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SOUTHERN MONTGOMERY COUNTY  
MUNICIPAL UTILITY DISTRICT  
MONTGOMERY COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
SEPTEMBER 30, 2020

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January 18, 2021

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southern Montgomery County  
Municipal Utility District  
Montgomery County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Southern Montgomery County Municipal Utility District, as of and for the year ended September 30, 2020, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risk of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Southern Montgomery County Municipal Utility District as of September 30, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8, Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 24 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 25 to 42 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Southern Montgomery County Municipal Utility District (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2020.

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

#### *Government-Wide Financial Statements*

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

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

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

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

#### *Fund Financial Statements*

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

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

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

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

### **Financial Analysis of the District as a Whole**

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

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

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

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

Summary of Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Current and other assets	\$ 15,318,519	\$ 15,646,107	\$ (327,588)
Capital assets	22,991,591	20,895,500	2,096,091
Total assets	<u>38,310,110</u>	<u>36,541,607</u>	<u>1,768,503</u>
Long-term liabilities	8,806,483	9,354,751	(548,268)
Other liabilities	1,811,305	1,667,807	143,498
Total liabilities	<u>10,617,788</u>	<u>11,022,558</u>	<u>(404,770)</u>
Net position:			
Invested in capital assets, net of related debt	13,640,506	11,002,237	2,638,269
Restricted	2,535,162	4,078,170	(1,543,008)
Unrestricted	11,516,654	10,438,642	1,078,012
Total net position	<u>\$ 27,692,322</u>	<u>\$ 25,519,049</u>	<u>\$ 2,173,273</u>

Summary of Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 1,609,348	\$ 1,521,272	\$ 88,076
Charges for services	4,592,797	3,551,636	1,041,161
Other revenues	1,463,976	1,434,547	29,429
Total revenues	<u>7,666,121</u>	<u>6,507,455</u>	<u>1,158,666</u>
Expenses:			
Service operations	5,168,004	4,886,156	281,848
Debt service	324,844	336,438	(11,594)
Total expenses	<u>5,492,848</u>	<u>5,222,594</u>	<u>270,254</u>
Change in net position	2,173,273	1,284,861	888,412
Net position, beginning of year	<u>25,519,049</u>	<u>24,234,188</u>	<u>1,284,861</u>
Net position, end of year	<u>\$ 27,692,322</u>	<u>\$ 25,519,049</u>	<u>\$ 2,173,273</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended September 30, 2020, were \$14,179,360, a decrease of \$527,922 from the prior year.

The General Fund balance increased by \$1,069,823, in accordance with the District's financial plan.

The Special Revenue Fund balance decreased by \$50,035, due to the decrease in the three month operating reserve in accordance with the contracts among the participants in the Wastewater Treatment Plant.

The Debt Service Fund balance decreased by \$265,895, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$1,281,815, as authorized expenditures exceeded revenues.

#### *General Fund Budgetary Highlights*

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. The comparison of actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of September 30, 2020, was expected to be \$9,929,581 and the actual end of year fund balance was \$11,479,404.

#### **Capital Asset and Debt Administration**

##### *Capital Assets*

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u>
Land	\$ 483,507	\$ 483,507	\$ 0
Construction in progress	1,790,357	316,744	1,473,613
Buildings and improvements	133,507	145,862	(12,355)
Furniture, fixtures and office equipment	7,100	9,468	(2,368)
Machinery and equipment	5,100	6,800	(1,700)
Automobiles and trucks	69,596	64,394	5,202
Water facilities	4,989,368	5,229,521	(240,153)
Reclaimed water facilities	6,566,862	6,301,069	265,793
Sewer facilities	7,079,647	6,659,196	420,451
Drainage facilities	1,866,547	1,678,939	187,608
Totals	<u>\$ 22,991,591</u>	<u>\$ 20,895,500</u>	<u>\$ 2,096,091</u>

Changes to capital assets during the fiscal year ended September 30, 2020, are summarized as follows:

##### Additions:

Reclaimed water system	\$ 366,898
Water system improvements	1,712,298
Sewer system improvements	786,984
Vehicle	22,900
Drainage system improvements	265,563
Total additions to capital assets	<u>3,154,643</u>

##### Decreases:

Depreciation	<u>(1,058,552)</u>
Net change to capital assets	<u>\$ 2,096,091</u>

##### *Debt*

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2020, are summarized as follows:

Bonded debt payable, beginning of year	\$ 9,810,000
Bonds paid	(545,000)
Bonded debt payable, end of year	<u>\$ 9,265,000</u>



On January 14, 2021, the District issued \$5,410,000 in unlimited tax refunding bonds to refund \$730,000 of outstanding Series 2012 bonds and \$4,660,000 of outstanding Series 2016 bonds.

At September 30, 2020, the District had \$3,315,000 authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of Aa3 by Moody's. The Series 2012 are insured by Assured Guaranty Municipal Corp. The Series 2016 and 2018 bonds are not insured. The Series 2012, 2016 and 2018 bonds are rated Aa3 by Moody's. There were no changes in the bond ratings for the fiscal year ended September 30, 2020.

## **RELEVANT FACTORS AND WATER SUPPLY ISSUES**

### *Property Tax Base*

The District's tax base increased approximately \$54,778,000 for the 2019 tax year (approximately 6%) due to the addition of property to the tax base and the increase of the average assessed valuations on existing property.

### *Relationship to The City of Oak Ridge North and the City of Houston*

Portions of the District are currently (i) within The City of Oak Ridge North, (ii) within the extraterritorial jurisdiction of The City of Oak Ridge North, or (iii) within the extraterritorial jurisdiction of the City of Houston, Texas. Under Texas law, the property within the extraterritorial jurisdiction of a municipality may be annexed by that municipality. In the event of annexation of a portion of the District by the City of Oak Ridge North, the District would continue to exist, and the District may make contracts with the City of Oak Ridge North relating to the division and allocation between themselves of their duplicate and overlapping powers, duties and other functions and the assumption and disposition of District assets, debts and obligations. In the event of annexation of a portion of the District by the City of Houston, the District would continue to exist and may be abolished by agreement among the District and The City of Oak Ridge North and the City of Houston. The agreement abolishing the District must provide for the distribution of assets and liabilities of the District. Once a district is annexed, the annexing municipality takes over all of the property and assets of the district, assumes all debts, liabilities and obligations of the district and performs all of the functions of the district, including the provisions of services.

On December 19, 2011, as amended and restated November 14, 2018, utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA"). The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District by the City. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City, and the City provides only limited services. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

### *Water Supply Issues*

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77<sup>th</sup> Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an elected seven member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 8.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of September 30, 2020, the LSGCD had established a regulatory water use fee of \$0.085 per 1,000 gallons of water pumped from each regulated well.

The San Jacinto River Authority (SJRA) is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of a series of acts compiled as Vernon's Annotated Texas Civil Statutes, Article 8280-121, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution, whose area comprises all of the territory within the watershed of the San Jacinto River and its tributaries, except that portion of the watershed lying within the boundaries of Harris County. Such area consists of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty, and Fort Bend counties.

The LSGCD established a regulatory target in its District Regulatory Plan (DRP) Phase I to reduce groundwater withdrawals from the aquifer in Montgomery County to 64,000 acre-feet per year by January 2015. The LSGCD District Regulatory Plan (DRP) Phase II (A) required large volume groundwater users (LVGU) to submit a Water Resource Assessment Plan (WRAP), which included identification of new water supply sources to meet projected water demands by March of 2009. SJRA prepared and submitted a joint plan on behalf of 201 large volume groundwater users to reduce groundwater withdrawal and encourage the conjunctive use of surface water with ground water supplies to meet the LSGCD regulations. In November 2009, the LSGCD adopted final regulations that require certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how the user intends to meet a 2016 deadline for conversion to surface water supplies. The SJRA responded to this regulatory requirement with the development of a long-term countywide approach that will provide a compliance solution for all users in the county who choose to join. Any large volume groundwater user in the county may join the SJRA's Joint Groundwater Reduction Plan (GRP) by executing a GRP Contract and paying the required monthly GRP Pumpage Fee. The District has executed a GRP Contract with the SJRA. At September 30, 2020, the GRP Pumpage Fee was \$2.73 per thousand gallons of groundwater pumped, and is expected to increase in the future. The surface water usage fee was equal to \$3.15 per thousand gallons of surface water received, and is expected to increase in the future.

