

The Woodlands
Municipal Utility District No. 1
MONTGOMERY COUNTY, TEXAS
FINANCIAL REPORT
September 30, 2018

--ooOoo--

CONTENTS

| | <u>Exhibits</u> | <u>Page</u> |
|---|-----------------|-------------|
| <u>FINANCIAL SECTION</u> | | |
| Independent Auditors' Report | | 1-2 |
| Management's Discussion and Analysis | | 3-8 |
| <u>Basic Financial Statements</u> | | |
| <u>Government-wide and Fund Financial Statements</u> | | |
| Statement of Net Position and Governmental Funds Balance Sheet | B(1) | 10-11 |
| Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance | B(2) | 12-13 |
| Notes to Financial Statements | B(3) | 15-30 |
| <u>Required Supplementary Information</u> | | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund | C(1) | 32 |
| <u>TEXAS SUPPLEMENTARY INFORMATION</u> | | |
| <u>Schedules</u> | | |
| Schedule of Services and Rates | TSI-1 | 34-35 |
| Schedule of General Fund Expenditures | TSI-2 | 36 |
| Schedule of Temporary Investments | TSI-3 | 37 |
| Analysis of Taxes Levied and Receivable | TSI-4 | 39 |
| Long-Term Debt Service Requirements by Years | TSI-5 | 40 |
| Analysis of Changes in Long-Term Bonded Debt | TSI-6 | 41 |
| Comparative Schedule of Revenues and Expenditures - General and Debt Service Funds | TSI-7 | 42-43 |
| Board Members, Key Personnel, and Consultants | TSI-8 | 44-45 |

--ooOoo--



Certified Public Accountants

77 Sugar Creek Center Blvd., Suite 215 | Sugar Land, Texas 77478
main: 346-772-2860 | fax: 346-772-2853

Independent Auditors' Report

Board of Directors
The Woodlands Municipal Utility District No. 1
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of The Woodlands Municipal Utility District No. 1 (the "District") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Woodlands Municipal Utility District No. 1 as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied 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 financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information (TSI) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This 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.



Sugar Land, Texas
December 15, 2018

Management's Discussion and Analysis

As management of The Woodlands Municipal Utility District No. 1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended September 30, 2018.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$15,949,894 (net position).
- As of September 30, 2018, the District's governmental funds reported an ending fund balance of \$3,574,057.
- The District's cash balance at September 30, 2018 was \$3,366,397, representing an increase of \$438,076 from September 30, 2017.
- The District had revenues of \$4,048,232 and a change in net position of \$256,628 for the year ended September 30, 2018.
- At the end of the fiscal year, unrestricted and unassigned fund balance for the General Fund was \$3,202,312, or 89 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation).

The government-wide financial statements present functions of the District that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 10-13 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District consist solely of governmental funds (the General Fund).

Governmental Funds - Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 10-13 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 30 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's General Fund budget. Required supplementary information can be found on page 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$15,949,894 as of September 30, 2018.

The largest portion of the District's net position reflects its net investment in capital assets. The District uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.

Additionally, a portion of the District's net position represents unrestricted financial resources available for future operations.

SUMMARY OF STATEMENT OF NET POSITION
As of September 30, 2018 and 2017

| | Governmental Activities | |
|----------------------------------|------------------------------------|---------------|
| | 2018 | 2017 |
| Current and other assets | \$ 4,389,516 | \$ 4,034,520 |
| Capital assets, net | 12,629,152 | 12,912,792 |
| Total Assets | 17,018,668 | 16,947,312 |
| Long-term liabilities | 630,498 | 718,664 |
| Other liabilities | 438,276 | 535,382 |
| Total Liabilities | 1,068,774 | 1,254,046 |
| Net Position: | | |
| Net investment in capital assets | 11,998,654 | 12,194,128 |
| Unrestricted | 3,951,240 | 3,499,138 |
| Total Net Position | \$ 15,949,894 | \$ 15,693,266 |

Net position of the District, all of which relate to governmental activities, increased by \$256,628. Key elements of the changes are as follows:

CHANGES IN NET POSITION
For the Year Ended September 30, 2018 and 2017

| | Governmental Activities | |
|---|------------------------------------|----------------------|
| | 2018 | 2017 |
| Revenues | | |
| Water and sewer charges | \$ 3,118,463 | \$ 3,054,771 |
| Property taxes, penalties and interest | 867,374 | 965,546 |
| Tap connection fees | 11,200 | 4,885 |
| Investment income and other | 51,195 | 20,987 |
| Total Revenues | 4,048,232 | 4,046,189 |
| Expenses | | |
| Purchased water and sewer | 2,808,612 | 2,766,097 |
| Professional fees , contracted services and other | 680,352 | 655,837 |
| Interest on long-term debt | 26,252 | 29,451 |
| Depreciation and amortization | 276,388 | 114,785 |
| Total Expenses | 3,791,604 | 3,566,170 |
| Change in Net Position | 256,628 | 480,019 |
| Net position, beginning | 15,693,266 | 15,213,247 |
| Net Position, Ending | \$ 15,949,894 | \$ 15,693,266 |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's governmental funds are discussed below:

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of September 30, 2018, the District's governmental funds, which consists of a general fund reported an ending fund balance of \$3,574,057. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unrestricted and unassigned fund balance represents 89 percent of total general fund expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets as of September 30, 2018 amounts to \$12,629,152 (net of accumulated depreciation). This investment in capital assets includes land and infrastructure.

CAPITAL ASSETS SCHEDULE (net of depreciation)

| | | |
|----------------------------------|-----------|--------------------------|
| Land | \$ | 505,000 |
| Capacity rights | | 9,644,431 |
| Water system | | 4,383,884 |
| Wastewater system | | 4,294,728 |
| Drainage system | | 4,213,582 |
| Engineering | | 1,200,214 |
| Less: accumulated depreciation | | <u>(11,612,687)</u> |
| Total Capital Assets, Net | \$ | <u>12,629,152</u> |

Additional information on the District's capital assets can be found in Note 7 in the notes to financial statements.

