

SAN LEON MUNICIPAL UTILITY DISTRICT
GALVESTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
JUNE 30, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

SAN LEON MUNICIPAL UTILITY DISTRICT

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Leon Municipal Utility District
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of San Leon Municipal Utility District (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
San Leon Municipal
Utility District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The supplementary information and the Other Supplementary Information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 18, 2019

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Management's discussion and analysis of San Leon Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes the District's assets, liabilities, and, if applicable, deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

FUND FINANCIAL STATEMENTS (Continued)

The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explains the differences between the two presentations and assists in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$5,400,749 as of June 30, 2019. A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities as well as vehicles and equipment less any debt used to acquire those assets that is still outstanding).

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A comparative analysis of government-wide changes in net position is presented below:

| | Summary of Changes in the Statement of Net Position | | |
|---|---|---------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Current and Other Assets | \$ 5,547,022 | \$ 6,201,514 | \$ (654,492) |
| Capital Assets (Net of Accumulated Depreciation) | 11,612,344 | 11,588,260 | 24,084 |
| Total Assets | \$ 17,159,366 | \$ 17,789,774 | \$ (630,408) |
| Bonds and Notes Payable | \$ 11,004,259 | \$ 11,501,090 | \$ 496,831 |
| Other Liabilities | 754,358 | 679,155 | (75,203) |
| Total Liabilities | \$ 11,758,617 | \$ 12,180,245 | \$ 421,628 |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 1,623,937 | \$ 2,569,789 | \$ (945,852) |
| Restricted | 1,686,588 | 1,803,217 | (116,629) |
| Unrestricted | 2,090,224 | 1,236,523 | 853,701 |
| Total Net Position | \$ 5,400,749 | \$ 5,609,529 | \$ (208,780) |

The following table provides a summary of the District's operations for the years ending June 30, 2019, and June 30, 2018.

| | Summary of Changes in the Statement of Activities | | |
|---------------------------------|---|--------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 1,612,478 | \$ 1,525,055 | \$ 87,423 |
| Charges for Services | 3,693,329 | 3,296,214 | 397,115 |
| Other Revenues | 196,423 | 183,631 | 12,792 |
| Total Revenues | \$ 5,502,230 | \$ 5,004,900 | \$ 497,330 |
| Expenses for Services | 5,711,010 | 5,039,468 | (671,542) |
| Change in Net Position | \$ (208,780) | \$ (34,568) | \$ (174,212) |
| Net Position, Beginning of Year | 5,609,529 | 5,644,097 | (34,568) |
| Net Position, End of Year | \$ 5,400,749 | \$ 5,609,529 | \$ (208,780) |

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2019, were \$4,614,490, a decrease of \$758,598 from the prior year.

The General Fund fund balance increased by \$822,585, primarily due to transfers from the Capital Projects Fund to reimburse for inflow and infiltration expenditures.

The Debt Service Fund fund balance decreased by \$114,416, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance decreased by \$1,466,767, primarily due to transfers to the General Fund and expenditures paid from bond proceeds received in a prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$141,506 lower than budgeted revenues, primarily due to lower than anticipated service revenues, offset by higher than anticipated tap connection and inspection fees and miscellaneous revenues. Actual expenditures exceeded budgeted expenditures by \$123,792, primarily due to higher than anticipated repairs and maintenance and bad debt expense, offset by transfers from the Capital Projects Fund to reimburse capital costs.

CAPITAL ASSETS

Capital assets as of June 30, 2019, total \$11,612,344 (net of accumulated depreciation) and include land, buildings, vehicles and equipment as well as the water and wastewater systems. Construction in progress includes costs related to the Wastewater Treatment Plant Expansion and generator replacement.

| Capital Assets At Year-End, Net of Accumulated Depreciation | | | |
|---|----------------------|----------------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 151,807 | \$ 151,807 | \$ |
| Construction in Progress | 491,660 | | 491,660 |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Buildings, Vehicles, and Equipment | 274,433 | 341,355 | (66,922) |
| Water System | 5,391,779 | 5,561,816 | (170,037) |
| Wastewater System | 5,302,665 | 5,533,282 | (230,617) |
| Total Net Capital Assets | <u>\$ 11,612,344</u> | <u>\$ 11,588,260</u> | <u>\$ 24,084</u> |

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

LONG-TERM DEBT ACTIVITY

As of June 30, 2019, the District had total bond debt payable of \$11,065,000. The changes in the debt position of the District during the fiscal year ended June 30, 2019, are summarized as follows:

| | |
|----------------------------------|----------------------|
| Bond Debt Payable, July 1, 2018 | \$ 11,530,000 |
| Less: Bond Principal Paid | <u>465,000</u> |
| Bond Debt Payable, June 30, 2019 | <u>\$ 11,065,000</u> |

The District's Series 2013 and 2017 bonds carry insured ratings of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation and Municipal Assurance Corp., respectively. The District's underlying rating is "BBB+" (S&P) and "A3" (Moody's).

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to San Leon Municipal Utility District, 443 24th Street, San Leon, Texas 77539.

SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2019

| | General Fund | Debt Service Fund |
|--|---------------------|----------------------|
| ASSETS | | |
| Cash | \$ 776,950 | \$ 121,952 |
| Investments | 1,556,912 | 1,331,113 |
| Cash with Galveston County Tax Office | 2,269 | 1,750 |
| Receivables: | | |
| Property Taxes | 138,731 | 118,651 |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts (Net of Allowance for | | |
| Doubtful Accounts of \$130,000) | 299,227 | |
| Due from Other Funds | | 192,330 |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 2,774,089 | \$ 1,765,796 |

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

| Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|--------------------------|---------------------|----------------------|------------------------------|
| \$ 354,048 | \$ 1,252,950 | \$ | \$ 1,252,950 |
| 805,419 | 3,693,444 | | 3,693,444 |
| | 4,019 | | 4,019 |
| | 257,382 | | 257,382 |
| | | 40,000 | 40,000 |
| | 299,227 | | 299,227 |
| 497 | 192,827 | (192,827) | |
| | | 151,807 | 151,807 |
| | | 491,660 | 491,660 |
| | | 10,968,877 | 10,968,877 |
| <u>\$ 1,159,964</u> | <u>\$ 5,699,849</u> | <u>\$ 11,459,517</u> | <u>\$ 17,159,366</u> |

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

SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2019

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 196,238 | \$ |
| Accrued Interest Payable | | |
| Due to Other Funds | 192,827 | |
| Security Deposits | 294,800 | |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 683,865 | \$ - 0 - |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ 138,731 | \$ 118,651 |
| FUND BALANCES | | |
| Restricted for Authorized Construction | \$ | \$ |
| Restricted for Debt Service | | 1,647,145 |
| Unassigned | 1,951,493 | |
| TOTAL FUND BALANCES | \$ 1,951,493 | \$ 1,647,145 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 2,774,089 | \$ 1,765,796 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|--------------------------|---------------------|-----------------------|------------------------------|
| \$ 144,112 | \$ 340,350 | \$ | \$ 340,350 |
| | 192,827 | 119,208 | 119,208 |
| | 294,800 | (192,827) | 294,800 |
| | | 490,000 | 490,000 |
| | | 10,514,259 | 10,514,259 |
| <u>\$ 144,112</u> | <u>\$ 827,977</u> | <u>\$ 10,930,640</u> | <u>\$ 11,758,617</u> |
| <u>\$ - 0 -</u> | <u>\$ 257,382</u> | <u>\$ (257,382)</u> | <u>\$ - 0 -</u> |
| \$ 1,015,852 | \$ 1,015,852 | \$ (1,015,852) | \$ |
| | 1,647,145 | (1,647,145) | |
| | 1,951,493 | (1,951,493) | |
| <u>\$ 1,015,852</u> | <u>\$ 4,614,490</u> | <u>\$ (4,614,490)</u> | <u>\$ - 0 -</u> |
| <u>\$ 1,159,964</u> | <u>\$ 5,699,849</u> | | |
| | | \$ 1,623,937 | \$ 1,623,937 |
| | | 1,686,588 | 1,686,588 |
| | | 2,090,224 | 2,090,224 |
| | | <u>\$ 5,400,749</u> | <u>\$ 5,400,749</u> |