The District cannot predict the amount or level of fees and charges which may be due the Authorities for future years, but anticipates that it will pass such fees through to its customers. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds.

### *Wastewater Treatment Plant*

As further described in Note 9 of the notes to the financial statements, the District and the City of Oak Ridge North and the Conroe ISD have entered into contracts for the sharing of the costs of the District's wastewater treatment plant ("WWTP"). The financial statements of the WWTP have been included in the financial statements of the District as a Special Revenue Fund. Separate financial statements of the WWTP are available.

## SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2020

	General	Special Revenue Fund	Debt Service	Capital Projects	Total	Adjustments (Note 3)	Statement of Net Position
<b>ASSETS</b>							
Cash, including interest-bearing accounts, Note 7	\$ 449,881	\$ 68,622	\$ 39,738	\$ 23,088	\$ 581,329	\$	\$ 581,329
Temporary investments, at cost, Note 7	9,797,287	400,675	1,175,433	2,276,596	13,649,991		13,649,991
Receivables:							
Property taxes	37,250		26,006		63,256		63,256
Service accounts	654,996				654,996		654,996
Sales and Use Taxes, Note 12	345,646				345,646		345,646
Other	7,200				7,200		7,200
Due from participants in WWTP		16,101			16,101		16,101
Maintenance taxes collected not yet transferred from other fund	987,981				987,981	(987,981)	0
Due from other funds	294,664			257,812	552,476	(552,476)	0
Operating reserve at Wastewater Treatment Plant, Note 9	122,766				122,766	(122,766)	0
Capital assets, net of accumulated depreciation, Note 4:							
Capital assets not being depreciated					0	2,273,864	2,273,864
Depreciable capital assets					0	20,717,727	20,717,727
<b>Total assets</b>	<b>\$12,697,671</b>	<b>\$ 485,398</b>	<b>\$ 1,241,177</b>	<b>\$ 2,557,496</b>	<b>\$ 16,981,742</b>	<b>21,328,368</b>	<b>38,310,110</b>
<b>LIABILITIES</b>							
Accounts payable	\$ 200,986	\$ 23,083	\$ 345	\$ 99,507	\$ 323,921		323,921
Construction contracts payable				149,468	149,468		149,468
Accrued interest payable					0	26,210	26,210
Construction advances	9,614				9,614		9,614
Customer and builder deposits	712,605				712,605		712,605
Due to participants in WWTP		3,061			3,061		3,061
Maintenance taxes collected not yet transferred to other fund			987,981		987,981	(987,981)	0
Due to other funds	257,812	294,664			552,476	(552,476)	0
Other participants' reserves in WWTP					0	41,824	41,824
Long-term liabilities, Note 5:							
Due within one year					0	544,602	544,602
Due in more than one year					0	8,806,483	8,806,483
<b>Total liabilities</b>	<b>1,181,017</b>	<b>320,808</b>	<b>988,326</b>	<b>248,975</b>	<b>2,739,126</b>	<b>7,878,662</b>	<b>10,617,788</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Property tax revenues	37,250	0	26,006	0	63,256	(63,256)	0
<b>FUND BALANCES / NET POSITION</b>							
<b>Fund balances:</b>							
<b>Nonspendable:</b>							
Operating reserve at Wastewater Treatment Plant, Note 9	122,766				122,766	(122,766)	0
<b>Restricted for:</b>							
Operating reserve at Wastewater Treatment Plant, Note 9		164,590			164,590	(164,590)	0
Committed to construction contracts in progress				588,775	588,775	(588,775)	0
<b>Assigned to:</b>							
Debt service			226,845		226,845	(226,845)	0
Capital projects				1,719,746	1,719,746	(1,719,746)	0
Unassigned	11,356,638				11,356,638	(11,356,638)	0
<b>Total fund balances</b>	<b>11,479,404</b>	<b>164,590</b>	<b>226,845</b>	<b>2,308,521</b>	<b>14,179,360</b>	<b>(14,179,360)</b>	<b>0</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$12,697,671</b>	<b>\$ 485,398</b>	<b>\$ 1,241,177</b>	<b>\$ 2,557,496</b>	<b>\$ 16,981,742</b>		
<b>Net position:</b>							
Invested in capital assets, net of related debt						13,640,506	13,640,506
Restricted for debt service						226,641	226,641
Restricted for capital projects						2,308,521	2,308,521
Unrestricted						11,516,654	11,516,654
<b>Total net position</b>						<b>\$ 27,692,322</b>	<b>\$ 27,692,322</b>

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

## SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

DRAFT

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>							
Property taxes	\$ 987,981		\$ 592,859		\$ 1,580,840	\$ 11,700	\$ 1,592,540
Water service	1,114,236				1,114,236		1,114,236
Sewer service	1,080,757				1,080,757		1,080,757
Surface water fees, Note 11	1,339,356				1,339,356		1,339,356
Reclaimed water sales	32,878				32,878		32,878
From participants in WWTP		707,693			707,693	(523,921)	183,772
Penalty and interest	27,347		16,808		44,155		44,155
Tap connection and inspection fees	308,329				308,329		308,329
Sales and Use Taxes, Note 12	1,327,717				1,327,717		1,327,717
Impact fees				253,403	253,403		253,403
Interest on deposits and investments	86,677	3,466	15,346	30,770	136,259		136,259
WWTP participants' capital contributions					0	217,855	217,855
Other revenues	34,864				34,864		34,864
<b>Total revenues</b>	<b>6,340,142</b>	<b>711,159</b>	<b>625,013</b>	<b>284,173</b>	<b>7,960,487</b>	<b>(294,366)</b>	<b>7,666,121</b>
<b>EXPENDITURES / EXPENSES</b>							
Service operations:							
Purchased sewer services, Note 9	523,921				523,921	(523,921)	0
Personnel, Note 10	580,732	168,494			749,226		749,226
Professional fees	105,152	9,444	7,924	35	122,555		122,555
Contracted services			14,306		14,306		14,306
Utilities	126,125	172,486			298,611		298,611
Surface water pumpage fees, Note 11	1,185,724				1,185,724		1,185,724
Repairs and maintenance	411,932	132,471			544,403		544,403
Other operating expenditures	68,606	165,401			234,007		234,007
Flow meter expenditures		33,216			33,216		33,216
Garbage disposal	262,047				262,047		262,047
Security service	462,183				462,183		462,183
Administrative expenditures	123,357	29,647	465		153,469		153,469
Depreciation					0	1,058,552	1,058,552
Capital outlay / non-capital outlay	1,638,395			1,565,953	3,204,348	(3,154,643)	49,705
Debt service:							
Principal retirement			545,000		545,000	(545,000)	0
Interest and fees			323,213		323,213	1,631	324,844
<b>Total expenditures / expenses</b>	<b>5,488,174</b>	<b>711,159</b>	<b>890,908</b>	<b>1,565,988</b>	<b>8,656,229</b>	<b>(3,163,381)</b>	<b>5,492,848</b>
Excess (deficiency) of revenues over expenditures	851,968	0	(265,895)	(1,281,815)	(695,742)	2,869,015	2,173,273
<b>OTHER FINANCING SOURCES (USES)</b>							
WWTP participants' capital contributions	217,855				217,855	(217,855)	0
Increase (decrease) in WWTP operating reserve		(50,035)			(50,035)	50,035	0
<b>Total other financing sources (uses)</b>	<b>217,855</b>	<b>(50,035)</b>	<b>0</b>	<b>0</b>	<b>167,820</b>	<b>(167,820)</b>	<b>0</b>
Net change in fund balances / net position	1,069,823	(50,035)	(265,895)	(1,281,815)	(527,922)	2,701,195	2,173,273
Beginning of year	10,409,581	214,625	492,740	3,590,336	14,707,282	10,811,767	25,519,049
End of year	\$ 11,479,404	\$ 164,590	\$ 226,845	\$ 2,308,521	\$ 14,179,360	\$ 13,512,962	\$ 27,692,322