LONG-TERM DEBT

As of September 30, 2018, the District has no bonded debt outstanding. There were no new issues in 2018.

ECONOMIC FACTORS

- Unrestricted and unassigned fund balance in the General Fund increased to \$3,202,312. An increase of \$238,359 was projected.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of The Woodlands Municipal Utility District No. 1's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Woodlands Municipal Utility District No. 1: The Woodlands Joint Powers Agency, P.O. Box 7580, The Woodlands, Texas 77380.

FINANCIAL STATEMENTS

The Woodlands Municipal Utility District No. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2018

| | General | Total | Adjustments (Note 2) |
|---|---------------------|---------------------|---------------------------------|
| Assets | | | |
| Cash and temporary investments | \$ 3,366,397 | \$ 3,366,397 | \$ |
| Receivables: | | | |
| Property taxes | 5,424 | 5,424 | |
| Customer service accounts | 274,191 | 274,191 | |
| Due from San Jacinto River Authority | | | 371,759 |
| Investment in joint venture | 371,745 | 371,745 | |
| Capital assets, net of accumulated depreciation: | | | |
| Land and capacity rights | | | 10,149,431 |
| Infrastructure | | | 2,479,721 |
| Total Assets | \$ 4,017,757 | \$ 4,017,757 | 13,000,911 |
| Liabilities, Deferred Inflows and Fund Balances/Net Position | | | |
| Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 352,101 | \$ 352,101 | \$ |
| Customer deposits | 86,175 | 86,175 | |
| Deferred amount of SJRA refunding | | | 137,762 |
| Long-term liabilities: | | | |
| Due within one year | | | 84,121 |
| Due after one year | | | 408,615 |
| Total Liabilities | 438,276 | 438,276 | 630,498 |
| Deferred Inflows of Resources | | | |
| Unavailable revenue - property taxes | 5,424 | 5,424 | (5,424) |
| Fund Balances/Net Position | | | |
| Fund Balances: | | | |
| Nonspendable investment in joint venture | 371,745 | 371,745 | (371,745) |
| Unrestricted and unassigned | 3,202,312 | 3,202,312 | (3,202,312) |
| Total Fund Balances | 3,574,057 | 3,574,057 | (3,574,057) |
| Total Liabilities and Fund Balances | \$ 4,017,757 | \$ 4,017,757 | |
| Net Position: | | | |
| Net investment in capital assets | | | 11,998,654 |
| Unrestricted | | | 3,951,240 |
| Total Net Position | | | \$ 15,949,894 |

See Notes to Financial Statements.

**Statement of
Net Position**

| | |
|----|-------------------|
| \$ | 3,366,397 |
| | 5,424 |
| | 274,191 |
| | 371,759 |
| | 371,745 |
| | 10,149,431 |
| | 2,479,721 |
| \$ | <u>17,018,668</u> |

| | |
|----|------------------|
| \$ | 352,101 |
| | 86,175 |
| | 137,762 |
| | 84,121 |
| | 408,615 |
| | <u>1,068,774</u> |

| | |
|----|-------------------|
| | 11,998,654 |
| | 3,951,240 |
| \$ | <u>15,949,894</u> |

The Woodlands Municipal Utility District No. 1

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

Year Ended September 30, 2018

| | General | Total | Adjustments (Note 2) |
|---|---------------------|---------------------|---------------------------------|
| Revenues | | | |
| Water service charges | \$ 2,356,080 | \$ 2,356,080 | \$ |
| Sewer service charges | 762,383 | 762,383 | |
| Property taxes | 864,198 | 864,198 | (2,904) |
| Penalties and interest | 6,080 | 6,080 | |
| Tap connection fees | 11,200 | 11,200 | |
| Investment earnings | 50,993 | 50,993 | |
| Other | 202 | 202 | |
| Total Revenues | 4,051,136 | 4,051,136 | (2,904) |
| Expenditures/Expenses | | | |
| Current: | | | |
| Purchased water and sewer service | 2,808,612 | 2,808,612 | |
| Purchased services from joint venture | 607,866 | 607,866 | 10,503 |
| Professional fees | 25,940 | 25,940 | |
| Other | 36,043 | 36,043 | |
| Capital Outlay | 9,500 | 9,500 | (9,500) |
| Debt Service: | | | |
| Principal retirement | 80,914 | 80,914 | (80,914) |
| Interest and fiscal charges | 26,252 | 26,252 | |
| Depreciation and amortization | | | 276,388 |
| Total Expenditures/Expenses | 3,595,127 | 3,595,127 | 196,477 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 456,009 | 456,009 | (199,381) |
| Other Financing Sources (Uses) | | | |
| Equity in net income (loss) of joint venture | (1,003) | (1,003) | 1,003 |
| Total Other Financing Sources (Uses) | (1,003) | (1,003) | 1,003 |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses) | 455,006 | 455,006 | (455,006) |
| Change in Net Position | | | 256,628 |
| Fund Balances/Net Position - Beginning | 3,119,051 | 3,119,051 | 12,574,215 |
| Fund Balances/Net Position - Ending | \$ 3,574,057 | \$ 3,574,057 | \$ 12,375,837 |

See Notes to Financial Statements.

**Statement of
Activities**

| | |
|----|-----------------|
| \$ | 2,356,080 |
| | 762,383 |
| | 861,294 |
| | 6,080 |
| | 11,200 |
| | 50,993 |
| | 202 |
| | <hr/> 4,048,232 |

| |
|-----------|
| 2,808,612 |
| 618,369 |
| 25,940 |
| 36,043 |

| |
|-----------------|
| 26,252 |
| <hr/> 276,388 |
| <hr/> 3,791,604 |

| |
|---------------------|
| 256,628 |
| 15,693,266 |
| <hr/> \$ 15,949,894 |

(This Page Intentionally Left Blank)

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with generally accepted accounting principles. The following is a summary of the most significant policies:

A. Reporting Entity

The Woodlands Municipal Utility District No. 1 (the "District") was created on February 1, 2016. The District was created pursuant to a consolidation election held on November 3, 2015, of Woodlands Municipal Utility No. 2 and Montgomery County Municipal Utility District No. 40 (Note 12). The District operates under the terms and provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes of Texas applicable to municipal utility districts.