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

**SAN LEON MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

| | | |
|--|----|-----------|
| Total Fund Balances - Governmental Funds | \$ | 4,614,490 |
|--|----|-----------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|--|--|------------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. | | 11,612,344 |
|--|--|------------|

| | | |
|--|--|---------|
| Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District. | | 297,382 |
|--|--|---------|

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

| | | |
|--|---------------------|---------------------|
| Accrued Interest Payable | \$ (119,208) | |
| Bonds Payable | <u>(11,004,259)</u> | <u>(11,123,467)</u> |
| Total Net Position - Governmental Activities | | <u>\$ 5,400,749</u> |

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

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SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

| | General Fund | Debt Service Fund |
|---|----------------------------|----------------------------|
| REVENUES | | |
| Property Taxes | \$ 936,834 | \$ 652,330 |
| Water Service | 1,352,900 | |
| Wastewater Service | 1,029,799 | |
| Street Lighting | 124,587 | |
| Fire Fighting Service | 264,318 | |
| Solid Waste Service | 561,140 | |
| Penalty and Interest | 34,444 | 57,456 |
| Tap Connection and Inspection Fees | 268,685 | |
| Miscellaneous Revenues | 127,887 | 25,790 |
| | <u>\$ 4,700,594</u> | <u>\$ 735,576</u> |
| TOTAL REVENUES | | |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Personnel | \$ 929,969 | \$ |
| Professional Fees | 142,376 | 18,268 |
| Contracted Services | 881,267 | 715 |
| Purchased Water | 514,338 | |
| Utilities | 116,562 | |
| Repairs and Maintenance | 1,253,521 | |
| Street Lighting | 73,372 | |
| Depreciation | | |
| Other | 668,056 | |
| Capital Outlay | | |
| Debt Service: | | |
| Bond Principal | | 465,000 |
| Bond Interest | | 366,009 |
| Note Principal | 29,478 | |
| Note Interest | 553 | |
| | <u>\$ 4,609,492</u> | <u>\$ 849,992</u> |
| TOTAL EXPENDITURES/EXPENSES | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER | | |
| EXPENDITURES/EXPENSES | <u>\$ 91,102</u> | <u>\$ (114,416)</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In(Out) | <u>\$ 731,483</u> | <u>\$ -0-</u> |
| NET CHANGE IN FUND BALANCES | <u>\$ 822,585</u> | <u>\$ (114,416)</u> |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - JULY 1, 2018 | <u>1,128,908</u> | <u>1,761,561</u> |
| FUND BALANCES/NET POSITION - JUNE 30, 2019 | <u><u>\$ 1,951,493</u></u> | <u><u>\$ 1,647,145</u></u> |

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

| Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--------------------------|---------------------|---------------------|----------------------------|
| \$ | \$ 1,589,164 | \$ 23,314 | \$ 1,612,478 |
| | 1,352,900 | | 1,352,900 |
| | 1,029,799 | | 1,029,799 |
| | 124,587 | | 124,587 |
| | 264,318 | | 264,318 |
| | 561,140 | | 561,140 |
| | 91,900 | | 91,900 |
| | 268,685 | | 268,685 |
| 42,746 | 196,423 | | 196,423 |
| <u>\$ 42,746</u> | <u>\$ 5,478,916</u> | <u>\$ 23,314</u> | <u>\$ 5,502,230</u> |
| \$ | \$ 929,969 | \$ | \$ 929,969 |
| | 160,644 | | 160,644 |
| | 881,982 | | 881,982 |
| | 514,338 | | 514,338 |
| | 116,562 | | 116,562 |
| 285,856 | 1,539,377 | | 1,539,377 |
| | 73,372 | | 73,372 |
| | | 467,576 | 467,576 |
| 514 | 668,570 | | 668,570 |
| 491,660 | 491,660 | (491,660) | |
| | | | |
| | 465,000 | (465,000) | |
| | 366,009 | (7,942) | 358,067 |
| | 29,478 | (29,478) | |
| | 553 | | 553 |
| <u>\$ 778,030</u> | <u>\$ 6,237,514</u> | <u>\$ (526,504)</u> | <u>\$ 5,711,010</u> |
| <u>\$ (735,284)</u> | <u>\$ (758,598)</u> | <u>\$ 549,818</u> | <u>\$ (208,780)</u> |
| <u>\$ (731,483)</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| \$ (1,466,767) | \$ (758,598) | \$ 758,598 | \$ |
| | | (208,780) | (208,780) |
| 2,482,619 | 5,373,088 | 236,441 | 5,609,529 |
| <u>\$ 1,015,852</u> | <u>\$ 4,614,490</u> | <u>\$ 786,259</u> | <u>\$ 5,400,749</u> |

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

SAN LEON MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

| | |
|---|---------------------|
| Net Change in Fund Balances - Governmental Funds | \$ (758,598) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. | 23,314 |
| Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | (467,576) |
| Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. | 491,660 |
| Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. | 465,000 |
| Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. | 7,942 |
| Governmental funds report note principal payments as expenditures. However, in the Statement of Net Position, note principal payments are reported as decreases in long-term liabilities. | <u>29,478</u> |
| Change in Net Position - Governmental Activities | <u>\$ (208,780)</u> |

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

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1. CREATION OF DISTRICT

San Leon Municipal Utility District, located in Galveston County, Texas, (the “District”), was created May 26, 1965, by House Bill 1082 Chapter 520, Acts of the 59th Legislature of the State of Texas. Pursuant to the provisions of Chapter 49 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collections and disposal including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on March 28, 1973, and the first bonds were sold on July 10, 1975.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the “Commission”).

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification set forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

| | Years |
|---------------------|-------|
| Buildings | 40 |
| Water System | 10-45 |
| Wastewater System | 10-45 |
| All Other Equipment | 3-20 |

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

Payments are made into the Social Security system for employees of the District. In addition, other retirement plan arrangements have been made as further described in Note 10. The Internal Revenue Service has determined that the directors are considered employees for federal payroll tax purposes only. Directors do not participate in the retirement plan.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

| | Refunding Series 2012 | Series 2013 | Series 2017 |
|---|---------------------------|---------------------------|---------------------------|
| Amounts Outstanding – June 30, 2019 | \$ 1,775,000 | \$ 6,380,000 | \$ 2,910,000 |
| Interest Rates | 3.40% | 3.00% - 4.25% | 2.25% - 3.25% |
| Maturity Dates – Serially Beginning/Ending | September 1, 2019/2025 | September 1, 2019/2033 | September 1, 2019/2037 |
| Interest Payment Dates | September 1/ March 1 | September 1/ March 1 | September 1/ March 1 |
| Callable Dates | N/A | September 1, 2020* | September 1, 2024* |

* On any date thereafter, at a price equal to the par value plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Series 2017 term bonds maturing September 1, 2029, September 1, 2031, September 1, 2033, September 1, 2035 and September 1, 2037 are subject to mandatory redemption beginning September 1, 2028, September 1, 2030, September 1, 2032, September 1, 2034 and September 1, 2036, respectively.

