

**HEADWATERS MUNICIPAL UTILITY DISTRICT
OF HAYS COUNTY**

**FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
DECEMBER 31, 2019**

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HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**Annual Financial Report
For the Year Ended December 31, 2019**

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }
COUNTY OF TRAVIS }

I, Harvey Zinn, Jr. of the Headwaters Municipal Utility District of Hays County hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the 30th day of March, 2020, its annual audit report for the year ended December 31, 2019, and that copies of the annual report have been filed in the district office, located at 901 South MoPac, Suite 225, Austin, Texas 78746.

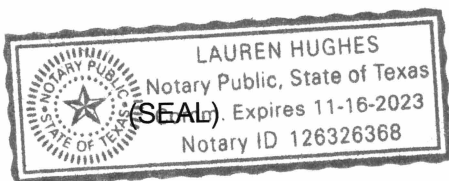
The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: March 30, 2020

By: [Signature] President
(Signature of District Representative)

Harvey Zinn, Jr. President
(Name & Title of above District Representative)

Sworn to and subscribed to before me this 30th day of March, 2020.



[Signature]
(Signature of Notary)

My Commission Expires On: November 16, 2023.
Notary Public in and for the State of Texas.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

Annual Financial Report For the Year Ended December 31, 2019

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FINANCIAL SECTION

WEST, DAVIS & COMPANY

A LIMITED LIABILITY PARTNERSHIP

Independent Auditor's Report

Board of Directors
Headwaters Municipal Utility District of Hays County
Austin, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Headwaters Municipal Utility District of Hays County (the District) as of and for the year ended December 31, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the District at December 31, 2019, and the 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 budgetary comparison information identified as Required Supplementary Information in the table of contents 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.

Texas Commission on Environmental Quality Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedules required by the Texas Commission on Environmental Quality are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules required by the Texas Commission on Environmental Quality are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our 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 supplemental schedules required by the Texas Commission on Environmental Quality are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

West, Harris & Company

Austin, Texas
March 15, 2020

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

Management Discussion and Analysis For the Year Ended December 31, 2019

In accordance with Governmental Accounting Standards Board Statement 34 (“GASB 34”), the management of Headwaters Municipal Utility District of Hays County (the “District”) offers the following discussion and analysis to provide an overview of the District’s financial activities for the year ended December 31, 2019. Since this information is designed to focus on current year’s activities, resulting changes, and currently known facts, it should be read in conjunction with the District’s financial statements that follow.

FINANCIAL HIGHLIGHTS

- **General Fund:** The unassigned fund balance at the end of the year was approximately \$283 thousand which was an increase of \$149 thousand from the end of the previous year end. Revenue increased from \$539 thousand in the previous fiscal year to \$1.0 million thousand in the current fiscal year due to increased property tax and service account revenue as the result of growth within the District.
- **Debt Service Fund:** This fund balance increased from \$479 thousand to \$516 thousand due to increased property tax revenue. This fund made interest payments of \$187 thousand on bonded indebtedness.
- **Capital Projects Fund:** This fund balance increased from \$11 thousand to \$12 thousand during the year. This fund’s only activity during the year was interest earning on temporary investments of approximately \$1 thousand.
- **Governmental Activities:** On a Government-wide basis for governmental activities, the District had expenses in excess of income of approximately \$27 thousand before developer contributions of \$120 thousand in cash and \$494 thousand of land. Net position increased \$587 thousand during the year.

OVERVIEW OF THE DISTRICT

The District, a political subdivision of the State of Texas, was created by the Texas Commission on Environmental Quality on August 8, 2007 pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code. The District was created and organized for the purpose of constructing water, sewer, and drainage facilities and providing water and sewer services to residential and commercial establishments within the District. The District is located entirely within Hays County and is partially located within the corporate boundaries of, and partially located within the extraterritorial jurisdiction of the City of Dripping Springs, Texas.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

Management Discussion and Analysis For the Year Ended December 31, 2019

USING THIS ANNUAL REPORT

The District's reporting is comprised of five parts:

- Management's Discussion and Analysis (this section)
- Basic Financial Statements
 - Statement of Net Assets and Reconciliation to Governmental Funds Balance Sheet
 - Statement of Activities and Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds
- Notes to the Financial Statements
- Required Supplementary Information
- Texas Supplementary Information (required by the Texas Commission on Environmental Quality)

The Government-wide statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the newly required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Governmental Funds Total" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Assets and the Statement of Activities.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Statement of Net Assets and Governmental Funds Balance Sheet includes a column (titled "Governmental Funds Total") that represents a balance sheet prepared using the modified accrual basis of accounting. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net assets will indicate financial health.

The Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances includes a column (titled "Governmental Funds Total") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**Management Discussion and Analysis
For the Year Ended December 31, 2019**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Assets and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*.

The Required Supplementary Information presents a comparison statement between the District's adopted budget and its actual results.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Summary Statement of Net Position

| | Governmental Activities (in thousands) | | Increase (Decrease) |
|-------------------------------------|---|------------------|------------------------|
| | December 2019 | December 2018 | |
| Current and Other Assets | \$ 1,277 | \$ 1,057 | \$ 220 |
| Capital and Non-Current Assets | 5,918 | 5,343 | 575 |
| Total Assets | 7,195 | 6,400 | 795 |
| Current Liabilities | 557 | 345 | 212 |
| Long-Term Liabilities | 6,483 | 6,487 | (4) |
| Total Liabilities | 7,040 | 6,832 | 208 |
| Net Investment in Capital Assets | (840) | (1,217) | 377 |
| Restricted | 598 | 520 | 78 |
| Unrestricted | 397 | 265 | 132 |
| Total Net Position | \$ 155 | \$ (432) | \$ 587 |

The District's total assets were approximately \$6.7 million as of December 31, 2019. Of this amount, approximately \$1.1 million is accounted for by cash and short-term investments. The District had outstanding liabilities of approximately \$7.0 million. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$397 thousand.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**Management Discussion and Analysis
For the Year Ended December 31, 2019**