The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees or related payroll costs. 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 is a political subdivision of the State of Texas governed by an elected five member board and is considered a primary government. As required by accounting principles generally accepted in the United States of America, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District participates in a joint venture

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

with other area municipal utility districts as more fully described in Note 9 of these financial statements.

The District's primary activities include construction, maintenance, and operation of water and sewer system facilities and debt service on bonds issued to construct the facilities.

As noted above, the District participates in a joint venture with other area municipal utility districts (collectively the "Participating Districts"). As provided in interlocal contracts by and among the Participating Districts, an independently governed agency known as The Woodlands Joint Powers Agency (the "Agency") provides administrative services and utility system maintenance and operating services for the Participating Districts. The Agency is governed by a Board of Trustees made up of members appointed by the governing Boards of the Participating Districts. The District records and accounts for its interest in the Agency in its General Fund by the equity method, as do all of the Participating Districts, with a portion of General Fund equity reserved in the amount of the District's equity interest. See Note 9 for additional disclosures regarding the Agency's operations.

B. Financial Statement Presentation

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt). Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current or soon thereafter, as is the case with the modified accrual basis of accounting. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net position and report related depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net position of a government are broken down into three categories: 1) net investment in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Fund Financial Statements - These statements focus on the District's major funds and are prepared using the modified accrual basis of accounting.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units, as applicable. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District had no business-type activities or component units as of and for the year ended September 30, 2018.

The governmental funds financial statements consist of the balance sheet and statement of revenues, expenditures and changes in fund balance. These financial statements have been adjusted to arrive at the government-wide financial statement balances (statement of net position and statement of activities). Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental funds 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* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Revenues accrued include interest earned on investments and income from District operations. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service requirements, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable:

To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:

To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed:

To indicate fund balance that can be used only for the specific purposes determined by a formal action of the Board of Directors (the District's highest level of decision-making authority).

Assigned:

To indicate fund balance to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned:

To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The District does not currently have any such policies.

The accounting system is organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which comprise its assets, liabilities, fund equity or deficit, revenues and expenditures.

The District reports the following governmental funds:

General Fund

The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water and sewer service operations. Expenditures include all costs associated with the daily operations of the District.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

E. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unearned tax revenues.

F. Budget

An unappropriated budget is adopted for the General Fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

G. Short-Term Internal Receivables/Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as internal receivables and payables on the combined balance sheet. These amounts are eliminated for government-wide presentation.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|---------------------------------|-------------------------------------|
| Land | N/A |
| Capacity rights | N/A |
| Water system | 30 years |
| Wastewater system | 30 years |
| Drainage system | 30-50 years |
| Engineering | 30 years |

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums or discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of any applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums or discounts, as well as bond issuance costs, during the current period. The face amount of new debt issued is reported as other financing sources. Premiums are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Estimates

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

K. Date of Management's Review

Subsequent events have been evaluated through December 15, 2018, which is the date the financial statements were available to be issued.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes an adjustments column to arrive at the government-wide statement of net position balances. Amounts reported in the statement of net position are different because:

| | | |
|---|-----------|--------------------------|
| Total fund balances - governmental funds | \$ | 3,574,057 |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | | 13,000,911 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | | 5,424 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds. | | <u>(630,498)</u> |
| Net Position of Governmental Activities | \$ | <u>15,949,894</u> |

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes an adjustments column to arrive at changes in net position as reported in the government-wide statement of activities. Amounts reported in the statement of activities are different because:

| | | |
|---|-----------|----------------|
| Net change in fund balances - total governmental funds | \$ | 455,006 |
| Governmental 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. This is the amount by which capital outlay exceeded depreciation in the current fiscal year. | | (276,388) |
| The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | | 80,914 |
| Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (2,904) |
| Change in Net Assets of Governmental Activities | \$ | 256,628 |

NOTE 3 - CASH AND TEMPORARY INVESTMENTS

Cash consists of interest bearing checking accounts and temporary investments consist of Texpool, Texstar and Texas CLASS.

The carrying amounts for cash and temporary investment balances, which approximate fair values, by fund at September 30, 2018, are as follows:

| | <u>Checking</u> | <u>Texpool</u> | <u>Texstar</u> | <u>Texas CLASS</u> | <u>Total</u> |
|---------|------------------|-------------------|---------------------|--------------------|---------------------|
| General | \$ 35,252 | \$ 483,066 | \$ 2,648,004 | \$ 200,075 | \$ 6,214,476 |
| | <u>\$ 35,252</u> | <u>\$ 483,066</u> | <u>\$ 2,648,004</u> | <u>\$ 200,075</u> | <u>\$ 6,214,476</u> |

Investment Policies

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the District are in compliance with its investment policy.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds. Balances in checking accounts in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at September 30, 2018.

Investment Pools

The District invests in the Texas Local Government Investment Pool (TexPool). The State Comptroller of Public Accounts (the "Comptroller") administers TexPool as a public funds investment pool through the Texas Treasury Safekeeping Trust Company (The "Trust Company"). The Comptroller is the sole officer, director, and shareholder of the Trust Company and thus maintains oversight responsibility of TexPool. TexPool uses amortized cost to value portfolio assets.

The District also participates in the Texas Short Term Asset Reserve Program ("TexStar"). TexStar is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. J.P. Morgan Investment Management and Hilltop Securities Inc. serve as co-administrators for TexStar. TexStar maintains a stable net asset value (NAV) of 1\$ per share using the fair value method.