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2019:

| | July 1, 2018 | Additions | Retirements | June 30, 2019 |
|-----------------------|----------------------|----------------------------|-------------------|----------------------|
| Bonds Payable | \$ 11,530,000 | \$ | \$ 465,000 | \$ 11,065,000 |
| Unamortized Discounts | (152,983) | | (10,329) | (142,654) |
| Unamortized Premiums | 94,595 | | 12,682 | 81,913 |
| Bonds Payable, Net | <u>\$ 11,471,612</u> | <u>\$ -0-</u> | <u>\$ 467,353</u> | <u>\$ 11,004,259</u> |
| | | Amount Due Within One Year | | \$ 490,000 |
| | | Amount Due After One Year | | 10,514,259 |
| | | Bonds Payable, Net | | <u>\$ 11,004,259</u> |

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

As of June 30, 2019, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|---------------------|----------------------|
| 2020 | \$ 490,000 | \$ 348,762 | \$ 838,762 |
| 2021 | 510,000 | 330,707 | 840,707 |
| 2022 | 530,000 | 313,075 | 843,075 |
| 2023 | 555,000 | 295,800 | 850,800 |
| 2024 | 575,000 | 277,810 | 852,810 |
| 2025-2029 | 3,300,000 | 1,101,544 | 4,401,544 |
| 2030-2034 | 4,245,000 | 508,606 | 4,753,606 |
| 2035-2038 | 860,000 | 57,009 | 917,009 |
| | <u>\$ 11,065,000</u> | <u>\$ 3,233,313</u> | <u>\$ 14,298,313</u> |

On May 4, 2019, the District voters authorized the issuance of \$39,840,000 in bonds for the purpose of construction and acquisition of water, sewer and drainage facilities and improvements. As of June 30, 2019, the District had authorized but unissued bonds in the amount of \$5,000,000. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

Subsequent to year-end, the District anticipates closing on the sale of its Series 2019 Unlimited Tax Bonds in the amount of \$22,750,000. The District anticipates using the proceeds for the Wastewater Treatment Plant Expansion, 48" outfall line and to finance certain engineering and bond issuance costs. As of the date of this report, the bonds have not been sold.

During the year ended June 30, 2019, the District levied an ad valorem debt service tax rate of \$0.18 per \$100 of assessed valuation, which resulted in a tax levy of \$646,119 on the adjusted taxable valuation of \$358,607,212 for the 2018 tax year. The bond orders require the District to 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. See Note 8 for the maintenance tax levy.

The District's tax calendar is as follows:

- Levy Date - October 1 or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Upon receipt but not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required to provide continuing disclosure of certain general financial information included in an annual audit to certain information repositories. The audit, which includes audited annual financial statements, is to be provided at the end of each fiscal year and shall continue to be provided through the life of the bonds.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,465,777 and the bank balance was \$1,615,774. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2019, as listed below:

| | Cash | Certificate of Deposit | Total |
|-----------------------|---------------------|---------------------------|---------------------|
| GENERAL FUND | \$ 776,950 | \$ 212,827 | \$ 989,777 |
| DEBT SERVICE FUND | 121,952 | | 121,952 |
| CAPITAL PROJECTS FUND | 354,048 | | 354,048 |
| TOTAL DEPOSITS | \$ 1,252,950 | \$ 212,827 | \$ 1,465,777 |

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

The District invests in the Texas Short Term Asset Reserve Program ("TexSTAR"), an external public funds investment pool that is not SEC-registered. J. P. Morgan Investment Management Inc. provides investment management and FirstSouthwest, a Division of Hilltop Securities Inc., provides participant services and marketing under an agreement with the TexSTAR Board of Directors. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investors Services Co. Investments held by TexSTAR are marked to market daily. The investments are considered Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from TexSTAR.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Certificates of deposit are recorded at acquisition cost. As of June 30, 2019, the District had the following investments and maturities:

| <u>Fund and Investment Type</u> | <u>Fair Value</u> | <u>Maturities of Less Than 1 Year</u> |
|-------------------------------------|---------------------------|---|
| <u>GENERAL FUND</u> | | |
| TexPool | \$1,344,085 | \$ 1,344,085 |
| Certificate of Deposit | 212,827 | 212,827 |
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | 1,075,891 | 1,075,891 |
| TexSTAR | 255,222 | 255,222 |
| <u>CAPITAL PROJECTS FUND</u> | | |
| TexSTAR | 805,419 | 805,419 |
| TOTAL INVESTMENTS | <u>\$3,693,444</u> | <u>\$ 3,693,444</u> |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2019, the District's investments in TexPool and TexSTAR were rated AAAM by Standard and Poor's. The District also manages credit risk by typically investing in certificates of deposit with balances below FDIC and NCUA coverages.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexSTAR to have maturities of less than one year due to the fact the share positions can be redeemed each day at the discretion of the District. The District also manages interest rate risk by investing in certificates of deposit with maturities less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 is as follows:

| | July 1, 2018 | Increases | Decreases | June 30, 2019 |
|--|----------------------|---------------------|-----------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 151,807 | \$ | \$ | \$ 151,807 |
| Construction in Progress | | 491,660 | | 491,660 |
| Total Capital Assets Not Being Depreciated | <u>\$ 151,807</u> | <u>\$ 491,660</u> | <u>\$ - 0 -</u> | <u>\$ 643,467</u> |
| Capital Assets Subject to Depreciation | | | | |
| Buildings, Vehicles, and Equipment | \$ 964,807 | \$ | \$ | \$ 964,807 |
| Water System | 7,682,146 | | | 7,682,146 |
| Wastewater System | 10,327,949 | | | 10,327,949 |
| Total Capital Assets Subject to Depreciation | <u>\$ 18,974,902</u> | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | <u>\$ 18,974,902</u> |
| Less Accumulated Depreciation | | | | |
| Buildings, Vehicles, and Equipment | \$ 623,452 | \$ 66,922 | \$ | \$ 690,374 |
| Water System | 2,120,330 | 170,037 | | 2,290,367 |
| Wastewater System | 4,794,667 | 230,617 | | 5,025,284 |
| Total Accumulated Depreciation | <u>\$ 7,538,449</u> | <u>\$ 467,576</u> | <u>\$ - 0 -</u> | <u>\$ 8,006,025</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 11,436,453</u> | <u>\$ (467,576)</u> | <u>\$ - 0 -</u> | <u>\$ 10,968,877</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$ 11,588,260</u> | <u>\$ 24,084</u> | <u>\$ - 0 -</u> | <u>\$ 11,612,344</u> |

NOTE 8. MAINTENANCE TAX

On August 14, 1999, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.30 per \$100 of assessed valuation of taxable property within the District. During the year ended June 30, 2019, the District levied an ad valorem maintenance tax rate of \$0.27 per \$100 of assessed valuation, which resulted in a tax levy of \$969,178 on the adjusted taxable valuation of \$358,607,212 for the 2018 tax year. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's water and sewer system.

NOTE 9. SURFACE WATER SUPPLY CONTRACT

On May 13, 1985, the District executed an agreement with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"). This agreement has been subsequently amended. The contract allows the Authority to acquire, construct and operate a water treatment plant and related water supply system in order to provide potable water to its customers. Charges to the District include its allocation of raw water charges, capital charges and operating and maintenance charges. During the current fiscal year, the District recorded \$514,338 in water costs attributable to this contract. The term of this agreement was extended through December 31, 2027.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10. RETIREMENT PLAN

On March 1, 1997, the District implemented a Simple Individual Retirement Account (IRA) to benefit the employees of the District. This retirement plan calls for the District to match up to 3% of each employee's contribution based on employee gross wages. The accounts are set up in each participating employee's name and are the property of the named employee. During the current year, the District's share of cost associated with this plan was \$17,100.

NOTE 11. STREET LIGHTING

On April 23, 1997, the Texas Legislature passed a bill which allows the District, with voter approval, to install, operate and maintain street lighting. The District can assess the cost of installation, operating and maintaining the street lighting as an additional charge on the monthly billings of the District's customers. In November 1999, the voters of the District approved street lighting for the District. The current street lighting charge is \$3.95 per month per customer. During the current year, the District recorded \$124,587 in revenues and \$73,372 in costs related to street lighting.