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

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2020

## NOTE 1: REPORTING ENTITY

Southern Montgomery County Municipal Utility District was originally created as Montgomery County Fresh Water Supply District No. 2 by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective September 14, 1968, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on November 13, 1968, and the first bonds were sold on April 10, 1970. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

The District is the owner and manager of the Southern Montgomery County Municipal Utility District Wastewater Treatment Plant (the "WWTP"). Oversight of the WWTP is exercised by the Board of Directors of the District and financial activity of the WWTP has been included as a component unit in the financial statements of the District. The WWTP's General Fund has been reported in the Special Revenue Funds of the District. Contractual relationships related to the WWTP are described in Note 9.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

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

**Basic Financial Statements**

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

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

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

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

Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the Southern Montgomery County Municipal Utility District Wastewater Treatment Plant.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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Basis of Accounting

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

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

Interfund Activity

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

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

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

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Buildings and improvements	40 years	Plant and equipment	10-45 years
Furniture and fixtures	5 years	Underground lines	45 years
Office equipment	3-5 years		
Machinery and vehicles	5-15 years		

Long-term Liabilities

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

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

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

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 14,179,360	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Total capital assets, net			22,991,591
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:			
Bonds payable	\$ (9,265,000)		
Deferred charge on refunding (to be amortized as interest expense)	185,674		
Issuance premium, net of discount (to be amortized as interest expense)	<u>(271,759)</u>		(9,351,085)
The reserves in the Special Revenue Fund are owned by the District and other participants in the Wastewater Treatment Plant:			
The District's reserve	(122,766)		
Other participants' reserves	<u>(41,824)</u>		(164,590)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:			
Uncollected property taxes			63,256
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:			
Accrued interest			<u>(26,210)</u>
Net position, end of year			<u>\$ 27,692,322</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Total net change in fund balances		\$ (527,922)
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 3,154,643	
Depreciation	<u>(1,058,552)</u>	2,096,091
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		545,000
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(20,115)	
Issuance discount, net of premium	<u>17,293</u>	(2,822)
Changes in the Special Revenue Fund reserve from contributions from participants		50,035
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Uncollected property taxes		11,700
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>1,191</u>
Change in net position		<u>\$ 2,173,273</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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## NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 483,507	\$	\$	\$ 483,507
Construction in progress	<u>316,744</u>	<u>2,680,656</u>	<u>1,207,043</u>	<u>1,790,357</u>
Total capital assets not being depreciated	<u>800,251</u>	<u>2,680,656</u>	<u>1,207,043</u>	<u>2,273,864</u>
Depreciable capital assets:				
Buildings and improvements	339,385			339,385
Furniture, fixtures and office equipment	150,523			150,523
Machinery and equipment	142,146			142,146
Automobiles and trucks	131,046	22,900		153,946
Water system	12,270,991	110,745		12,381,736
Reclaimed water system	7,137,276	456,878		7,594,154
Sewer system	14,025,580	824,944		14,850,524
Drainage system	<u>3,242,449</u>	<u>265,563</u>		<u>3,508,012</u>
Total depreciable capital assets	<u>37,439,396</u>	<u>1,681,030</u>	<u>0</u>	<u>39,120,426</u>
Less accumulated depreciation for:				
Buildings and improvements	(193,523)	(12,355)		(205,878)
Furniture and fixtures	(141,055)	(2,368)		(143,423)
Machinery and equipment	(135,346)	(1,700)		(137,046)
Automobiles and trucks	(66,652)	(17,698)		(84,350)
Water system	(7,041,470)	(350,898)		(7,392,368)
Reclaimed water system	(836,207)	(191,085)		(1,027,292)
Sewer system	(7,366,384)	(404,493)		(7,770,877)
Drainage system	<u>(1,563,510)</u>	<u>(77,955)</u>		<u>(1,641,465)</u>
Total accumulated depreciation	<u>(17,344,147)</u>	<u>(1,058,552)</u>	<u>0</u>	<u>(18,402,699)</u>
Total depreciable capital assets, net	<u>20,095,249</u>	<u>622,478</u>	<u>0</u>	<u>20,717,727</u>
Total capital assets, net	<u>\$ 20,895,500</u>	<u>\$ 3,303,134</u>	<u>\$ 1,207,043</u>	<u>\$ 22,991,591</u>
Changes to capital assets:				
Capital outlay		\$ 3,154,643	\$	
Assets transferred to depreciable assets		1,207,043	1,207,043	
Less depreciation expense for the fiscal year		<u>(1,058,552)</u>		
Net increases / decreases to capital assets		<u>\$ 3,303,134</u>	<u>\$ 1,207,043</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

On January 14, 2021, the District issued \$5,410,000 in unlimited tax refunding bonds to refund \$730,000 of outstanding Series 2012 bonds and \$4,660,000 of outstanding Series 2016 bonds.

Long-term liability activity for the fiscal year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 9,810,000	\$	\$ 545,000	\$ 9,265,000	\$ 545,000
Less deferred amounts:					
For issuance discounts, net of premiums	289,052		17,293	271,759	18,952
For refunding	<u>(205,789)</u>		<u>(20,115)</u>	<u>(185,674)</u>	<u>(19,350)</u>
Total bonds payable	<u>9,893,263</u>	<u>0</u>	<u>542,178</u>	<u>9,351,085</u>	<u>544,602</u>
Total long-term liabilities	<u>\$ 9,893,263</u>	<u>\$ 0</u>	<u>\$ 542,178</u>	<u>\$ 9,351,085</u>	<u>\$ 544,602</u>

Developer Construction Commitments and Liabilities

At September 30, 2020, there were no developer construction commitments or liabilities.

As of September 30, 2020, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 545,000	\$ 306,551	\$ 851,551
2022	575,000	288,188	863,188
2023	600,000	266,912	866,912
2024	230,000	252,588	482,588
2025	410,000	243,643	653,643
2026 - 2030	2,350,000	1,003,219	3,353,219
2031 - 2035	2,895,000	552,719	3,447,719
2036 - 2037	<u>1,660,000</u>	<u>72,875</u>	<u>1,732,875</u>
	<u>\$ 9,265,000</u>	<u>\$ 2,986,695</u>	<u>\$ 12,251,695</u>

Bonds voted	\$ 21,550,000
Bonds approved for sale and sold	18,235,000
Bonds voted and not issued	3,315,000
Refunding bonds voted and sold	2,224,048

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The Series 2012 bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

The bond issues payable at September 30, 2020, were as follows:

	<u>Refunding Series 2012</u>	<u>Refunding Series 2016</u>	<u>Series 2018</u>
Amounts outstanding, September 30, 2020	\$1,065,000	\$4,870,000	\$3,330,000
Interest rates	3.50% to 4.00%	2.00% to 4.00%	2.25% to 3.00%
Maturity dates, serially beginning/ending	March 1, 2021/2023	March 1, 2021/2037	March 1, 2024/2037
Interest payment dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable dates	March 1, 2019*	March 1, 2021*	March 1, 2023*

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

NOTE 6: PROPERTY TAXES

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

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

At an election held April 7, 1979, the voters within the District authorized a maintenance tax not to exceed \$0.10 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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On September 4, 2019, the District levied the following ad valorem taxes for the 2019 tax year on the adjusted taxable valuation of \$1,000,905,670:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.0600	\$ 601,026
Maintenance	<u>0.1000</u>	<u>1,001,710</u>
	<u>\$ 0.1600</u>	<u>\$ 1,602,736</u>

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

2019 tax year total property tax levy	\$ 1,602,736
Appraisal district adjustments to prior year taxes	<u>(10,196)</u>
Statement of Activities property tax revenues	<u>\$ 1,592,540</u>

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

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

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$581,329 and the bank balance was \$586,062. Of the bank balance, \$250,000 was covered by federal insurance and \$336,062 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

At the balance sheet date, the carrying value and market value of the investments in TexPool was \$13,649,991.