The District participates in Texas Cooperative Liquid Assets Security System ("Texas CLASS"). Texas CLASS is administered by Public Trust Advisors, LLC with Wells Fargo Bank Texas, N.A., as the custodian and is supervised by a Board of trustees who are elected by the participants.

The District's investment pools (Texpool, Texstar and Texas CLASS) are all in compliance with GASB 79. Texstar has elected to measure its investments at fair value. TexPool and Texas CLASS report assets at amortized cost. The District/Agency has mirrored these valuations. There are no limitations or restriction on withdrawals of either pool.

Texpool, Texstar and Texas CLASS are exempt from level of fair value disclosure because they are valued either at NAV or amortized costs.

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Credit Risk – Investments

In accordance with its investment policy, the District minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. As the District's investments are in investment pools, the District is not exposed to custodial credit risk.

NOTE 4 - PROPERTY TAXES

The voters of the District have authorized the District's Board of Directors to levy maintenance taxes annually for use in financing general operations limited to \$0.25 per \$100 of assessed value. The District's bond resolution requires that ad valorem taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied for debt service requirements are without limitation as to rate or amount.

All property values are determined by the Montgomery County Appraisal District. A tax lien attaches to all properties within the District on January 1st of each year. Taxes are generally levied on October 1 and are due upon receipt of the tax bill by the property owner. Penalties and interest are charged if taxes are not paid by the succeeding January 31st. There is an additional twenty percent penalty charged on accounts delinquent after July 1st of each year which generally is payable to the District's delinquent tax attorney.

Property taxes are prorated between operations and debt service based on the respective rates adopted for the year of the levy. For the current year, the District levied a combined rate of \$0.08 per \$100 of assessed valuation of which \$0.08 was allocated to maintenance and operations and \$0.00 was allocated to debt service. The resulting tax levy was \$861,318 on the adjusted taxable valuation of \$1,076,647,975 for the 2017 tax year.

Property taxes receivable at September 30, 2018, consisted of the following:

| | <u>General Fund</u> | <u>Total</u> |
|----------------|-------------------------|-----------------|
| 2017 Levy | \$ 2,350 | \$ 2,350 |
| 2016 Levy | 694 | 694 |
| 2015 Levy | 737 | 737 |
| 2014 Levy | 45 | 45 |
| 2013 and prior | 1,598 | 1,598 |
| | <u>\$ 5,424</u> | <u>\$ 5,424</u> |

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

Receivables as of year-end for the government's individual major funds are as follows:

| | General | Total |
|--------------------------|-------------------|-------------------|
| Receivables: | | |
| Taxes | \$ 5,424 | \$ 5,424 |
| Accounts | 274,191 | 274,191 |
| Total Receivables | \$ 279,615 | \$ 279,615 |

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

| | Unavailable | Unearned |
|---|--------------------|-----------------|
| Delinquent property taxes receivable - general fund | \$ 5,424 | \$ |
| Total Unavailable Revenue for Governmental Funds | \$ 5,424 | \$ |

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2018, follows:

| | Balance Oct 1, 2017 | Increases | Decreases | Balance Sept 30, 2018 |
|---------------------------------|--------------------------------|---------------------|------------------|----------------------------------|
| Governmental Activities: | | | | |
| Non-depreciable Assets: | | | | |
| Land | \$ 505,000 | \$ | \$ | \$ 505,000 |
| Capacity rights | 9,644,431 | | | 9,644,431 |
| Total Non-depreciable Assets | 10,149,431 | | | 10,149,431 |
| Depreciable Assets: | | | | |
| Water system | 4,383,884 | | | 4,383,884 |
| Wastewater system | 4,294,728 | | | 4,294,728 |
| Drainage system | 4,213,582 | | | 4,213,582 |
| Engineering | 1,200,214 | | | 1,200,214 |
| Total Depreciable Assets | 14,092,408 | | | 14,092,408 |
| Less Accumulated Depreciation | (11,329,047) | (283,640) | | (11,612,687) |
| Totals | \$ 12,912,792 | \$ (283,640) | \$ | \$ 12,629,152 |

Depreciation expense for the year ended September 30, 2018, totaled \$283,640.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – JOINT VENTURE – THE WOODLANDS JOINT POWERS AGENCY

The District has entered into interlocal contracts with other area municipal utility districts (collectively the "Participating Districts") to create the Woodlands Joint Powers Agency (the "Agency"). The contracts provide for the Agency to purchase certain equipment and supplies, to install taps and connections to the Participating District's water and sewer systems, to perform required repair and maintenance work on these systems and to provide certain administrative services for the Participating Districts.

Each Board of the Participating Districts appoints one of its members to the Agency's Board of Trustees annually. The Agency's Board of Trustees controls the operations of the Agency, which includes adopting operating and capital budgets.

The Agency's summary financial position at September 30, 2018 is presented below:

| | |
|-------------------|---------------------|
| Total Assets | \$ 2,987,494 |
| Total Liabilities | 440,567 |
| | <u>\$ 2,546,927</u> |

The Participating Districts account for their share of the Agency's net position on the equity method in their General Funds. Each Participating District's respective shares are determined based on their proportionate share of cash contributions and all other cash payments and contributions made to the Agency on a cumulative basis.