NOTE 12. FIRE PREVENTION SERVICES

On August 10, 1982 the District entered into a Fire Prevention Service Agreement with San Leon Volunteer Fire Department. This agreement was amended in 1998, 2006, 2009 and 2011. Effective March 22, 2011, the District began billing a mandatory fee of \$8.00 per month per customer for fire prevention services. During the current fiscal year, the District received \$264,318 in fire prevention service revenues.

NOTE 13. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2019, the General Fund recorded a payable in the amount of \$192,330 to the Debt Service Fund for debt service tax collections and a payable in the amount of \$497 to the Capital Projects Fund for expenditures related to a previous bond issue. During the current fiscal year, the Capital Projects Fund transferred \$731,483 to reimburse the General Fund for inflow and infiltration expenditures paid in a prior year.

NOTE 14. NOTES PAYABLE

In a prior year, the District entered into a 36-month Equipment Financing Agreement with CNH Industrial Capital America LLC to finance a Case CX31B Compact Excavator. The monthly payments were \$1,723 with interest accruing at 5.85% annually on the unpaid balance. This note was paid in full in the current fiscal year.

On October 4, 2016, the District entered into a 36-month Equipment Financing Agreement with CNH Industrial Capital America LLC to finance a Case CX36B Compact Excavator. The monthly payments were \$968 with interest accruing at 1.90% annually on the unpaid balance. This note was paid in full in the current fiscal year.

SAN LEON MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

SAN LEON MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|--|------------------------------|---------------------|------------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 925,000 | \$ 936,834 | \$ 11,834 |
| Water Service | 1,400,000 | 1,352,900 | (47,100) |
| Wastewater Service | 1,300,000 | 1,029,799 | (270,201) |
| Street Lighting | 125,000 | 124,587 | (413) |
| Fire Fighting Service | 275,000 | 264,318 | (10,682) |
| Solid Waste Service | 600,000 | 561,140 | (38,860) |
| Penalty and Interest | 32,500 | 34,444 | 1,944 |
| Tap Connection and Inspection Fees | 150,000 | 268,685 | 118,685 |
| Miscellaneous Revenues | 34,600 | 127,887 | 93,287 |
| TOTAL REVENUES | <u>\$ 4,842,100</u> | <u>\$ 4,700,594</u> | <u>\$ (141,506)</u> |
| EXPENDITURES | | | |
| Services Operations: | | | |
| Personnel | \$ 974,000 | \$ 929,969 | \$ 44,031 |
| Professional Fees | 178,000 | 142,376 | 35,624 |
| Fire Fighting Expenses | 350,000 | 263,976 | 86,024 |
| Solid Waste Service | 625,000 | 599,962 | 25,038 |
| Purchased Water | 490,000 | 514,338 | (24,338) |
| Utilities | 130,000 | 116,562 | 13,438 |
| Repairs and Maintenance | 1,070,000 | 1,253,521 | (183,521) |
| Street Lighting | 85,000 | 73,372 | 11,628 |
| Other | 583,700 | 715,416 | (131,716) |
| TOTAL EXPENDITURES | <u>\$ 4,485,700</u> | <u>\$ 4,609,492</u> | <u>\$ (123,792)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ 356,400</u> | <u>\$ 91,102</u> | <u>\$ (265,298)</u> |
| OTHER FINANCING SOURCES(USES) | | | |
| Transfers In(Out) | <u>\$ - 0 -</u> | <u>\$ 731,483</u> | <u>\$ 731,483</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 356,400</u> | <u>\$ 822,585</u> | <u>\$ 466,185</u> |
| FUND BALANCE - JULY 1, 2018 | <u>1,128,908</u> | <u>1,128,908</u> | |
| FUND BALANCE - JUNE 30, 2019 | <u>\$ 1,485,308</u> | <u>\$ 1,951,493</u> | <u>\$ 466,185</u> |

See accompanying independent auditor's report.

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SAN LEON MUNICIPAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
JUNE 30, 2019

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2019**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective September 18, 2018.

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1,000 Gallons over Minimum Use</u> | <u>Usage Levels</u> |
|-------------|-----------------------|----------------------|----------------------|--|---------------------|
| WATER: | \$ 20.00 | 2,000 | N | \$ 5.50 | 2,001 to 4,000 |
| | | | | \$ 5.75 | 4,001 to 7,000 |
| | | | | \$ 6.00 | 7,001 to 10,000 |
| | | | | \$ 6.25 | 10,001 to 24,000 |
| | | | | \$ 6.50 | 24,001 to 44,000 |
| | | | | \$ 6.75 | 44,001 to 75,000 |
| | | | | \$ 7.00 | 75,001 and up |
| WASTEWATER: | \$ 20.00 | 2,000 | N | \$ 4.50 | 2,001 to 4,000 |
| | | | | \$ 4.75 | 4,001 to 7,000 |
| | | | | \$ 5.00 | 7,001 to 10,000 |
| | | | | \$ 5.25 | 10,001 and up |

SURCHARGE:

| | |
|------------------------|------------------------------|
| Commission | |
| Regulatory Assessments | 0.5% of water and sewer bill |
| Street Lights | \$ 3.95 |
| VFD | \$ 8.00 |
| Garbage | \$ 19.00 |

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$66.25 Wastewater: \$58.25 Surcharge: \$31.57

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

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 | <u>270</u> | <u> </u> | x 1.0 | <u> </u> |
| ≤¾" | <u>3,454</u> | <u>2,756</u> | x 1.0 | <u>2,756</u> |
| 1" | <u>110</u> | <u>99</u> | x 2.5 | <u>248</u> |
| 1½" | <u> </u> | <u> </u> | x 5.0 | <u> </u> |
| 2" | <u>36</u> | <u>34</u> | x 8.0 | <u>272</u> |
| 3" | <u> </u> | <u> </u> | x 15.0 | <u> </u> |
| 4" | <u>4</u> | <u>4</u> | x 25.0 | <u>100</u> |
| 6" | <u> </u> | <u> </u> | x 50.0 | <u> </u> |
| 8" | <u> </u> | <u> </u> | x 80.0 | <u> </u> |
| 10" | <u> </u> | <u> </u> | x 115.0 | <u> </u> |
| Total Water Connections | <u>3,874</u> | <u>2,893</u> | | <u>3,376</u> |
| Total Wastewater Connections | <u>3,874</u> | <u>2,848</u> | x 1.0 | <u>2,848</u> |

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited):

| | | |
|------------------------------|-------------|--|
| Gallons billed to customers: | 156,147,000 | Water Accountability Ratio: 72.4 % (Gallons billed/Gallons purchased) |
| Gallons purchased: | 215,662,000 | From: <u>Gulf Coast Water Authority</u> |

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2019**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Galveston County, Texas

Is the District located within a city is extraterritorial jurisdiction (ETJ)?