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

Debt Service Fund

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

Cash	\$ 39,738
Temporary investments	<u>1,175,433</u>
	<u>\$ 1,215,171</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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Capital Projects Fund

For construction of capital assets:

Cash	\$ 23,088
Temporary investments	<u>2,276,596</u>
	<u>\$ 2,299,684</u>

NOTE 8: RISK MANAGEMENT

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

At September 30, 2020, the District had physical damage and boiler and machinery coverage of \$18,605,968, general liability coverage with a per occurrence limit of \$1,000,000 and \$2,000,000 general aggregate and statutory worker's compensation coverage with the Texas Municipal League Intergovernmental Risk Pool (the "Pool"). The Pool is a public entity risk pool currently operating as a common risk management and insurance program for various Texas public entities. The District pays annual premiums for its general insurance coverage. The Pool purchases reinsurance for protection against catastrophic losses that exceed the Pool's self-insurance retention. This reinsurance is purchased from companies rated A- or higher by A. M. Best Company. At this date, the District also had employee crime coverage of \$1,000,000.

NOTE 9: WASTEWATER TREATMENT PLANT

Effective January 1, 2006, the District entered into forty year agreements with the City of Oak Ridge North and the Conroe ISD for the operation and maintenance of the District's wastewater treatment plant ("WWTP") which serves the participating entities. Under the terms of the agreements, each participant's share of the capacity in the WWTP is as follows: Southern Montgomery Municipal Utility District -- 70.25%; City of Oak Ridge North -- 25.00%; Conroe Independent School District -- 4.75%. The contracts provide that costs of operating and maintaining the WWTP are to be shared based upon the metered flow of each participant's input to the plant. Participants are billed a monthly amount based upon the annual budget of the WWTP and each participant's prior year metered flow. At the end of the fiscal year, the actual costs of operating the WWTP are determined and the actual costs are allocated based upon the actual metered flow for the fiscal year. Each participant is to first pay any actual costs of metering the flows of that participant; second, any costs equal to any Excessive Flow fees and third, the participant's allocated share of the remaining costs. The District has established the Special Revenue Fund to account for the funds of the WWTP in accordance with the terms of the contracts. The District's share of the operating costs of the WWTP for the fiscal year ended September 30, 2020, was \$523,921.

The agreements state that the construction and financing of major capital costs of replacement and/or expansion of the WWTP shall be in proportion to the capacity owned by each participant. Such costs are to be shared by the participants as described in the contracts. The District is using available funds from the Capital Projects Fund to fund its share of the project. The District's share of expenditures during the fiscal year for this purpose was \$514,430.

The agreements provide for the establishment of a reserve equal to an three months of estimated operating expenditures. At September 30, 2020, the District had contributed \$122,766 of the \$164,590 operating reserve.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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## NOTE 10: STAFF LEASING AGREEMENT

Beginning January 1, 2003, the District has entered into annual Client Service Agreements with employee staffing companies under which the staffing company agrees to serve as the employer of record for taxation purposes. The term of the 2020 agreement is one year and is renewable on a year to year basis thereafter. Costs incurred under this agreement have been reported as personnel expenditures.

## NOTE 11: GROUNDWATER CONSERVATION DISTRICT

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77<sup>th</sup> Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an elected seven member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 8.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of September 30, 2020, the LSGCD had established a regulatory water use fee of \$0.085 per 1,000 gallons of water pumped from each regulated well.

The San Jacinto River Authority (SJRA) is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of a series of acts compiled as Vernon's Annotated Texas Civil Statutes, Article 8280-121, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution, whose area comprises all of the territory within the watershed of the San Jacinto River and its tributaries, except that portion of the watershed lying within the boundaries of Harris County. Such area consists of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty, and Fort Bend counties.

The LSGCD established a regulatory target in its District Regulatory Plan (DRP) Phase I to reduce groundwater withdrawals from the aquifer in Montgomery County to 64,000 acre-feet per year by January 2015. The LSGCD District Regulatory Plan (DRP) Phase II (A) required large volume groundwater users (LVGU) to submit a Water Resource Assessment Plan (WRAP), which included identification of new water supply sources to meet projected water demands by March of 2009. SJRA prepared and submitted a joint plan on behalf of 201 large volume groundwater users to reduce groundwater withdrawal and encourage the conjunctive use of surface water with ground water supplies to meet the LSGCD regulations. In November 2009, the LSGCD adopted final regulations that required certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how the user intended to meet a 2016 deadline for conversion to surface water supplies. The SJRA responded to this regulatory requirement with the development of a long-term countywide approach that will provide a compliance solution for all users in the county who choose to join. Any large volume groundwater user in the county may join the SJRA's Joint Groundwater Reduction Plan (GRP) by executing a GRP Contract and paying the required monthly GRP Pumpage Fee. The District has executed a GRP Contract with the SJRA. At September 30, 2020, the GRP Pumpage Fee was \$2.73 per thousand gallons of groundwater pumped, and is expected to increase in the future. The surface water usage fee was equal to \$3.15 per thousand gallons of surface water received, and is expected to increase in the future.

The District's combined well regulatory water use fees and GRP pumpage fees payable to the LSGCD and SJRA for the fiscal year ended September 30, 2020, were \$1,185,724. The District billed its customers \$1,339,356 during the fiscal year to pay for the fees charged by the LSGCD and SJRA.

The District cannot predict the amount or level of fees and charges which may be due the Authorities for future years, but anticipates that it will pass such fees through to its customers. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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## NOTE 12: STRATEGIC PARTNERSHIP AGREEMENT

On December 19, 2011, as amended and restated November 14, 2018, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$1,327,717 from the City for the fiscal year ended September 30, 2020. \$345,646 of this amount was receivable at that date.



SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 1,003,590	\$ 1,003,590	\$ 987,981	\$ (15,609)
Water service	1,051,000	1,051,000	1,114,236	63,236
Sewer service	1,065,000	1,065,000	1,080,757	15,757
Surface water fees	1,230,000	1,230,000	1,339,356	109,356
Reclaimed water sales	40,000	40,000	32,878	(7,122)
Penalty	26,000	26,000	27,347	1,347
Tap connection and sewer inspection fees	137,500	137,500	308,329	170,829
Sales and Use Taxes	1,050,000	1,050,000	1,327,717	277,717
Interest on deposits and investments	200,000	200,000	86,677	(113,323)
Other revenues	<u>47,600</u>	<u>47,600</u>	<u>34,864</u>	<u>(12,736)</u>
<b>TOTAL REVENUES</b>	<u>5,850,690</u>	<u>5,850,690</u>	<u>6,340,142</u>	<u>489,452</u>
<b>EXPENDITURES</b>				
Service operations:				
Purchased sewer services	484,230	484,230	523,921	39,691
Personnel	671,900	671,900	580,732	(91,168)
Professional fees	587,100	587,100	105,152	(481,948)
Utilities	107,450	107,450	126,125	18,675
Surface water pumpage fees	1,178,000	1,178,000	1,185,724	7,724
Repairs and maintenance	616,800	616,800	411,932	(204,868)
Other operating expenditures	80,500	80,500	68,606	(11,894)
Garbage disposal	230,000	230,000	262,047	32,047
Security service	670,000	670,000	462,183	(207,817)
Administrative expenditures	195,800	195,800	123,357	(72,443)
Capital outlay	<u>1,443,660</u>	<u>1,443,660</u>	<u>1,638,395</u>	<u>194,735</u>
<b>TOTAL EXPENDITURES</b>	<u>6,265,440</u>	<u>6,265,440</u>	<u>5,488,174</u>	<u>(777,266)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>(414,750)</u>	<u>(414,750)</u>	<u>851,968</u>	<u>1,266,718</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
WWTP participants' capital contributions	0	0	217,855	217,855
Net reimbursements (to) from other funds	<u>(65,250)</u>	<u>(65,250)</u>	<u>0</u>	<u>65,250</u>
<b>TOTAL OTHER FINANCIAL SOURCES (USES)</b>	<u>(65,250)</u>	<u>(65,250)</u>	<u>217,855</u>	<u>283,105</u>
<b>EXCESS SOURCES (USES)</b>	<u>(480,000)</u>	<u>(480,000)</u>	<u>1,069,823</u>	<u>1,549,823</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>10,409,581</u>	<u>10,409,581</u>	<u>10,409,581</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 9,929,581</u>	<u>\$ 9,929,581</u>	<u>\$ 11,479,404</u>	<u>\$ 1,549,823</u>