At September 30, 2018, the Agency's net position are allocated among the Participating Districts as follows:

| | |
|--------------------------------|---------------------|
| The Woodlands MUD No. 1 | \$ 371,745 |
| Montgomery County MUD No. 6 | 352,827 |
| Montgomery County MUD No. 7 | 418,788 |
| Montgomery County MUD No. 36 | 381,422 |
| Montgomery County MUD No. 39 | 47,851 |
| Montgomery County MUD No. 46 | 194,152 |
| Montgomery County MUD No. 47 | 335,596 |
| Montgomery County MUD No. 60 | 209,587 |
| Montgomery County MUD No. 67 | 153,692 |
| The Woodlands Metro Center MUD | 81,267 |
| | <u>\$ 2,546,927</u> |

Each Participating District's share of participants' equity at September 30, 2018 includes an initial contribution of \$7,500, which will not be refunded except on withdrawal from the Agency or termination of the interlocal contracts.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The Agency's summary operating results for the year ended September 30, 2018 are presented below along with the District's related share:

| | <u>Agency</u> | <u>District</u> |
|---------------------------------------|---------------------|-------------------|
| Total Revenues | \$ 6,991,919 | \$ 631,337 |
| Total Expenses | <u>7,003,027</u> | <u>632,340</u> |
| Revenues Over (Under) Expenses | (11,108) | (1,003) |
| Participant distributions | (357,000) | (28,274) |
| Participants' Equity - Beginning | <u>2,915,035</u> | <u>401,022</u> |
| Participants' Equity - Ending | <u>\$ 2,546,927</u> | <u>\$ 371,745</u> |

Charges for the Agency's operating costs are based on the Participating District's number of monthly water and sewer billings, tap connections and direct costs incurred. During the year ended September 30, 2018, the District's contribution for the Agency's costs was made up of the following charges:

| | |
|------------------------------------|-------------------|
| Tax administration | \$ 15,009 |
| Administration | 163,956 |
| Engineering | 80,828 |
| Meter reading | 33,335 |
| Water repair and maintenance | 116,310 |
| Sewer repair and maintenance | 20,009 |
| Billing income | 8,844 |
| Large ditch repair and maintenance | 122,762 |
| Storm sewer repair and maintenance | 19,493 |
| Postage | 9,774 |
| Service fees and other | 14,814 |
| Capital budget contribution | 2,732 |
| Water tap installation | 7,000 |
| Inspections and connections | 2,500 |
| | <u>\$ 617,366</u> |

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – FINANCING AGREEMENTS WITH SAN JACINTO RIVER AUTHORITY

The District has entered into a series of financing agreements with the San Jacinto River Authority (SJRA). The agreements are for design, construction and other improvements to The Woodlands Waste Disposal System Project and The Woodlands Water Supply System Project. The agreements include provisions for advances to be made by the District in the initial stages of the project under certain circumstances. The District has made no advances in the fiscal year ended September 30, 2018.

The District's financing agreements with the SJRA also provide for the allocation of pro rata shares of SJRA revenue bond principal and interest to the District proportionate to the District's interest in the portion of project financed.

The District's proportionate share of the total revenue bond obligations of the SJRA varies by project. During the year ended September 30, 2018, the District funded \$107,166 from the General Fund relating to the obligations of which \$80,914 was for principal and \$26,252 was for interest.

The following reflects the District's portion of existing debt of the SJRA for both the Waste Disposal System Project and the Water Supply System Project. The debt bears interest at varying rates and matures in 2030.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|--------------------------|--------------------------|--------------------------|
| 2019 | \$ 84,121 | \$ 23,022 | \$ 107,143 |
| 2020 | 88,130 | 19,059 | 107,189 |
| 2021 | 26,428 | 14,906 | 41,334 |
| 2022 | 27,686 | 13,849 | 41,535 |
| 2023 | 28,315 | 12,742 | 41,057 |
| 2024-2028 | 162,130 | 43,793 | 205,923 |
| 2029-2030 | 75,926 | 5,737 | 81,663 |
| | <u>\$ 492,736</u> | <u>\$ 133,108</u> | <u>\$ 625,844</u> |

As of September 30, 2018, the District has contracted to purchase capacity rights from the SJRA to service 2,761 single family residential equivalent connections in the Water Supply System and 2,930 single family residential equivalent connections in the Waste Disposal System. The District has paid \$10,016,190 to the SJRA for the purchase of these capacity rights from its pro-rata share of the financing agreements noted above, bond proceeds capital funds and other District capital funds sources. The Sixth and Final Accounting prepared in the current year indicated that the District's final contribution total is \$9,644,431 for these rights. Based on the Sixth and Final Accounting, \$371,759 is due to the District from the SJRA.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – CONTRACT WITH SAN JACINTO RIVER AUTHORITY

The District has contracted with the SJRA to provide its customers with water and sewer utility services through planning, construction, operation and maintenance of central water supply and waste disposal facilities. The initial contract was entered into on September 27, 1983, and continues in full force and effect unless terminated by mutual agreement of the District and the SJRA. Thereafter, the District retains a proportionate and equitable ownership interest in such central facilities.

Under the terms of the agreement, the District pays its proportionate share of capital and operating costs for reserved capacity in the water supply and waste disposal facilities. Capital payments have come from the proceeds of bonds issued by the District and are included as capital assets. Operating costs are recorded as current expenditures in the District's General Fund. During the year ended September 30, 2018, the District paid \$2,808,612 for its share of operating costs. Pursuant to the agreement and a resolution approved by the SJRA on August 28, 2014, the SJRA maintains reserve funds for operation of the water supply and waste disposal facilities to cover cash flow needs year round in an amount ranging between two and three months of total operating costs, excluding costs related to the payment of groundwater reduction plan fees. This operating reserve changes during the year based on available funds and changes in operating conditions. No amounts have been recorded on the District's financial statements to reflect the District's share of this reserve. The SJRA also maintains reserve funds in accordance with the agreement and resolution for the planned repair and replacement of water supply and waste disposal facilities having a significant replacement value and a relatively long useful life (generally in excess of ten years). The amount of such reserve varies from year to year based upon a five year capital improvement and construction plan developed, maintained and annually updated by the SJRA. No amounts have been recorded on the District's financial statements to reflect the District's share of this reserve.

Pursuant to the agreement and the resolution, the SJRA also maintains an emergency reserve for purpose of providing funding for unexpected catastrophic events. The emergency reserve is funded periodically by the District and other participating districts from available sources. The amount of such reserve varies from year to year pursuant to the resolution. No amounts have been recorded on the District's financial statements to reflect the District's share of this reserve.