Entirely Partly Not at all

ETJ in which district is located:

City of Texas City, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2019

| | |
|---|---------------------|
| PERSONNEL EXPENDITURES (Including Benefits) | |
| Salaries | \$ 667,725 |
| Payroll Taxes | 50,703 |
| Pension | 17,100 |
| Payroll Service | 2,724 |
| Insurance | <u>191,717</u> |
| TOTAL PERSONNEL EXPENDITURES | <u>\$ 929,969</u> |
| PROFESSIONAL FEES: | |
| Auditing | \$ 20,750 |
| Engineering | 95,814 |
| Legal | 23,312 |
| Financial Advisor | <u>2,500</u> |
| TOTAL PROFESSIONAL FEES | <u>\$ 142,376</u> |
| PURCHASED WATER SERVICE | <u>\$ 514,338</u> |
| CONTRACTED SERVICES: | |
| Tax Collection and Appraisal District | <u>\$ 12,999</u> |
| UTILITIES: | |
| Electricity | \$ 98,399 |
| Telephone | <u>18,163</u> |
| TOTAL UTILITIES | <u>\$ 116,562</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 1,253,521</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Computer/Internet | \$ 37,818 |
| Director Fees | 9,300 |
| Dues | 1,385 |
| Insurance | 76,945 |
| Office Supplies and Postage | 44,608 |
| Rents and Leases | 14,384 |
| Payroll Taxes | 2,990 |
| Election Costs | 13,054 |
| Training | 8,506 |
| Travel and Meetings | 4,183 |
| Other | <u>22,997</u> |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 236,170</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2019

| | |
|---------------------------------|----------------------------|
| SOLID WASTE DISPOSAL | \$ <u>599,962</u> |
| SECURITY | \$ <u>4,330</u> |
| FIRE FIGHTING | \$ <u>263,976</u> |
| STREET LIGHTING | \$ <u>73,372</u> |
| OTHER EXPENDITURES: | |
| Auto and Vehicle Expenditures | \$ 3,945 |
| Bad Debt Expense | 130,000 |
| Chemicals | 23,944 |
| Fuel | 9,773 |
| Laboratory Fees | 20,073 |
| Permit Fees | 13,875 |
| Regulatory Assessment | 10,559 |
| Sludge Hauling | 151,695 |
| Small Tools and Equipment | 50,781 |
| Uniforms | 9,484 |
| Other | <u>7,757</u> |
| TOTAL OTHER EXPENDITURES | \$ <u>431,886</u> |
| DEBT SERVICE: | |
| Note Principal | \$ 29,478 |
| Note Interest | <u>553</u> |
| TOTAL DEBT SERVICE | \$ <u>30,031</u> |
| TOTAL EXPENDITURES | \$ <u>4,609,492</u> |

Number of persons employed by the District 14 Full-Time 0 Part-Time

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
INVESTMENTS
JUNE 30, 2019

| Fund | Identification or Certificate Number | Interest Rate | Maturity Date | Balance at End of Year | Accrued Interest Receivable at End of Year |
|------------------------------|---|------------------|------------------|---------------------------|---|
| <u>GENERAL FUND</u> | | | | | |
| TexPool | XXXX0003 | Varies | Daily | \$ 1,118,778 | \$ |
| TexPool | XXXX0004 | Varies | Daily | 225,307 | |
| Certificate of Deposit | XXXX0007 | 0.85% | 05/23/20 | 212,827 | |
| TOTAL GENERAL FUND | | | | <u>\$ 1,556,912</u> | <u>\$ - 0 -</u> |
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0006 | Varies | Daily | \$ 1,075,891 | \$ |
| TexSTAR | XXXX6790 | Varies | Daily | 255,222 | |
| TOTAL DEBT SERVICE FUND | | | | <u>\$ 1,331,113</u> | <u>\$ - 0 -</u> |
| <u>CAPITAL PROJECTS FUND</u> | | | | | |
| TexSTAR | XXXX0170 | Varies | Daily | \$ 805,419 | \$ - 0 - |
| TOTAL - ALL FUNDS | | | | <u>\$ 3,693,444</u> | <u>\$ - 0 -</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2019

| | Maintenance Taxes | | Debt Service Taxes | |
|-----------------------------|-------------------|----------------|--------------------|----------------|
| TAXES RECEIVABLE - | | | | |
| JULY 1, 2018 | \$ | 107,615 | \$ | 126,453 |
| Adjustments to Beginning | | | | |
| Balance | | <u>(1,228)</u> | \$ | <u>124,862</u> |
| Original 2018 Tax Levy | \$ | 925,210 | \$ | 616,807 |
| Adjustment to 2018 Tax Levy | | <u>43,968</u> | <u>969,178</u> | <u>646,119</u> |
| TOTAL TO BE | | | | |
| ACCOUNTED FOR | | \$ | 1,075,565 | \$ |
| | | | | 770,981 |
| TAX COLLECTIONS: | | | | |
| Prior Years | \$ | 41,754 | \$ | 55,610 |
| Current Year | | <u>895,080</u> | <u>936,834</u> | <u>652,330</u> |
| TAXES RECEIVABLE - | | | | |
| JUNE 30, 2019 | | <u>\$</u> | <u>138,731</u> | <u>\$</u> |
| | | | | <u>118,651</u> |
| TAXES RECEIVABLE BY | | | | |
| YEAR: | | | | |
| 2018 | \$ | 74,098 | \$ | 49,399 |
| 2017 | | 17,495 | | 23,554 |
| 2016 | | 7,828 | | 9,429 |
| 2015 | | 4,975 | | 6,947 |
| 2014 | | 2,820 | | 5,640 |
| 2013 | | 2,392 | | 4,785 |
| 2012 | | 4,244 | | 2,122 |
| 2011 | | 3,646 | | 1,823 |
| 2010 | | 3,428 | | 1,714 |
| 2009 | | 3,088 | | 1,544 |
| 2008 | | 2,489 | | 1,244 |
| 2007 | | 1,775 | | 887 |
| 2006 | | 1,844 | | 1,209 |
| 2005 and Prior | | <u>8,609</u> | | <u>8,354</u> |
| TOTAL | | <u>\$</u> | <u>138,731</u> | <u>\$</u> |
| | | | | <u>118,651</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2019

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| PROPERTY VALUATIONS: | | | | |
| Land | \$ 135,855,042 | \$ 117,759,355 | \$ 84,601,856 | \$ 84,231,854 |
| Improvements | 300,359,958 | 267,754,377 | 225,104,245 | 204,987,185 |
| Personal Property | 8,830,938 | 8,552,844 | 9,001,318 | 9,601,467 |
| Exemptions | <u>(86,438,726)</u> | <u>(92,369,056)</u> | <u>(50,453,116)</u> | <u>(45,715,500)</u> |
| TOTAL PROPERTY VALUATIONS | <u>\$ 358,607,212</u> | <u>\$ 301,697,520</u> | <u>\$ 268,254,303</u> | <u>\$ 253,105,006</u> |
| TAX RATES PER \$100 VALUATION: | | | | |
| Debt Service | \$ 0.1800 | \$ 0.2582 | \$ 0.2459 | \$ 0.2622 |
| Maintenance | <u>0.2700</u> | <u>0.1918</u> | <u>0.2041</u> | <u>0.1878</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u>\$ 0.4500</u> | <u>\$ 0.4500</u> | <u>\$ 0.4500</u> | <u>\$ 0.4500</u> |
| ADJUSTED TAX LEVY* | <u>\$ 1,615,297</u> | <u>\$ 1,530,523</u> | <u>\$ 1,207,959</u> | <u>\$ 1,140,276</u> |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | <u>92.35 %</u> | <u>97.32 %</u> | <u>98.57 %</u> | <u>98.95 %</u> |

* Based upon the adjusted tax levy at the time of audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.30 per \$100 of assessed valuation approved by voters on August 14, 1999.