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

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Southern Montgomery County Municipal Utility District	\$ 484,226	\$ 484,226	\$ 523,921	\$ 39,695
City of Oak Ridge North	150,503	150,503	146,815	(3,688)
Conroe Independent School District	19,631	19,631	36,957	17,326
	<u>654,360</u>	<u>654,360</u>	<u>707,693</u>	<u>53,333</u>
Interest on deposits and investments	4,000	4,000	3,466	(534)
<b>TOTAL REVENUES</b>	<u>658,360</u>	<u>658,360</u>	<u>711,159</u>	<u>52,799</u>
<b>EXPENDITURES</b>				
Service operations:				
Personnel	140,000	140,000	168,494	28,494
Professional fees	5,800	5,800	9,444	3,644
Utilities	200,250	200,250	172,486	(27,764)
Repairs and maintenance	118,180	118,180	132,471	14,291
Flow meter expenditures	2,800	2,800	33,216	30,416
Other operating expenditures	160,675	160,675	165,401	4,726
Administrative expenditures	30,655	30,655	29,647	(1,008)
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENDITURES</b>	<u>658,360</u>	<u>658,360</u>	<u>711,159</u>	<u>52,799</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>OTHER FINANCING SOURCES</b>				
Increase (decrease) in operating reserve	<u>0</u>	<u>0</u>	<u>(50,035)</u>	<u>(50,035)</u>
<b>TOTAL OTHER FINANCIAL SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>(50,035)</u>	<u>(50,035)</u>
<b>EXCESS SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>(50,035)</u>	<u>(50,035)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>214,625</u>	<u>214,625</u>	<u>214,625</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 214,625</u>	<u>\$ 214,625</u>	<u>\$ 164,590</u>	<u>\$ (50,035)</u>

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

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
SEPTEMBER 30, 2020

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

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

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2020

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

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

2. Retail Service Providers

a. 2 Month billing Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$30.00	20,000	N	\$1.50 3.00 5.00	20,001 to 40,000 40,001 to 60,000 Over 60,000
WASTEWATER:	\$26.00		Y		

SURCHARGE: \$3.46 per 1,000 gallons of water used – surface water fees

District employs winter averaging for wastewater usage: Yes  No

Total charges per 10,000 gallons usage: Water: \$30.00 Wastewater: \$26.00 Surcharge: \$34.60

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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SCHEDULE OF SERVICES AND RATES (Continued)

SEPTEMBER 30, 2020

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1	0
< or = 3/4"	1,615	1,612	1	1,612
1"	133	130	2.5	325
1-1/2"	40	38	5	190
2"	99	99	8	792
3"	12	12	15	180
4"	11	11	25	275
6"	23	23	50	1,150
8"	30	30	80	2,400
10"	0	0	115	0
Total Water	<u>1,963</u>	<u>1,955</u>		<u>6,924</u>
Total Wastewater	<u>1,776</u>	<u>1,768</u>	1	<u>1,768</u>

\*Single family equivalents

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

Gallons pumped into system (unaudited): 413,099  
 Gallons billed to customers (unaudited): 374,069

Water Accountability Ratio  
 (Gallons billed/ gallons pumped): 91%

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

Does the District have Debt Service standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT					
Purchased sewer services	\$ 523,921	\$ 0	\$ 0	\$ 0	\$ 523,921
Personnel	<u>580,732</u>	<u>168,494</u>	<u>0</u>	<u>0</u>	<u>749,226</u>
Professional fees:					
Auditing	11,250	3,800			15,050
Legal	56,201	697	7,924	35	64,857
Financial advisor	1,000				1,000
Engineering	<u>36,701</u>	<u>4,947</u>			<u>41,648</u>
	<u>105,152</u>	<u>9,444</u>	<u>7,924</u>	<u>35</u>	<u>122,555</u>
Contracted services:					
Tax assessor-collector			936		936
Central appraisal district			<u>13,370</u>		<u>13,370</u>
	<u>0</u>	<u>0</u>	<u>14,306</u>	<u>0</u>	<u>14,306</u>
Utilities	<u>126,125</u>	<u>172,486</u>	<u>0</u>	<u>0</u>	<u>298,611</u>
Surface water pumpage fees	<u>1,185,724</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,185,724</u>
Repairs and maintenance	<u>411,932</u>	<u>132,471</u>	<u>0</u>	<u>0</u>	<u>544,403</u>
Flow meter expenditures	<u>0</u>	<u>33,216</u>	<u>0</u>	<u>0</u>	<u>33,216</u>
Other operating expenditures:					
Sludge hauling		89,294			89,294
Chemicals	16,487	32,371			48,858
Laboratory costs	20,637	37,880			58,517
Sewer inspection costs	2,100				2,100
TCEQ assessment	8,979				8,979
Other	<u>20,403</u>	<u>5,856</u>			<u>26,259</u>
	<u>68,606</u>	<u>165,401</u>	<u>0</u>	<u>0</u>	<u>234,007</u>
Garbage disposal	<u>262,047</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>262,047</u>
Security service	<u>462,183</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>462,183</u>
Administrative expenditures:					
Director's fees	24,750				24,750
Office supplies and postage	11,971				11,971
Insurance	19,368	12,806			32,174
Permit fees	10,839	14,955			25,794
Other	<u>56,429</u>	<u>1,886</u>	465		<u>58,780</u>
	<u>123,357</u>	<u>29,647</u>	<u>465</u>	<u>0</u>	<u>153,469</u>

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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EXPENDITURES (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CAPITAL OUTLAY</b>					
Authorized expenditures	\$1,588,690	\$	\$	\$1,565,953	\$3,154,643
Tap connection costs	49,705				49,705
	<u>1,638,395</u>	<u>0</u>	<u>0</u>	<u>1,565,953</u>	<u>3,204,348</u>
<b>DEBT SERVICE</b>					
Principal retirement	<u>0</u>	<u>0</u>	<u>545,000</u>	<u>0</u>	<u>545,000</u>
Interest and fees:					
Interest			321,663		321,663
Paying agent fees			1,550		1,550
	<u>0</u>	<u>0</u>	<u>323,213</u>	<u>0</u>	<u>323,213</u>
<b>TOTAL EXPENDITURES</b>	<u>\$5,488,174</u>	<u>\$ 711,159</u>	<u>\$ 890,908</u>	<u>\$1,565,988</u>	<u>\$8,656,229</u>

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS  
ALL GOVERNMENTAL FUND TYPES

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FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS</b>					
Cash receipts from revenues excluding maintenance taxes	\$ 5,247,473	\$ 689,647	\$ 625,013	\$ 30,770	\$ 6,592,903
Maintenance tax collections			987,981		987,981
Maintenance tax transfers	940,046				940,046
Receipt of impact fees due to other fund	257,812				257,812
Increase in customer and builder deposits	57,045				57,045
Decrease in reserve at WWTP	41,004				41,004
Capital contributions from WWTP participants	227,469				227,469
Receipt of interfund receivable				41,181	41,181
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED</b>	<u>6,770,849</u>	<u>689,647</u>	<u>1,612,994</u>	<u>71,951</u>	<u>9,145,441</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>					
Cash disbursements for:					
Current expenditures	3,852,634	688,904	22,834	35	4,564,407
Capital outlay	1,420,540			1,331,050	2,751,590
Debt service			868,213		868,213
Other fund	166,255			4,409	170,664
Payments from capital contributions	217,855				217,855
Decrease in reserve at WWTP		50,035			50,035
Maintenance tax transfers			940,046		940,046
Payment of interfund payable	41,181				41,181
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED</b>	<u>5,698,465</u>	<u>738,939</u>	<u>1,831,093</u>	<u>1,335,494</u>	<u>9,603,991</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	1,072,384	(49,292)	(218,099)	(1,263,543)	(458,550)
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>9,174,784</u>	<u>518,589</u>	<u>1,433,270</u>	<u>3,563,227</u>	<u>14,689,870</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$10,247,168</u>	<u>\$ 469,297</u>	<u>\$ 1,215,171</u>	<u>\$ 2,299,684</u>	<u>\$14,231,320</u>

See accompanying independent auditor's report.



SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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SCHEDULE OF TEMPORARY INVESTMENTS

SEPTEMBER 30, 2020

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
<b>GENERAL FUND</b>				
TexPool				
No. 1012300006	Market	On demand	\$ <u>9,797,287</u>	\$ <u>0</u>
<b>SPECIAL REVENUE FUND</b>				
TexPool				
No. 1012300007	Market	On demand	\$ <u>400,675</u>	\$ <u>0</u>
<b>DEBT SERVICE FUND</b>				
TexPool				
No. 1012300004	Market	On demand	\$ 949,297	\$ 0
No. 1012300001	Market	On demand	<u>226,136</u>	<u>0</u>
			<u>\$ 1,175,433</u>	<u>\$ 0</u>
<b>CAPITAL PROJECTS FUND</b>				
TexPool				
No. 1012300005	Market	On demand	\$ 1,733,450	\$ 0
No. 1012300009	Market	On demand	7,689	0
No. 1012300011	Market	On demand	<u>535,457</u>	<u>0</u>
			<u>\$ 2,276,596</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 13,649,991</u>	<u>\$ 0</u>

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

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TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 29,061	\$ 22,495
Additions and corrections to prior year taxes	<u>(5,540)</u>	<u>(4,656)</u>
Adjusted receivable, beginning of year	23,521	17,839
2019 ADJUSTED TAX ROLL	<u>1,001,710</u>	<u>601,026</u>
Total to be accounted for	1,025,231	618,865
Tax collections: Current tax year	(984,660)	(590,796)
Prior tax years	<u>(3,321)</u>	<u>(2,063)</u>
RECEIVABLE, END OF YEAR	<u>\$ 37,250</u>	<u>\$ 26,006</u>
RECEIVABLE, BY TAX YEAR		
2009 and prior	\$ 343	\$ 471
2010	946	1,169
2011	986	1,249
2012	574	726
2013	831	1,046
2014	838	985
2015	1,087	932
2016	3,407	2,485
2017	4,801	2,881
2018	6,387	3,832
2019	<u>17,050</u>	<u>10,230</u>
RECEIVABLE, END OF YEAR	<u>\$ 37,250</u>	<u>\$ 26,006</u>

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

DRAFT

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2020

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 307,300,950	\$ 297,487,620	\$ 247,432,340	\$ 242,790,790
Improvements	678,970,030	624,000,960	652,243,700	658,566,145
Personal property	130,852,643	130,756,394	125,674,595	123,305,273
Less exemptions	<u>(116,217,953)</u>	<u>(106,117,752)</u>	<u>(109,116,992)</u>	<u>(112,924,120)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 1,000,905,670</u>	 <u>\$ 946,127,222</u>	 <u>\$ 916,233,643</u>	 <u>\$ 911,738,088</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.06000	\$ 0.06000	\$ 0.06000	\$ 0.07000
Maintenance tax rates*	<u>0.10000</u>	<u>0.10000</u>	<u>0.10000</u>	<u>0.09600</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.16000</u>	 <u>\$ 0.16000</u>	 <u>\$ 0.16000</u>	 <u>\$ 0.16600</u>
 TAX ROLLS	 <u>\$ 1,602,736</u>	 <u>\$ 1,517,434</u>	 <u>\$ 1,472,185</u>	 <u>\$ 1,520,233</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>98.3 %</u>	 <u>99.3 %</u>	 <u>99.5 %</u>	 <u>99.6 %</u>

\*Maximum tax rate approved by voters on April 7, 1979: \$0.10

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

DRAFT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARSSEPTEMBER 30, 2020

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2012</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2021	\$ 335,000	\$ 35,063	\$ 370,063
2022	355,000	22,100	377,100
2023	<u>375,000</u>	<u>7,500</u>	<u>382,500</u>
TOTALS	<u>\$ 1,065,000</u>	<u>\$ 64,663</u>	<u>\$ 1,129,663</u>

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

DRAFT

SEPTEMBER 30, 2020

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2016</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2021	\$ 210,000	\$ 179,400	\$ 389,400
2022	220,000	174,000	394,000
2023	225,000	167,325	392,325
2024	230,000	160,500	390,500
2025	235,000	153,525	388,525
2026	250,000	145,000	395,000
2027	260,000	134,800	394,800
2028	270,000	124,200	394,200
2029	280,000	113,200	393,200
2030	290,000	101,800	391,800
2031	305,000	89,900	394,900
2032	315,000	77,500	392,500
2033	330,000	64,600	394,600
2034	340,000	51,200	391,200
2035	355,000	37,300	392,300
2036	370,000	22,800	392,800
2037	385,000	7,700	392,700
TOTALS	<u>\$ 4,870,000</u>	<u>\$ 1,804,750</u>	<u>\$ 6,674,750</u>

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

DRAFT

SEPTEMBER 30, 2020

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2018</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2021	\$	\$ 92,088	\$ 92,088
2022		92,087	92,087
2023		92,088	92,088
2024	175,000	90,118	265,118
2025	175,000	86,181	261,181
2026	200,000	81,838	281,838
2027	200,000	77,088	277,088
2028	200,000	72,212	272,212
2029	225,000	66,900	291,900
2030	225,000	60,994	285,994
2031	250,000	54,150	304,150
2032	250,000	46,650	296,650
2033	250,000	39,150	289,150
2034	275,000	31,275	306,275
2035	275,000	23,025	298,025
2036	300,000	14,400	314,400
2037	330,000	4,950	334,950
TOTALS	<u>\$ 3,330,000</u>	<u>\$ 1,025,194</u>	<u>\$ 4,355,194</u>

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

DRAFT

SEPTEMBER 30, 2020

<u>Due During Fiscal Years Ending September 30</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2021	\$ 545,000	\$ 306,551	\$ 851,551
2022	575,000	288,187	863,187
2023	600,000	266,913	866,913
2024	405,000	250,618	655,618
2025	410,000	239,706	649,706
2026	450,000	226,838	676,838
2027	460,000	211,888	671,888
2028	470,000	196,412	666,412
2029	505,000	180,100	685,100
2030	515,000	162,794	677,794
2031	555,000	144,050	699,050
2032	565,000	124,150	689,150
2033	580,000	103,750	683,750
2034	615,000	82,475	697,475
2035	630,000	60,325	690,325
2036	670,000	37,200	707,200
2037	715,000	12,650	727,650
TOTALS	\$ 9,265,000	\$ 2,894,607	\$ 12,159,607

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

DRAFT

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Totals</u>
Bond Series:	2012	2016	2018	
Interest Rate:	3.50% to 4.00%	2.00% to 4.00%	2.25% to 3.00%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	March 1/ September 1	
Maturity Dates:	March 1, 2021/2023	March 1, 2021/2037	March 1, 2024/2037	
Bonds Outstanding at Beginning of Current Year	\$ 1,405,000	\$ 5,075,000	\$ 3,330,000	\$ 9,810,000
Less Retirements	<u>(340,000)</u>	<u>(205,000)</u>	<u>0</u>	<u>(545,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 1,065,000</u>	<u>\$ 4,870,000</u>	<u>\$ 3,330,000</u>	<u>\$ 9,265,000</u>
Current Year Interest Paid	<u>\$ 46,025</u>	<u>\$ 183,550</u>	<u>\$ 92,088</u>	<u>\$ 321,663</u>

Bond Descriptions and Original Amount of Issue

- (1) Southern Montgomery County Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Refunding Bonds, Series 2012 (\$3,095,000)
- (2) Southern Montgomery County Municipal Utility District Unlimited Tax Refunding Bonds, Series 2016 (\$5,655,000)
- (3) Southern Montgomery County Municipal Utility District Unlimited Tax Bonds, Series 2018 (\$3,330,000)

Paying Agent/Registrar

- (1) Wells Fargo Bank, National Association, Dallas, Texas
- (2) (3) Amegy Bank, a division of ZB, National Association, Houston, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 21,550,000	\$ 0	
Amount Issued:	18,235,000		\$ 2,224,048
Remaining to be Issued:	3,315,000		

Net Debt Service Fund deposits and investments balances as of September 30, 2020:	\$ 226,845
Average annual debt service payment for remaining term of all debt:	715,271

See accompanying independent auditor's report.



SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
<b>REVENUES</b>										
Property taxes	\$ 987,981	\$ 940,046	\$ 917,598	\$ 874,147	\$ 783,925	15.7 %	16.9 %	16.6 %	16.2 %	15.0 %
Water service	1,114,236	969,841	1,035,059	1,050,598	1,066,146	17.6	17.5	18.7	19.4	20.5
Sewer service	1,080,757	1,023,459	1,050,895	1,046,370	1,044,401	17.0	18.4	19.0	19.3	20.0
Surface water fees	1,339,356	1,112,075	1,150,258	1,146,248	1,097,424	21.1	20.1	20.8	21.3	21.1
Reclaimed water sales	32,878	22,398	25,451	17,578	9,232	0.5	0.4	0.5	0.3	0.2
Penalty	27,347	32,513	31,272	0	35,072	0.4	0.6	0.6	0.0	0.7
Tap connection and sewer inspection fees	308,329	111,715	146,106	270,982	98,356	4.9	2.0	2.6	5.0	1.9
Sales and Use Taxes	1,327,717	1,104,096	1,047,119	899,267	1,033,624	20.9	19.9	18.9	16.6	19.8
Interest on deposits and investments	86,677	203,333	113,346	45,584	18,025	1.4	3.7	2.0	0.8	0.3
Other revenues	34,864	29,177	18,460	59,130	24,846	0.5	0.5	0.3	1.1	0.5
<b>TOTAL REVENUES</b>	<b>6,340,142</b>	<b>5,548,653</b>	<b>5,535,564</b>	<b>5,409,904</b>	<b>5,211,051</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EXPENDITURES</b>										
Service operations:										
Purchased sewer services	523,921	425,404	560,575	503,174	493,292	8.3	7.7	10.1	9.3	9.5
Personnel	580,732	521,950	481,363	428,390	409,183	9.2	9.4	8.7	7.9	7.9
Professional fees	105,152	148,977	129,306	153,739	91,467	1.7	2.7	2.3	2.8	1.8
Utilities	126,125	100,452	127,896	141,046	129,484	2.0	1.8	2.3	2.6	2.5
Surface water pumpage fees	1,185,724	1,079,836	1,174,649	992,084	1,032,426	18.7	19.4	21.3	18.3	19.7
Repairs and maintenance	411,932	297,774	339,275	321,960	316,651	6.5	5.4	6.1	6.0	6.1
Other operating expenditures	68,606	57,517	58,325	57,633	54,517	1.1	1.0	1.1	1.1	1.0
Garbage disposal	262,047	251,380	252,077	255,670	251,759	4.1	4.5	4.6	4.7	4.8
Security service	462,183	519,705	549,901	488,267	537,229	7.3	9.4	9.9	9.0	10.3
Administrative expenditures	123,357	109,582	116,061	116,225	121,265	1.9	2.0	2.1	2.1	2.3
Capital outlay	1,638,395	721,773	954,137	1,191,251	1,699,690	25.8	13.0	17.2	22.1	32.7
<b>TOTAL EXPENDITURES</b>	<b>5,488,174</b>	<b>4,234,350</b>	<b>4,743,565</b>	<b>4,649,439</b>	<b>5,136,963</b>	<b>86.6</b>	<b>76.3</b>	<b>85.7</b>	<b>85.9</b>	<b>98.6</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ 851,968</b>	<b>\$ 1,314,303</b>	<b>\$ 791,999</b>	<b>\$ 760,465</b>	<b>\$ 74,088</b>	<b>13.4 %</b>	<b>23.7 %</b>	<b>14.3 %</b>	<b>14.1 %</b>	<b>1.4 %</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,955</b>	<b>1,876</b>	<b>1,869</b>	<b>1,866</b>	<b>1,870</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,768</b>	<b>1,772</b>	<b>1,764</b>	<b>1,761</b>	<b>1,770</b>					

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
<b>REVENUES</b>										
Property taxes	\$ 592,859	\$ 564,182	\$ 553,171	\$ 637,867	\$ 673,119	94.8 %	91.9 %	91.5 %	96.2 %	98.7 %
Penalty and interest	16,808	11,246	12,466	10,530	12,611	2.7	1.8	2.1	1.6	1.2
Accrued interest on bonds received at date of sale	0	0	3,581	0	14,790	0.0	0.0	0.6	0.0	0.0
Interest on deposits and investments	15,346	38,534	34,832	14,698	6,709	2.5	6.3	5.8	2.2	0.1
<b>TOTAL REVENUES</b>	<b>625,013</b>	<b>613,962</b>	<b>604,050</b>	<b>663,095</b>	<b>707,229</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EXPENDITURES</b>										
Current:										
Professional fees	7,924	3,877	895	815	796	1.3	0.6	0.1	0.1	0.1
Contracted services	14,306	14,157	14,069	13,760	12,812	2.3	2.3	2.3	2.1	1.8
Other expenditures	465	800	400	840	581	0.1	0.1	0.1	0.1	0.1
Debt service:										
Principal retirement	545,000	545,000	535,000	515,000	455,000	87.1	88.8	88.6	77.7	64.3
Refunding contribution	0	0	0	0	118,000	0.0	0.0	0.0	0.0	16.7
Interest and fees	323,213	337,568	312,055	270,013	218,510	51.7	55.0	51.7	40.7	30.9
<b>TOTAL EXPENDITURES</b>	<b>890,908</b>	<b>901,402</b>	<b>862,419</b>	<b>800,428</b>	<b>805,699</b>	<b>142.5</b>	<b>146.8</b>	<b>142.8</b>	<b>120.7</b>	<b>113.9</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ (265,895)</b>	<b>\$ (287,440)</b>	<b>\$ (258,369)</b>	<b>\$ (137,333)</b>	<b>\$ (98,470)</b>	<b>(42.5) %</b>	<b>(46.8) %</b>	<b>(42.8) %</b>	<b>(20.7) %</b>	<b>(13.9) %</b>

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT

DRAFT

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2020

Complete District Mailing Address: Southern Montgomery County Municipal Utility District  
25212 I-45 North  
Spring, Texas 77386

District Business Telephone No.: 281-367-5383

Submission date of the most recent District Registration Form: November 3, 2020

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

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Bruce Harrison 25212 I-45 North Spring, Texas 77386	Elected 5/05/18- 5/07/22	\$ 6,150	\$ 929	President
Terry Davis 25212 I-45 North Spring, Texas 77386	Elected 5/05/18- 5/07/22	6,000	588	Vice President
Patrick Atkinson 25212 I-45 North Spring, Texas 77386	Elected 5/05/18- 5/07/22	4,350	0	Secretary
Constance Kaylor 25212 I-45 North Spring, Texas 77386	Elected 5/02/20- 5/04/24	4,650	277	Treasurer
Greg Belanger 25212 I-45 North Spring, Texas 77386	Elected 5/02/20- 5/04/24	3,600	550	Director

See accompanying independent auditor's report.

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

DRAFT

SEPTEMBER 30, 2020

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	2/7/01	\$ 64,410	Attorney
Linebarger, Goggan, Blair & Sampson, L.L.P. P. O. Drawer 2789 Texas City, Texas 77592-2789	1/26/11	5,809	Delinquent Tax Attorney
Cobb, Fendley & Associates, Inc. 13430 Northwest Freeway, Suite 1100 Houston, Texas 77040	9/5/01	239,242	Engineer
Tammy McRae Montgomery County TAC 400 N. San Jacinto Conroe, Texas 77301	2/9/00	936	Tax Assessor- Collector
Montgomery Central Appraisal District P.O. Box 2233 Conroe, Texas 77305	Legislative Action	13,370	Central Appraisal District
The GMS Group, Inc. 5075 Westheimer, Suite 1175 Houston, Texas 77056	10/11/95	1,000	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	8/12/91	15,050	Independent Auditor

See accompanying independent auditor's report.