The relationship between the SJRA and its customer districts is purely contractual. The SJRA is a separate functioning governmental entity whose management and Board of Directors are not subject to the control of the customer districts. The District, together with other area municipal utility districts with similar contracts with the SJRA (collectively the "Customer Districts"), contracts directly with the SJRA for required facilities and does not have a contract with other Customer Districts. The SJRA is not a participating facility user.

The Woodlands Municipal Utility District No. 1

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The SJRA serves as the sponsor and common provider to each of its Customer Districts of facilities and related services and has full legal title and ownership to facilities, subject only to the contractual rights of the Customer Districts to receive services.

The SJRA invests its own capital funds in the construction and acquisition of the required facilities. Each Customer District makes a payment to the SJRA to defray the costs of construction of capital facilities proportionate to the contractual rights of use (or capacity rights) of such customer pursuant to its contract with the SJRA. Thus, each Customer District has invested from its bond proceeds capital funds in the acquisition of such contract rights; however, no Customer District owns nor has legal title to all or any portion of the physical facilities providing such services.

Under these circumstances, the District's relationship with the SJRA is not considered to constitute either a shared facilities agreement or a joint venture arrangement. Disclosure has been made that a substantial portion of water and sewer facility costs in the District's general fixed assets consist of the District's investment in the acquisition of contractual rights of use, rather than ownership of facilities.

NOTE 10 – 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 for the past three fiscal years.

NOTE 11 – ANNEXATION DEFERRAL AGREEMENT

The District and the adjacent Woodlands Municipal Utility Districts (the "Woodlands Districts") are located entirely within The Woodlands Township, a political subdivision of the State of Texas which overlaps substantially all of The Woodlands. The Township has recently concluded agreements with the City of Houston and the City of Conroe pursuant to which the area of the Township, including the Woodlands Districts, may not be annexed for fifty (50) years, and the area of the Township may, on or after May 29, 2014, and on request by the Township, be excluded from the extraterritorial jurisdiction of either or both cities, and may thereafter be incorporated as a municipality or may adopt a new form of local government. In the event of incorporation of the Township, the newly incorporated municipality may dissolve the Woodlands Districts and assume the assets, obligations and liabilities of the Woodlands Districts.

REQUIRED SUPPLEMENTARY INFORMATION

The Woodlands Municipal Utility District No. 1

Exhibit C(1)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

Year Ended September 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Over (Under)</u> |
|--|-------------------------|---------------------|---------------------|--------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Water service | \$ 2,545,562 | \$ 2,545,562 | \$ 2,356,080 | \$ (189,482) |
| Sewer service | 709,108 | 709,108 | 762,383 | 53,275 |
| Property taxes | 862,891 | 862,891 | 870,278 | 7,387 |
| Tap connection fees | 900 | 900 | 11,200 | 10,300 |
| Interest on investments | 26,059 | 26,059 | 50,993 | 24,934 |
| Other | | | 202 | 202 |
| Total Revenues | <u>4,144,520</u> | <u>4,144,520</u> | <u>4,051,136</u> | <u>(93,384)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Purchased water and sewer | 3,035,610 | 3,035,610 | 2,808,612 | (226,998) |
| Purchased services | 687,354 | 687,354 | 607,866 | (79,488) |
| Professional fees | 31,300 | 31,300 | 25,940 | (5,360) |
| Other | 43,831 | 43,831 | 36,043 | (7,788) |
| Capital Outlay | 900 | 900 | 9,500 | 8,600 |
| Debt Service | 107,166 | 107,166 | 107,166 | |
| Total Expenditures | <u>3,906,161</u> | <u>3,906,161</u> | <u>3,595,127</u> | <u>(311,034)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 238,359 | 238,359 | 456,009 | 217,650 |
| Other Financing Sources (Uses) | | | | |
| Transfers | | | | |
| Equity in net income (loss) of JV | | | (1,003) | (1,003) |
| Total Other Fin. Sources (Uses) | | | <u>(1,003)</u> | <u>(1,003)</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under Expenditures and Other Financing (Uses) | 238,359 | 238,359 | 455,006 | 216,647 |
| Fund Balances - Beginning | 3,119,051 | 3,119,051 | 3,119,051 | |
| Fund Balances - Ending | <u>\$ 3,357,410</u> | <u>\$ 3,357,410</u> | <u>\$ 3,574,057</u> | <u>\$ 216,647</u> |

ADDITIONAL INFORMATION

The Woodlands Municipal Utility District No. 1

SCHEDULE OF SERVICES AND RATES

Year Ended September 30, 2018

1. Services provided by the District:

| | | | | | |
|----------|--|-------|-----------------|----------|------------|
| <u>X</u> | Retail Water | _____ | Wholesale Water | <u>X</u> | Drainage |
| <u>X</u> | Retail Sewer | _____ | Wholesale Sewer | _____ | Irrigation |
| _____ | Parks/Recreation | _____ | Fire Protection | _____ | Security |
| _____ | Solid Waste/Garbage | _____ | Flood Control | _____ | Roads |
| <u>X</u> | Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | | | |
| _____ | Other (specify): _____ | | | | |

2. Retail rates based on 5/8" meter

Retail rates not applicable

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

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate per 1,000 Gallons Over Minimum | Usage Levels |
|---|-----------------------|----------------------|--------------------------------|--|-----------------------|
| Water | \$ 5.00 | _____ | N | \$ 1.70 | 1,000 - 3,000 |
| Water | _____ | _____ | N | \$ 2.80 | 4,000 - 15,000 |
| Water | _____ | _____ | N | \$ 4.45 | 16,000 - 30,000 |
| Water | _____ | _____ | N | \$ 5.80 | 31,000 - > |
| Waste | \$10.50 | _____ | N | \$ 4.50 | per 1,000 |
| Surcharge | \$2.76 | Per 1,000 | Groundwater Reduction Plan Fee | | |
| District employs winter averaging for wastewater usage? | | | | | Yes <u>X</u> No _____ |
| Total water and sewer charges per 10,000 gallons usage (including surcharges) | | | | | <u>\$81.57</u> |

