	23,316	23,705	23,646	29,733
Tap connection and inspection fees	37,435	22,336	20,413	28,325	67,279
Investment income	20,366	12,114	9,434	9,101	11,525
Total revenues	<u>2,785,355</u>	<u>2,674,668</u>	<u>2,503,152</u>	<u>2,477,591</u>	<u>2,273,173</u>
Expenditures					
Service operations:					
Purchased services	290,732	247,625	286,714	274,017	314,466
Regional water fees	750,157	641,109	561,126	709,992	512,952
Professional fees	137,356	135,725	132,620	122,807	92,734
Contracted services	335,819	329,895	342,599	337,209	306,782
Utilities	81,041	78,875	88,584	109,286	87,920
Recreational facilities	32,825	31,014	29,065	36,220	51,274
Repairs and maintenance	303,666	317,497	312,795	256,035	279,508
Other expenditures	75,519	72,122	69,754	75,902	67,572
Tap connections	4,595	-	-	2,575	20,392
Capital outlay	677,566	226,362	352,081	1,394,716	280,525
Total expenditures	<u>2,689,276</u>	<u>2,080,224</u>	<u>2,175,338</u>	<u>3,318,759</u>	<u>2,014,125</u>
Excess (Deficiency) of Revenues Over Expenditures	96,079	594,444	327,814	(841,168)	259,048
Other Financing Sources					
Interfund transfers in	-	-	-	41,982	-
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	96,079	594,444	327,814	(799,186)	259,048
Fund Balance, Beginning of Year	<u>3,263,324</u>	<u>2,668,880</u>	<u>2,341,066</u>	<u>3,140,252</u>	<u>2,881,204</u>
Fund Balance, End of Year	<u>\$ 3,359,403</u>	<u>\$ 3,263,324</u>	<u>\$ 2,668,880</u>	<u>\$ 2,341,066</u>	<u>\$ 3,140,252</u>
Total Active Retail Water Connections	<u>1,494</u>	<u>1,499</u>	<u>1,500</u>	<u>1,498</u>	<u>1,497</u>
Total Active Retail Wastewater Connections	<u>1,432</u>	<u>1,437</u>	<u>1,440</u>	<u>1,416</u>	<u>1,407</u>

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
26.5 %	28.7 %	27.3 %	25.6 %	26.5 %
6.7	7.5	7.3	7.4	-
22.8	22.6	23.9	25.7	29.8
16.5	17.0	18.7	18.6	19.4
24.5	22.1	20.7	19.8	20.6
1.0	0.9	0.9	1.3	1.1
1.3	0.8	0.8	1.2	2.1
0.7	0.4	0.4	0.4	0.5
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
10.4	9.3	11.5	11.1	13.8
26.9	24.0	22.4	28.7	22.6
4.9	5.1	5.3	5.0	4.1
12.1	12.3	13.7	13.6	13.5
2.9	2.9	3.5	4.4	3.9
1.2	1.2	1.2	1.5	2.3
10.9	11.9	12.5	10.3	12.3
2.7	2.7	2.8	3.1	2.9
0.2	-	-	0.1	0.9
24.3	8.5	14.1	56.2	12.3
<u>96.5</u>	<u>77.9</u>	<u>87.0</u>	<u>134.0</u>	<u>88.6</u>
<u><u>3.5 %</u></u>	<u><u>22.1 %</u></u>	<u><u>13.0 %</u></u>	<u><u>(34.0) %</u></u>	<u><u>11.4 %</u></u>

Cornerstones Municipal Utility District
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended September 30,