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

REFUNDING SERIES - 2012

| Due During Fiscal Years Ending June 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|--|---------------------------------|---|---------------------|
| 2020 | \$ 225,000 | \$ 56,525 | \$ 281,525 |
| 2021 | 240,000 | 48,620 | 288,620 |
| 2022 | 245,000 | 40,375 | 285,375 |
| 2023 | 255,000 | 31,875 | 286,875 |
| 2024 | 265,000 | 23,035 | 288,035 |
| 2025 | 275,000 | 13,855 | 288,855 |
| 2026 | 270,000 | 4,590 | 274,590 |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| | <u>\$ 1,775,000</u> | <u>\$ 218,875</u> | <u>\$ 1,993,875</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

S E R I E S - 2 0 1 3

| Due During Fiscal Years Ending June 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|--|---------------------------------|---|---------------------|
| 2020 | \$ 170,000 | \$ 207,206 | \$ 377,206 |
| 2021 | 170,000 | 199,981 | 369,981 |
| 2022 | 180,000 | 193,669 | 373,669 |
| 2023 | 190,000 | 188,119 | 378,119 |
| 2024 | 195,000 | 182,344 | 377,344 |
| 2025 | 205,000 | 176,344 | 381,344 |
| 2026 | 230,000 | 169,819 | 399,819 |
| 2027 | 525,000 | 158,494 | 683,494 |
| 2028 | 550,000 | 142,025 | 692,025 |
| 2029 | 580,000 | 124,369 | 704,369 |
| 2030 | 610,000 | 105,394 | 715,394 |
| 2031 | 640,000 | 84,681 | 724,681 |
| 2032 | 675,000 | 62,491 | 737,491 |
| 2033 | 710,000 | 38,675 | 748,675 |
| 2034 | 750,000 | 13,125 | 763,125 |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| | <u>\$ 6,380,000</u> | <u>\$ 2,046,736</u> | <u>\$ 8,426,736</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

S E R I E S - 2 0 1 7

| Due During Fiscal Years Ending June 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|--|---------------------------------|---|---------------------|
| 2020 | \$ 95,000 | \$ 85,031 | \$ 180,031 |
| 2021 | 100,000 | 82,106 | 182,106 |
| 2022 | 105,000 | 79,031 | 184,031 |
| 2023 | 110,000 | 75,806 | 185,806 |
| 2024 | 115,000 | 72,431 | 187,431 |
| 2025 | 120,000 | 68,906 | 188,906 |
| 2026 | 125,000 | 65,700 | 190,700 |
| 2027 | 135,000 | 62,691 | 197,691 |
| 2028 | 140,000 | 59,338 | 199,338 |
| 2029 | 145,000 | 55,413 | 200,413 |
| 2030 | 155,000 | 50,913 | 205,913 |
| 2031 | 165,000 | 46,113 | 211,113 |
| 2032 | 170,000 | 41,088 | 211,088 |
| 2033 | 180,000 | 35,838 | 215,838 |
| 2034 | 190,000 | 30,288 | 220,288 |
| 2035 | 200,000 | 24,313 | 224,313 |
| 2036 | 210,000 | 17,907 | 227,907 |
| 2037 | 220,000 | 11,051 | 231,051 |
| 2038 | 230,000 | 3,738 | 233,738 |
| | <u>\$ 2,910,000</u> | <u>\$ 967,702</u> | <u>\$ 3,877,702</u> |

See accompanying independent auditor's report.

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SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

| Due During Fiscal Years Ending June 30 | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
|--|------------------------|-----------------------|--|
| 2020 | \$ 490,000 | \$ 348,762 | \$ 838,762 |
| 2021 | 510,000 | 330,707 | 840,707 |
| 2022 | 530,000 | 313,075 | 843,075 |
| 2023 | 555,000 | 295,800 | 850,800 |
| 2024 | 575,000 | 277,810 | 852,810 |
| 2025 | 600,000 | 259,105 | 859,105 |
| 2026 | 625,000 | 240,109 | 865,109 |
| 2027 | 660,000 | 221,185 | 881,185 |
| 2028 | 690,000 | 201,363 | 891,363 |
| 2029 | 725,000 | 179,782 | 904,782 |
| 2030 | 765,000 | 156,307 | 921,307 |
| 2031 | 805,000 | 130,794 | 935,794 |
| 2032 | 845,000 | 103,579 | 948,579 |
| 2033 | 890,000 | 74,513 | 964,513 |
| 2034 | 940,000 | 43,413 | 983,413 |
| 2035 | 200,000 | 24,313 | 224,313 |
| 2036 | 210,000 | 17,907 | 227,907 |
| 2037 | 220,000 | 11,051 | 231,051 |
| 2038 | 230,000 | 3,738 | 233,738 |
| | <u>\$ 11,065,000</u> | <u>\$ 3,233,313</u> | <u>\$ 14,298,313</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2019

| Description | Original Bonds Issued | Bonds Outstanding July 1, 2018 |
|--|--------------------------|--------------------------------------|
| San Leon Municipal Utility District Unlimited Tax Refunding Bonds - Series 2012 | \$ 3,055,000 | \$ 1,995,000 |
| San Leon Municipal Utility District Unlimited Tax Bonds - Series 2013 | 7,000,000 | 6,535,000 |
| San Leon Municipal Utility District Unlimited Tax Bonds - Series 2017 | <u>3,000,000</u> | <u>3,000,000</u> |
| TOTAL | <u>\$ 13,055,000</u> | <u>\$ 11,530,000</u> |
| Bond Authority: | <u>Tax Bonds</u> | |
| Amount Authorized by Voters | \$ 61,500,000 | |
| Amount Issued | <u>16,660,000</u> | |
| Remaining to be Issued | <u>\$ 44,840,000</u> | |

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

| <u>Current Year Transactions</u> | | | | |
|----------------------------------|--------------------|-------------------|--|--|
| <u>Bonds Sold</u> | <u>Retirements</u> | | <u>Bonds Outstanding June 30, 2019</u> | <u>Paying Agent</u> |
| | <u>Principal</u> | <u>Interest</u> | | |
| \$ | \$ 220,000 | \$ 64,090 | \$ 1,775,000 | Branch Banking and Trust Company Charlotte, NC |
| | 155,000 | 214,113 | 6,380,000 | Amegy Bank National Association Houston, Texas |
| | 90,000 | 87,806 | 2,910,000 | Amegy Bank National Association Houston, Texas |
| <u>\$ - 0 -</u> | <u>\$ 465,000</u> | <u>\$ 366,009</u> | <u>\$ 11,065,000</u> | |

Debt Service Fund cash, investments and cash with tax office
balances as of June 30, 2019:

\$ 1,454,815

Average annual debt service payment (principal and interest) for remaining term
of all debt:

\$ 752,543

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Property Taxes | \$ 936,834 | \$ 628,487 | \$ 550,579 |
| Water Service | 1,352,900 | 1,173,498 | 1,115,885 |
| Wastewater Service | 1,029,799 | 920,195 | 895,413 |
| Street Lighting | 124,587 | 127,059 | 126,999 |
| Fire Fighting Service | 264,318 | 273,152 | 273,616 |
| Solid Waste Service | 561,140 | 572,346 | 284,769 |
| Penalty and Interest | 34,444 | 33,242 | 35,419 |
| Tap Connection and Inspection Fees | 268,685 | 141,295 | 242,080 |
| Miscellaneous Revenues and FEMA Reimbursements | 127,887 | 149,406 | 164,026 |
| TOTAL REVENUES | \$ 4,700,594 | \$ 4,018,680 | \$ 3,688,786 |
| EXPENDITURES | | | |
| Personnel | \$ 929,969 | \$ 875,399 | \$ 910,236 |
| Professional Fees | 142,376 | 151,469 | 317,231 |
| Contracted Services | 881,267 | 875,615 | 595,865 |
| Purchased Water | 514,338 | 466,145 | 436,831 |
| Utilities | 116,562 | 126,693 | 121,567 |
| Repairs and Maintenance | 1,253,521 | 326,418 | 236,383 |
| Street Lighting | 73,372 | 73,743 | 71,871 |
| Other | 668,056 | 1,080,906 | 758,297 |
| Capital Outlay | | 787,160 | 301,782 |
| Debt Service: | | | |
| Note Principal | 29,478 | 38,388 | 38,100 |
| Note Interest | 553 | 1,978 | 3,401 |
| TOTAL EXPENDITURES | \$ 4,609,492 | \$ 4,803,914 | \$ 3,791,564 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 91,102 | \$ (785,234) | \$ (102,778) |
| OTHER FINANCING SOURCES (USES) | | | |
| Note Proceeds | \$ | \$ | \$ 33,913 |
| Transfers In(Out) | 731,483 | 266,123 | 233,139 |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ 731,483 | \$ 266,123 | \$ 267,052 |
| NET CHANGE IN FUND BALANCE | \$ 822,585 | \$ (519,111) | \$ 164,274 |
| BEGINNING FUND BALANCE | 1,128,908 | 1,648,019 | 1,483,745 |
| ENDING FUND BALANCE | \$ 1,951,493 | \$ 1,128,908 | \$ 1,648,019 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|-----------------|----------------|----------------|----------------|
| 2016 | 2015 | 2019 | 2018 | 2017 | 2016 | 2015 |
| \$ 375,324 | \$ 346,452 | 20.0 % | 15.7 % | 14.9 % | 12.8 % | 12.3 % |
| 1,061,850 | 902,065 | 28.8 | 29.2 | 30.3 | 36.0 | 32.2 |
| 909,500 | 797,213 | 21.9 | 22.9 | 24.3 | 30.8 | 28.5 |
| 122,871 | 121,421 | 2.7 | 3.2 | 3.4 | 4.2 | 4.3 |
| 264,013 | 260,986 | 5.6 | 6.8 | 7.4 | 8.9 | 9.3 |
| | | 11.9 | 14.2 | 7.7 | | |
| 33,124 | 26,804 | 0.7 | 0.8 | 1.0 | 1.1 | 1.0 |
| 131,095 | 150,305 | 5.7 | 3.5 | 6.6 | 4.4 | 5.4 |
| 53,778 | 196,878 | 2.7 | 3.7 | 4.4 | 1.8 | 7.0 |
| <u>\$ 2,951,555</u> | <u>\$ 2,802,124</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 821,010 | \$ 802,330 | 19.8 % | 21.8 % | 24.7 % | 27.8 % | 28.6 % |
| 93,142 | 76,786 | 3.0 | 3.8 | 8.6 | 3.2 | 2.7 |
| 277,780 | 279,499 | 18.7 | 21.8 | 16.2 | 9.4 | 10.0 |
| 401,450 | 271,963 | 10.9 | 11.6 | 11.8 | 13.6 | 9.7 |
| 149,341 | 114,425 | 2.5 | 3.2 | 3.3 | 5.1 | 4.1 |
| 350,445 | 396,783 | 26.7 | 8.1 | 6.4 | 11.9 | 14.2 |
| 98,442 | 81,787 | 1.6 | 1.8 | 1.9 | 3.3 | 2.9 |
| 539,028 | 512,561 | 14.2 | 26.9 | 20.6 | 18.3 | 18.3 |
| 454,017 | 271,392 | | 19.6 | 8.2 | 15.4 | 9.7 |
| 15,934 | 10,983 | 0.6 | 1.0 | 1.0 | 0.5 | 0.4 |
| 1,348 | 1,131 | | | 0.1 | | |
| <u>\$ 3,201,937</u> | <u>\$ 2,819,640</u> | <u>98.0 %</u> | <u>119.6 %</u> | <u>102.8 %</u> | <u>108.5 %</u> | <u>100.6 %</u> |
| <u>\$ (250,382)</u> | <u>\$ (17,516)</u> | <u>2.0 %</u> | <u>(19.6) %</u> | <u>(2.8) %</u> | <u>(8.5) %</u> | <u>(0.6) %</u> |
| \$ 57,008 | \$ | | | | | |
| | 89,243 | | | | | |
| <u>\$ 57,008</u> | <u>\$ 89,243</u> | | | | | |
| \$ (193,374) | \$ 71,727 | | | | | |
| 1,677,119 | 1,605,392 | | | | | |
| <u>\$ 1,483,745</u> | <u>\$ 1,677,119</u> | | | | | |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Property Taxes | \$ 652,330 | \$ 843,259 | \$ 667,937 |
| Penalty and Interest | 57,456 | 55,427 | 46,944 |
| Miscellaneous Revenues | <u>25,790</u> | <u>12,624</u> | <u>4,776</u> |
| TOTAL REVENUES | <u>\$ 735,576</u> | <u>\$ 911,310</u> | <u>\$ 719,657</u> |
| EXPENDITURES | | | |
| Tax Collection Expenditures | \$ 18,268 | \$ 12,000 | \$ 14,185 |
| Debt Service Principal | 465,000 | 360,000 | 350,000 |
| Debt Service Interest and Fees | <u>366,724</u> | <u>321,908</u> | <u>305,517</u> |
| TOTAL EXPENDITURES | <u>\$ 849,992</u> | <u>\$ 693,908</u> | <u>\$ 669,702</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (114,416)</u> | <u>\$ 217,402</u> | <u>\$ 49,955</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Long-Term Debt Issued | <u>\$ - 0 -</u> | <u>\$ 95,880</u> | <u>\$ - 0 -</u> |
| NET CHANGE IN FUND BALANCE | \$ (114,416) | \$ 313,282 | \$ 49,955 |
| BEGINNING FUND BALANCE | <u>1,761,561</u> | <u>1,448,279</u> | <u>1,398,324</u> |
| ENDING FUND BALANCE | <u>\$ 1,647,145</u> | <u>\$ 1,761,561</u> | <u>\$ 1,448,279</u> |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | <u>2,893</u> | <u>2,783</u> | <u>2,719</u> |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | <u>2,848</u> | <u>2,725</u> | <u>2,661</u> |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|----------------|----------------|----------------|
| 2016 | 2015 | 2019 | 2018 | 2017 | 2016 | 2015 |
| \$ 738,199 | \$ 673,126 | 88.7 % | 92.5 % | 92.8 % | 95.4 % | 94.2 % |
| 33,358 | 40,435 | 7.8 | 6.1 | 6.5 | 4.3 | 5.7 |
| 2,281 | 772 | 3.5 | 1.4 | 0.7 | 0.3 | 0.1 |
| <u>\$ 773,838</u> | <u>\$ 714,333</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 10,905 | \$ 10,945 | 2.5 % | 1.3 % | 2.0 % | 1.4 % | 1.5 % |
| 335,000 | 320,000 | 63.2 | 39.5 | 48.6 | 43.3 | 44.8 |
| <u>318,097</u> | <u>330,982</u> | <u>49.9</u> | <u>35.3</u> | <u>42.5</u> | <u>41.1</u> | <u>46.3</u> |
| <u>\$ 664,002</u> | <u>\$ 661,927</u> | <u>115.6 %</u> | <u>76.1 %</u> | <u>93.1 %</u> | <u>85.8 %</u> | <u>92.6 %</u> |
| <u>\$ 109,836</u> | <u>\$ 52,406</u> | <u>(15.6) %</u> | <u>23.9 %</u> | <u>6.9 %</u> | <u>14.2 %</u> | <u>7.4 %</u> |
| <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | | | | | |
| \$ 109,836 | \$ 52,406 | | | | | |
| <u>1,288,488</u> | <u>1,236,082</u> | | | | | |
| <u>\$ 1,398,324</u> | <u>\$ 1,288,488</u> | | | | | |
| <u>2,809</u> | <u>2,637</u> | | | | | |
| <u>2,795</u> | <u>2,536</u> | | | | | |

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2019**

District Mailing Address - San Leon Municipal Utility District
443 24th Street
San Leon, TX 77539

District's Telephone Number - (281) 339-1586

| Board Members | Term of Office (Elected or <u>Appointed</u>) | Fees of office for the year ended <u>June 30, 2019</u> | Expense Reimbursements for the year ended <u>June 30, 2019</u> | <u>Title</u> |
|----------------------|--|---|--|-------------------------------------|
| Joe Manchaca | 05/18 05/22 (Elected) | \$ -0- | \$ -0- | President |
| Tyson Kennedy | 05/18 05/22 (Elected) | \$ 1,800 | \$ -0- | Vice President |
| Keith Gossett | 09/18 05/20 (Appointed) | \$ 2,550 | \$ 288 | Secretary |
| Kenneth Bishop | 05/16 05/20 (Elected) | \$ 2,700 | \$ 232 | Treasurer/ Investment Officer |
| Kelly Neason | 05/18 05/22 (Elected) | \$ 1,950 | \$ -0- | Assistant Secretary |
| Julie Hall | 05/16 09/18 | \$ 300 | \$ -0- | Resigned |

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
February 2, 2019.