3. Retail Service Providers: Number of retail water and/or wastewater* connections within the District as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC) as noted:

| | <u>Active Connections</u> | <u>Active ESFC</u> | <u>Inactive Connections**</u> |
|--|---------------------------|--------------------|-------------------------------|
| Single Family | 2,337 | 2,337 | 8 |
| Multi-Family | 5 | 687 | |
| Commercial | 32 | 112 | 1 |
| Other - recreational centers, government & VFD | 58 | 204 | |
| TOTAL | <u>2,432</u> | <u>3,340</u> | <u>9</u> |

* Number of connections relates to water service, if provided. Otherwise, the number of wastewater connections should be provided.

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

4. Total Water Consumption (In Thousands) During the Fiscal Year:

| | |
|-------------------------------------|---------|
| Gallons pumped into system: | N/A |
| Gallons billed to customers: | 385,390 |
| Percent of gallons billed to pumped | N/A |

5. **Standby Fees:** Does the District assess standby fees? Yes ___ No X

For the most recent full fiscal year:

| | | |
|-------------------------|----------------------|----------|
| Debt Service: | Total levy | \$ _____ |
| | Total collected | \$ _____ |
| | Percentage collected | _____ % |
| Operation & Maintenance | Total levy | \$ _____ |
| | Total collected | \$ _____ |
| | Percentage collected | _____ % |

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? Yes ___ No ___

6. **Location of District:**

County in which District is located. Montgomery

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

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

City in which District is located. _____

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

ETJ's in which District is located. Houston

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

If yes, by whom? _____

The Woodlands Municipal Utility District No. 1

TSI-2

SCHEDULE OF GENERAL FUND EXPENDITURES

Year Ended September 30, 2018

Current

| | |
|---|----------------------------|
| Purchased Water and Sewer Services from SJRA | <u>\$ 2,808,612</u> |
| Purchased Services from Joint Venture | <u>607,866</u> |
| Professional Fees: | |
| Auditing | 6,650 |
| Legal | <u>19,290</u> |
| | <u>25,940</u> |
| Other Current Expenditures: | |
| Directors' fees | 8,400 |
| Regulatory assessment | 19,192 |
| Bank charges | 24,588 |
| Insurance | 3,143 |
| Miscellaneous | <u>(19,280)</u> |
| | <u>36,043</u> |
| Capital Outlay | <u>9,500</u> |
| Debt Service: | |
| Principal | 80,914 |
| Interest and fiscal charges | <u>26,252</u> |
| | <u>107,166</u> |
| Total Expenditures | <u><u>\$ 3,595,127</u></u> |

| | | |
|---|------------|-----------|
| Number of employees employed by the District: | <u>-0-</u> | Full-time |
| | <u>-0-</u> | Part-time |

The Woodlands Municipal Utility District No. 1

TSI-3

SCHEDULE OF CASH AND TEMPORARY INVESTMENTS

Year Ended September 30, 2018

| <u>Funds</u> | <u>Interest Rate (%)</u> | <u>Maturity Date</u> | <u>Balances at September 30, 2018</u> | <u>Accrued Interest</u> |
|----------------------------|------------------------------|--------------------------|---|-----------------------------|
| <u>General Fund</u> | | | | |
| Checking | N/A | N/A | \$ 35,252 | \$ |
| Texpool | Variable | N/A | 483,066 | |
| Texstar | Variable | N/A | <u>2,848,079</u> | |
| Total General Fund | | | <u>3,366,397</u> | |
| Total - All Funds | | | <u>\$ 3,366,397</u> | <u>\$</u> |

(This Page Intentionally Left Blank)

The Woodlands Municipal Utility District No. 1

TSI-4

ANALYSIS OF TAXES LEVIED AND RECEIVABLE

Year Ended September 30, 2018

| | General Fund | Debt Service Fund | Total |
|--|-----------------|-------------------------|-----------------|
| Taxes Receivable - October 01, 2017 | \$ 8,328 | \$ | \$ 8,328 |
| 2017 Original Tax Roll | 861,318 | | 861,318 |
| Additions and corrections | (24) | | (24) |
| Adjusted tax roll | 861,294 | | 861,294 |
| Total to be Accounted for | 869,622 | | 869,622 |
| <u>Tax Collections</u> | | | |
| Current year | 858,969 | | 858,969 |
| Prior years | 5,229 | | 5,229 |
| Total Collections | 864,198 | | 864,198 |
| Taxes Receivable - September 30, 2018 | \$ 5,424 | \$ | \$ 5,424 |

Taxes Receivable - By Year

| | | | |
|--|-----------------|-----------|-----------------|
| 2017 | \$ 2,350 | \$ | \$ 2,350 |
| 2016 | 694 | | 694 |
| 2015 | 737 | | 737 |
| 2014 | 45 | | 45 |
| 2013 and prior | 1,598 | | 1,598 |
| Taxes Receivable - September 30, 2018 | \$ 5,424 | \$ | \$ 5,424 |

| <u>Assessed</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------------------|-------------------------|-------------|-------------|-------------|
| <u>Property Valuations</u> | | | | | |
| Land, improvements and personal property | \$ 1,076,647,975 | \$ 1,069,535,988 | \$ | \$ | \$ |
| | <u>\$ 1,076,647,975</u> | <u>\$ 1,069,535,988</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| <u>Tax Rates Per \$100</u> | | | | | |
| <u>Valuations</u> | | | | | |
| Debt service | \$ | \$ | \$ | \$ | \$ |
| General operations | 0.080 | 0.090 | | | |
| Total Tax Rate per | | | | | |
| \$100 Valuation | <u>\$ 0.080</u> | <u>\$ 0.090</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Adjusted Tax Levy | <u>\$ 861,318</u> | <u>\$ 962,582</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |

Year Ended September 30, 2018

| | |
|---|-------|
| Percent of current taxes collected to current taxes levied (as adjusted) | 99.7% |
| Percent of current and delinquent taxes collected to current levied (as adjusted) and delinquent taxes outstanding at the beginning of the year (as adjusted) | 99.4% |

The Woodlands Municipal Utility District No. 1

TSI-5

LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS

September 30, 2018

The District has no long-term debt outstanding at September 30, 2018.