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SOUTHERN MONTGOMERY COUNTY  
MUNICIPAL UTILITY DISTRICT  
WASTEWATER TREATMENT PLANT  
COMPONENT UNIT FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020

C O N T E N T S

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL	4
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# Mark C. Eyring, CPA, PLLC

DRAFT

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12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Mark@EyringCPA.com

January 18, 2021

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southern Montgomery County  
Municipal Utility District  
Montgomery County, Texas

I have audited the accompanying financial statements of Southern Montgomery County Municipal Utility District Wastewater Treatment Plant, a component unit of Southern Montgomery County Municipal Utility District, which comprise the assets and liabilities-contractual basis as of September 30, 2020, and the revenues and expenditures-contractual basis for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the contract among the participants in the Southern Montgomery County Municipal Utility District Wastewater Treatment Plant as discussed in Note 2 of the notes to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risk of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of Southern Montgomery County Municipal Utility District Wastewater Treatment Plant as of September 30, 2020, and the revenues and expenditures in accordance with the financial reporting provisions of the contract.

INDEPENDENT AUDITOR'S REPORT (Continued)

DRAFT

I draw attention to Note 2 of the notes to the financial statements, which describes the basis of accounting. The financial statements are prepared by Southern Montgomery County Municipal Utility District Wastewater Treatment Plant on the basis of the financial reporting provisions of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract referred to above. My opinion is not modified with respect to this matter.

My report is intended solely for the information and use of the boards of directors of the participants in the Southern Montgomery County Municipal Utility District Wastewater Treatment Plant and is not intended to be and should not be used by anyone other than these specified parties.



SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
WASTEWATER TREATMENT PLANT

DRAFT

BALANCE SHEET

SEPTEMBER 30, 2020

ASSETS

Cash, including interest-bearing deposits, Note 5		\$ 68,622
Temporary investments, at cost, Note 5		400,675
Due from participants, Note 3:		
City of Oak Ridge North		<u>16,101</u>
 TOTAL ASSETS		 <u><u>\$ 485,398</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES		
Accounts payable		\$ 23,083
Due to participants, Note 3:		
Conroe ISD	\$ 3,061	
Southern Montgomery County Municipal Utility District	294,664	<u>297,725</u>
 TOTAL LIABILITIES		 <u><u>320,808</u></u>
FUND BALANCE		
Operating reserve:		
Southern Montgomery County Municipal Utility District	122,766	
City of Oak Ridge North	37,138	
Conroe ISD	<u>4,686</u>	<u>164,590</u>
 TOTAL LIABILITIES AND FUND BALANCE		 <u><u>\$ 485,398</u></u>

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

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
WASTEWATER TREATMENT PLANT

DRAFT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES			
From participants, Note 3:			
Southern Montgomery County			
Municipal Utility District:			
Operating costs	484,226	523,921	39,695
City of Oak Ridge North:			
Flow meter expenditures	0	8,304	8,304
Operating costs	150,503	138,512	(11,991)
Conroe ISD:			
Flow meter expenditures	0	24,912	24,912
Operating costs	<u>19,631</u>	<u>12,045</u>	<u>(7,586)</u>
Total revenues from participants	654,360	707,694	53,334
Interest on deposits and investments	<u>4,000</u>	<u>3,465</u>	<u>(535)</u>
TOTAL REVENUES	<u>658,360</u>	<u>711,159</u>	<u>52,799</u>
EXPENDITURES			
Personnel	140,000	168,494	28,494
Professional fees:			
Audit fees	3,800	3,800	0
Legal fees and expenses	1,000	697	(303)
Engineering	1,000	4,947	3,947
Utilities	200,250	172,486	(27,764)
Repairs and maintenance	118,180	132,471	14,291
Flow meter expenditures	2,800	33,216	30,416
Other operating expenditures:			
Sludge disposal	90,000	89,294	(706)
Chemicals	26,000	32,371	6,371
Laboratory expense	37,650	37,880	230
Other	7,025	5,856	(1,169)
Administrative expenditures:			
Insurance	13,000	12,806	(194)
Permit fees	15,000	14,955	(45)
Other	2,655	1,886	(769)
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>658,360</u>	<u>711,159</u>	<u>52,799</u>
EXCESS REVENUES (EXPENDITURES)	0	0	0
OTHER FINANCING SOURCES (USES)			
Increase (decrease) in operating reserve	<u>0</u>	<u>(50,035)</u>	<u>(50,035)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>214,625</u>	<u>214,625</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 214,625</u>	<u>\$ 164,590</u>	<u>\$ (50,035)</u>

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

SOUTHERN MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT  
WASTEWATER TREATMENT PLANT

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NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1: REPORTING ENTITY

Effective January 1, 2006, Southern Montgomery County Municipal Utility District (the "District") entered into forty year agreements with the City of Oak Ridge North and the Conroe ISD for the operation and maintenance of the District's wastewater treatment plant ( the "WWTP") which serves the participating entities. Under the terms of the agreements, each participant's share of the capacity in the WWTP is as follows: Southern Montgomery Municipal Utility District -- 70.25%; City of Oak Ridge North -- 25.00%; Conroe Independent School District -- 4.75%. The agreements also address any future construction and financing of major capital costs of replacement and/or expansion of the WWTP. The WWTP issues no debt.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with the agreements among the participants in the WWTP. The cost sharing provisions are described in Note 3. In accordance with these provisions, all expenditures, whether unpaid or not, are accrued and are recorded as billings to participants.

Budget

In accordance with the provisions of the contracts, the District adopts an annual budget for the WWTP which is reflected in the financial statements. This budget may be amended throughout the fiscal year with proper notification to participants and is prepared on a basis consistent with the contractual basis of accounting.

NOTE 3: COST SHARING

The agreements provide that costs of operating and maintaining the WWTP are to be shared based upon the metered flow of each participant's input to the plant. Participants are billed a monthly amount based upon the annual budget of the WWTP and each participant's prior year metered flow. At the end of each fiscal year, the actual costs of operating the WWTP are determined and the actual costs are allocated to participants based upon the actual metered flow for the fiscal year. Each participant is to first pay any actual costs of metering the flows of that participant; second, any costs equal to any Excessive Flow fees and third, the participant's allocated share of the remaining costs. Any differences between the billed amounts and actual costs are billed or paid to the participants, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

DRAFT

The agreements state that the construction and financing of major capital costs of replacement and/or expansion of the WWTP shall be in proportion to the capacity owned by each participant.

A summary of the charges to the participants for the year ended September 30, 2020, is as follows:

	<u>SMCM</u>	<u>CORN</u>	<u>CISD</u>	<u>Totals</u>
Metered flow in MGD (annual)	<u>325.270</u>	<u>85.993</u>	<u>7.478</u>	<u>418.741</u>
Flow meter charges at cost	\$	\$ 8,304	\$ 24,912	\$ 33,216
Excessive Flow fees				0
Allocation of net expenditures based upon metered flow	<u>523,921</u>	<u>138,512</u>	<u>12,045</u>	<u>674,478</u>
Gross charges to participants	523,921	146,816	36,957	707,694
Allocation of capital outlay based upon ownership percent	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net charges to participants	523,921	146,816	36,957	707,694
Billings to participants	<u>(491,062)</u>	<u>(156,858)</u>	<u>(43,656)</u>	<u>(691,576)</u>
Net under (over) billings	32,859	(10,042)	(6,699)	16,118
Refunds made, net of (receipts)	(88,427)	9,999	(1,527)	(79,955)
Billings receivable, end of year	40,922	26,143	3,638	70,703
Net amount due from (to) participants, beginning of year	<u>(280,018)</u>	<u>(9,999)</u>	<u>1,527</u>	<u>(288,490)</u>
Net amount due from (to) participants, end of year	<u>\$ (294,664)</u>	<u>\$ 16,101</u>	<u>\$ (3,061)</u>	<u>\$ (281,624)</u>

NOTE 4: RISK MANAGEMENT

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

At September 30, 2020, the WWTP had property damage and boiler and machinery coverage of \$7,072,070, liability coverage of \$1,000,000 and \$2,000,000 general aggregate with the Texas Municipal League Intergovernmental Risk Pool (the "Pool"). The Pool is a public entity risk pool currently operating as a common risk management and insurance program for various Texas public entities. The District pays annual premiums for its general insurance coverage. The Pool purchases reinsurance for protection against catastrophic losses that exceed the Pool's self-insurance retention. This reinsurance is purchased from companies rated A- or higher by A. M. Best Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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## NOTE 5: DEPOSITS

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

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the WWTP's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$400,675.