Limit on Fees of Office that a Director may receive during a fiscal year \$7,200 as set by Board Resolution (TWC Section 49.060) on August 13, 2005. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2019**

| | <u>Date Hired</u> | <u>Fees/ Compensation for the fiscal year ended June 30, 2019</u> | <u>Title</u> |
|--|-------------------|---|----------------------------|
| Key Administrative Personnel: | | | |
| Janice Hoffman | 07/23/95 | \$ 80,086 | Office Manager |
| Andrew Miller | 01/17/18 | \$ 78,166 | District Manager |
| Ken Keller | 04/96 | \$ 77,628 | Field Supervisor |
| Consultants: | | | |
| Reid, Strickland & Gillette | Prior to 1992 | \$ 23,312 | General Counsel |
| McCall Gibson Swedlund Barfoot PLLC | 06/20/95 | \$ 20,750 | Auditor |
| Linebarger Goggan Blair and Sampson, LLP | 1992 | \$ 18,268 | Delinquent Tax Attorney |
| Costello, Inc. | 05/16/18 | \$ 334,297 | Engineer |
| AEI Engineering | 12/21/10 | \$ 10,931 | Prior Engineer |
| SAMCO Capital Markets | 06/22/03 | \$ 2,500 | Financial Advisor |
| Galveston County Tax Assessor | 9/2002 | \$ 2,479 | Tax Collector |

See accompanying independent auditor's report.

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SAN LEON MUNICIPAL UTILITY DISTRICT
OTHER SUPPLEMENTARY INFORMATION

SAN LEON MUNICIPAL UTILITY DISTRICT
PRINCIPAL TAXPAYERS
JUNE 30, 2019
(UNAUDITED)

| <u>Taxpayer</u> | <u>Type of Property</u> | <u>Taxable Value by Tax Year</u> | |
|------------------------------|-------------------------------|----------------------------------|----------------------|
| | | <u>2018</u> | <u>2017</u> |
| Centerpoint Energy Houston | Utility | \$ 2,229,810 | (a) |
| Halili Hajrulla Trustee | Residence & Business | 1,716,900 | (a) |
| Halili, Hajrulla | Residence | 1,538,655 | 1,407,868 |
| Wiggins, Matthew Jr. | Residence | 1,524,990 | 2,502,710 |
| Jardina, Charles C. | Residence | 1,261,130 | 2,048,880 |
| Moore, Clifford A. & Pat M. | Residence | 1,142,487 | 1,126,176 |
| MP Apartments LLC | Multi-Family Apt. | 1,116,913 | 1,000,000 |
| Cassius Limited | Residence | 1,040,370 | 1,120,980 |
| Barrett, Stephen P. & Sheryl | Residence | 1,011,190 | 1,011,190 |
| Shahroodi, Shahrokh | Residence | 1,007,050 | (a) |
| | Total | <u>\$ 13,589,495</u> | <u>\$ 10,217,804</u> |
| | Percent of Assessed Valuation | <u>3.79 %</u> | <u>3.39 %</u> |

(a) not a top ten tax payer in respective year.

SAN LEON MUNICIPAL UTILITY DISTRICT
ASSESSED VALUE BY CLASSIFICATION
JUNE 30, 2019
(UNAUDITED)

Classification of Assessed Valuation (a)

| Type of Property | 2018 | | 2017 | |
|--|-----------------------|--------------|-----------------------|--------------|
| | Taxable Value | % | Taxable Value | % |
| Single Family Residence | \$ 281,076,954 | 78.39 | \$ 264,163,243 | 77.75 |
| Multi-Family Residence | 2,779,917 | 0.78 | 2,637,229 | 0.78 |
| Vacant Lots and Land Tracts | 38,417,009 | 10.71 | 38,836,066 | 11.43 |
| Qualified Open-Space Land | 6,759 | 0.00 | 7,358 | 0.00 |
| Rural Land, Non-Qualified Open Space | 3,048,390 | 0.85 | 3,112,258 | 0.92 |
| Commercial Real Property | 17,573,452 | 4.90 | 16,094,645 | 4.74 |
| Oil and Gas | | 0.00 | 8,286 | 0.01 |
| Gas Distribution System | 339,040 | 0.09 | 318,003 | 0.09 |
| Electric Company (Including Co-Op) | 2,229,810 | 0.62 | 2,178,280 | 0.64 |
| Telephone Company (Including Co-Op) | 436,775 | 0.12 | 454,355 | 0.13 |
| Pipelane Company | 14,822 | 0.00 | 12,147 | 0.00 |
| Commercial Personal Property | 4,726,120 | 1.32 | 5,097,651 | 1.50 |
| Industrial and Manufacturing Personal Property | 1,064,251 | 0.30 | 382,512 | 0.11 |
| Tangible Other Personal Mobile Home | 6,299,123 | 1.76 | 6,083,268 | 1.79 |
| Residential Inventory | 580,860 | 0.16 | 359,700 | 0.11 |
| Special Inventory Tax | 13,930 | 0.00 | 5,350 | 0.00 |
| Total Appraised Value | <u>\$ 358,607,212</u> | <u>100.0</u> | <u>\$ 339,750,351</u> | <u>100.0</u> |

(a) Reflects classification of assessed valuation as supplied by the Galveston Central Appraisal District ("GCAD") prior to adjustments and exemptions. Such value may differ from the original certified assessed valuation and any supplements or adjustments thereto, as supplied by GCAD.

SAN LEON MUNICIPAL UTILITY DISTRICT
ESTIMATED OVERLAPPING DEBT
JUNE 30, 2019
(UNAUDITED)

| <u>Taxing Body</u> | <u>Amount</u> | <u>As of</u> | <u>% of Overlapping Debt</u> | <u>Amount of Overlapping Debt</u> |
|-------------------------|----------------|---|--------------------------------------|---------------------------------------|
| Galveston County | \$ 247,913,720 | 7/31/2019 | 1.06 | \$ 2,627,885 |
| Dickinson ISD | 305,160,000 | 7/31/2019 | 8.52 | 25,999,632 |
| College of the Mainland | 104,430,000 | 7/31/2019 | 2.91 | <u>3,038,913</u> |
| | | Total Overlapping Debt: | | \$ 31,666,430 |
| San Leon MUD | | 6/30/2019 | | <u>\$ 11,065,000</u> |
| | | Total District and Overlapping Debt: | | <u><u>\$ 42,731,430</u></u> |
| | | Total Direct and Overlapping Debt % of A.V.: | | 10.98% |
| | | Total Direct and Overlapping Debt per Capita: | | \$ 4,674 |

| <u>Overlapping Entity</u> | <u>2018 Tax Rate Per \$100 A.V.</u> |
|---------------------------|---|
| Galveston County | \$ 0.529831 |
| Road and Flood | 0.002067 |
| Dickinson ISD | 1.520000 |
| College of the Mainland | 0.212755 |
| The District | <u>0.450000</u> |
| Total | <u><u>\$ 2.714653</u></u> |