The Woodlands Municipal Utility District No. 1

TSI-6

ANALYSIS OF CHANGES IN LONG-TERM DEBT

Year Ended September 30, 2018

The District has no long-term debt outstanding at September 30, 2018.

The Woodlands Municipal Utility District No. 1

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS

Last Five Fiscal Years

| | Amounts | | | | |
|---|-------------------|-------------------|--------------------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| <u>General Fund Revenues</u> | | | | | |
| Water and sewer service | \$ 3,118,463 | \$ 3,054,771 | \$ 2,091,192 | \$ | \$ |
| Property taxes | 870,278 | 965,859 | 113,372 | | |
| Tap connections & culverts | 11,200 | 4,885 | 2,700 | | |
| Interest and other | 51,195 | 20,987 | 36,806 | | |
| Total Revenues | <u>4,051,136</u> | <u>4,046,502</u> | <u>2,244,070</u> | | |
| <u>General Fund Expenditures</u> | | | | | |
| Current | 3,478,461 | 3,440,580 | 2,212,761 | | |
| Capital outlay | 9,500 | 288,925 | 1,100 | | |
| Debt service | 107,166 | 107,577 | 76,715 | | |
| Total Expenditures | <u>3,595,127</u> | <u>3,837,082</u> | <u>2,290,576</u> | | |
| Revenues Over (Under) Expenditures | <u>\$ 456,009</u> | <u>\$ 209,420</u> | <u>\$ (46,506)</u> | <u>\$</u> | <u>\$</u> |
| <u>Debt Service Fund Revenues</u> | | | | | |
| Property taxes | \$ | \$ | \$ | \$ | \$ |
| Penalty and interest | | | | | |
| Interest and other | | | | | |
| Total Revenues | | | | | |
| <u>Debt Service Fund Expenditures</u> | | | | | |
| Tax collection | | | | | |
| Debt service | | | | | |
| Total Expenditures | | | | | |
| Revenues Over (Under) Expenditures | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |

| Percent of Total Fund Revenues | | | | |
|---------------------------------------|--------------|----------------|-------------|-------------|
| 2018 | 2017 | 2016 | 2015 | 2014 |
| 77.0 % | 75.5 % | 93.2 % | % | % |
| 21.5 | 23.9 | 5.1 | | |
| 0.3 | 0.1 | 0.1 | | |
| 1.3 | 0.5 | 1.6 | | |
| <u>100.1</u> | <u>100.0</u> | <u>100.0</u> | | |
| 85.9 | 85.0 | 98.6 | | |
| 0.2 | 7.1 | | | |
| 2.6 | 2.7 | 3.4 | | |
| <u>88.7</u> | <u>94.8</u> | <u>102.0</u> | | |
| <u>11.4 %</u> | <u>5.2 %</u> | <u>(2.0) %</u> | <u>%</u> | <u>%</u> |
| % | % | % | % | % |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| <u>%</u> | <u>%</u> | <u>%</u> | <u>%</u> | <u>%</u> |

The Woodlands Municipal Utility District No. 1

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

September 30, 2018

District's Mailing Address: 2455 Lake Robbins Drive
P.O. Box 7580
The Woodlands, Texas 77387

District's Business Telephone Number: (281) 367-1271

| <u>Name</u> | <u>Term</u> | <u>Fees</u> | <u>Expenses</u> | <u>Title</u> | <u>Resident of District?</u> |
|-----------------------------|-------------|-------------|-----------------|-------------------------------|------------------------------|
| <u>Board Members</u> | | | | | |
| Bob Leilich | 5/18-5/22 | \$ 1,650 | \$ | President | Yes |
| Helen Bostock | 5/16-5/20 | 1,650 | | Vice-President | Yes |
| Walter Lisiewski | 5/18-5/22 | 1,650 | 1,120 | Secretary/Treasurer | Yes |
| William Bootz | 5/16-5/20 | 1,650 | | Assistant Secretary/Treasurer | Yes |
| Hartley B. Mackintosh | 5/16-5/20 | 1,800 | | Director WJPA Trustee | Yes |

| <u>Name and Address</u> | <u>Date Hired</u> | <u>Salaries and Fees</u> | <u>Title</u> | <u>Resident of District?</u> |
|---|-------------------|--------------------------|----------------------------------|------------------------------|
| <u>Key Administrative Personnel</u> | | | | |
| Jim Stinson 42 Gallant Oak Place The Woodlands, Texas 77381 | 7/94 | \$ 207,693 * | General Manager Woodlands JPA | No |
| <u>Consultants</u> | | | | |
| Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 1400 Houston, Texas 77056 | 3/1/88 | 34,271 | Attorney | No |
| Montgomery County Appraisal District 109 Gladstell Conroe, Texas 77301 | 10/1/84 | 7,812 | Central Appraisal District | No |
| Knox Cox & Co., LLP 77 Sugar Creek Center Blvd., Suite 215 Sugar Land, Texas 77478 | 8/1/01 | 6,650 | Independent Auditor | No |
| RW Baird 4400 Post Oak Parkway, Suite 2790 Houston, Texas 77027 | 2015 | 0 | Financial Advisor | No |

* Represents the General Manager's salary paid by the JPA.

(This Page Intentionally Left Blank)