	Amounts				
	2017	2016	2015	2014	2013
Debt Service Fund					
Revenues					
Property taxes	\$ 526,610	\$ 497,091	\$ 539,399	\$ 537,080	\$ 509,364
Penalty and interest	20,874	9,945	17,932	12,733	6,537
Investment income	2,806	1,158	1,162	828	1,006
Contractual payment	1,976	1,953	1,923	1,955	2,035
Total revenues	<u>552,266</u>	<u>510,147</u>	<u>560,416</u>	<u>552,596</u>	<u>518,942</u>
Expenditures					
Current:					
Professional fees	3,478	4,793	2,318	2,516	2,749
Contracted services	29,877	30,278	30,599	29,627	28,610
Other expenditures	6,952	3,330	3,528	2,790	6,645
Debt service:					
Principal retirement	425,000	410,000	400,000	380,000	380,000
Interest and fees	85,750	98,800	110,050	121,200	128,800
Total expenditures	<u>551,057</u>	<u>547,201</u>	<u>546,495</u>	<u>536,133</u>	<u>546,804</u>
Excess (Deficiency) of Revenues Over Expenditures	1,209	(37,054)	13,921	16,463	(27,862)
Other Financing Uses					
Interfund transfers out	-	-	-	(41,982)	-
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	1,209	(37,054)	13,921	(25,519)	(27,862)
Fund Balance, Beginning of Year	<u>171,640</u>	<u>208,694</u>	<u>194,773</u>	<u>220,292</u>	<u>248,154</u>
Fund Balance, End of Year	<u>\$ 172,849</u>	<u>\$ 171,640</u>	<u>\$ 208,694</u>	<u>\$ 194,773</u>	<u>\$ 220,292</u>

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
95.4 %	97.4 %	96.3 %	97.2 %	98.2 %
3.7	2.0	3.2	2.3	1.3
0.5	0.2	0.2	0.2	0.2
0.4	0.4	0.3	0.3	0.3
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.6	0.9	0.4	0.5	0.5
5.4	5.9	5.5	5.4	5.5
1.3	0.7	0.6	0.5	1.3
77.0	80.4	71.4	68.7	73.3
<u>15.5</u>	<u>19.4</u>	<u>19.6</u>	<u>21.9</u>	<u>24.8</u>
<u>99.8</u>	<u>107.3</u>	<u>97.5</u>	<u>97.0</u>	<u>105.4</u>
<u><u>0.2 %</u></u>	<u><u>(7.3) %</u></u>	<u><u>2.5 %</u></u>	<u><u>3.0 %</u></u>	<u><u>(5.4) %</u></u>

Cornerstones Municipal Utility District
Board Members, Key Personnel and Consultants
Year Ended September 30, 2017

Complete District mailing address:	Cornerstones Municipal Utility District c/o Young & Brooks 10000 Memorial Drive, Suite 260 Houston, Texas 77024
District business telephone number:	713.951.0800
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	January 17, 2017
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Morgan Rene Stagg	Elected 05/14- 05/18	\$ 7,050	\$ 1,403	President
Michael D. Chittwood	Elected 05/14- 05/18	3,150	422	Vice President
Caleb T. Burson	Elected 05/16- 05/20	3,300	0	Secretary
Stephen A. Talecki	Elected 05/16- 05/20	4,800	758	Assistant Vice President
Lionel A. (Tony) Garza	Elected 05/16- 05/20	5,250	595	Assistant Secretary

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cornerstones Municipal Utility District
Board Members, Key Personnel and Consultants (Continued)
Year Ended September 30, 2017

Consultants	Date Hired	Fees and Expense Reimbursements	Title
BKD, LLP	09/18/85	\$ 15,000	Auditor
Robert W. Baird & Co.	05/18/15	0	Financial Advisor
Fort Bend Central Appraisal District	Legislative Action	992	Appraiser
Harris County Appraisal District	Legislative Action	5,981	Appraiser
IDS	12/12/16	165,194	Engineer
Landev Engineers, Inc.	10/23/89	44,068	Former Engineer
Bob Leared	03/06/78	23,936	Tax Assessor/ Collector
Myrtle Cruz, Inc.	02/01/93	25,236	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	05/23/84	3,478	Delinquent Tax Attorney
Si Environmental, LLC	05/01/12	363,578	Operator
Young & Brooks	09/08/92	62,083	Attorney
Investment Officers			
Mary Jarmon and Tony Garza	06/21/10 and 08/15/16	N/A	Bookkeeper and Director