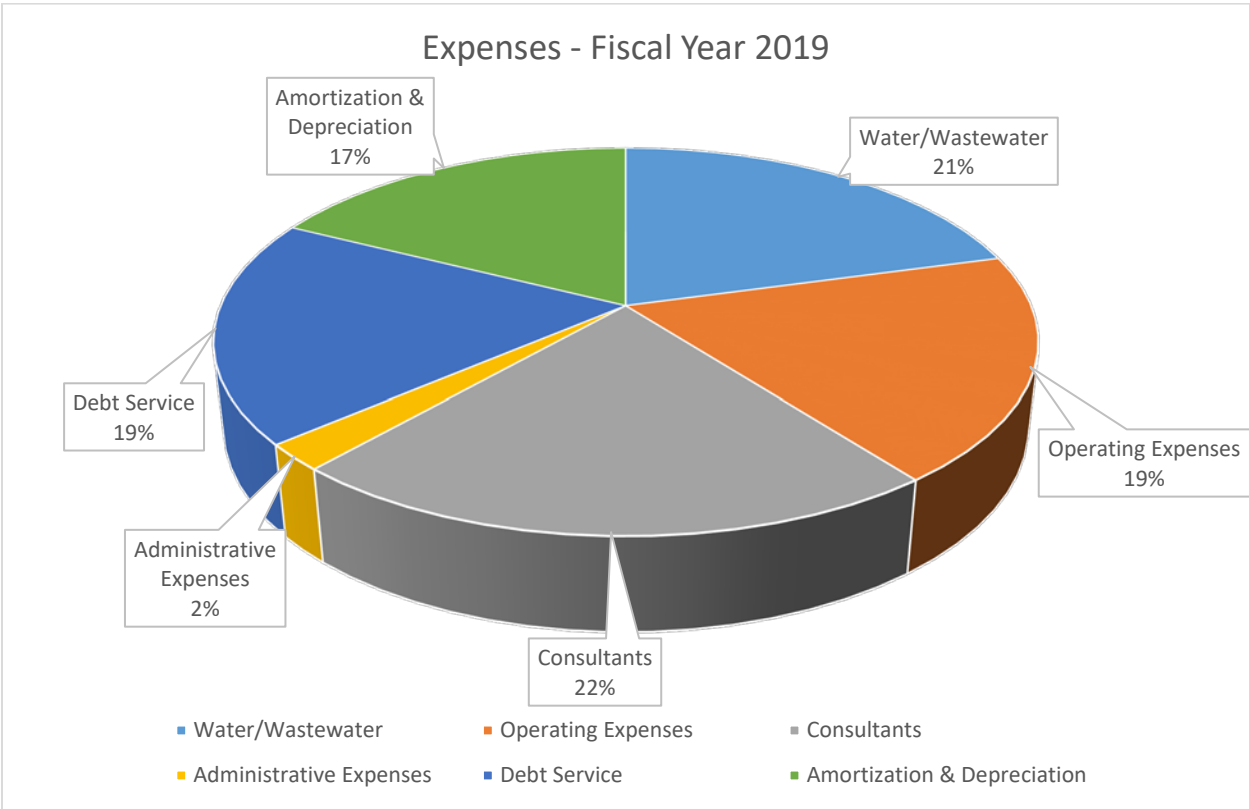
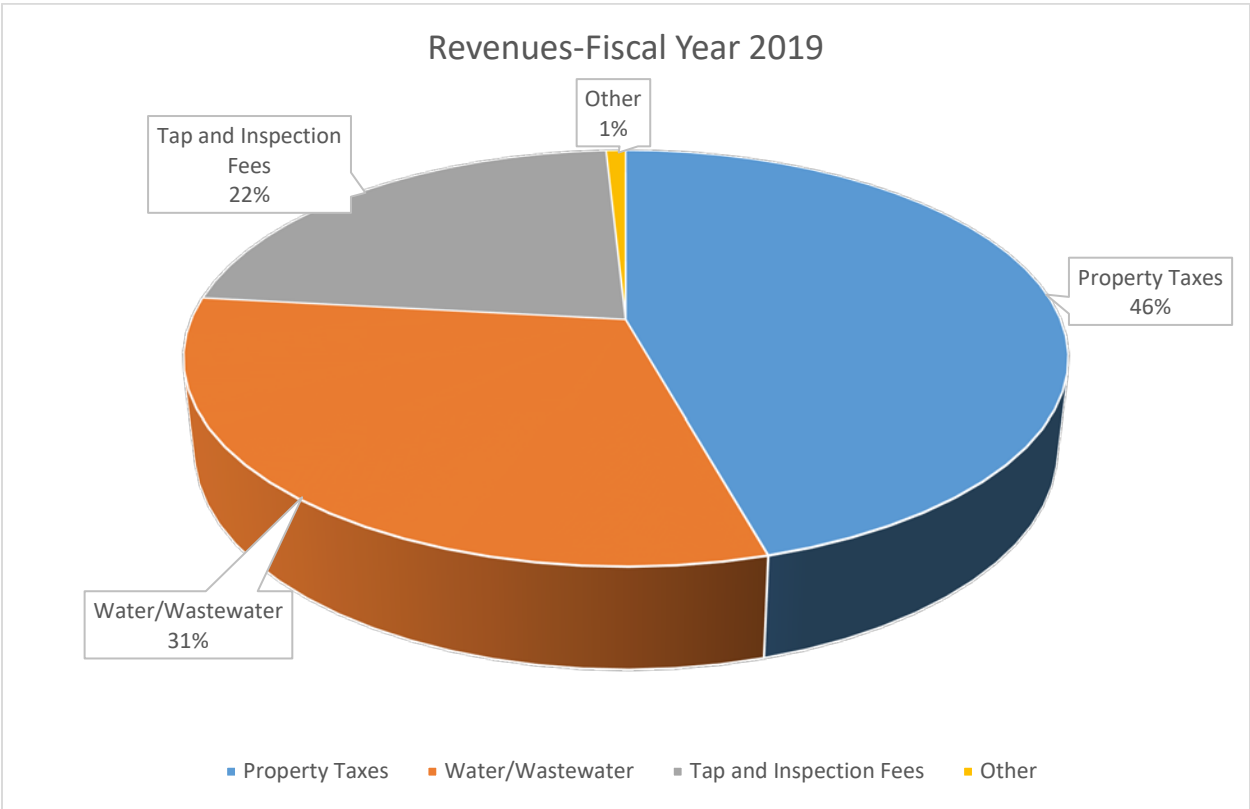
Summary Statement of Activities

| | Governmental Activities (in thousands) | | Increase (Decrease) |
|-----------------------------------|---|-----------------|------------------------|
| | 2019 | 2018 | |
| Property Taxes | \$ 589 | \$ 358 | \$ 231 |
| Water/Wastewater | 401 | 153 | 248 |
| Tap and Inspection Fees | 289 | 135 | 154 |
| Other | 11 | 5 | 6 |
| Total Revenues | 1,290 | 651 | 639 |
| Water/Wastewater | 273 | 276 | (3) |
| Operating Expenses | 248 | 183 | 65 |
| Consultants | 289 | 235 | 54 |
| Administrative Expenses | 29 | 24 | 5 |
| Debt Service | 247 | 143 | 104 |
| Amortization & Depreciation | 231 | 167 | 64 |
| Total Expenses | 1,317 | 1,028 | 289 |
| Other Financing Sources (Uses) | 614 | 110 | 504 |
| Change In Net Position | 587 | (267) | 854 |
| Beginning Net Position | (432) | (165) | (267) |
| Ending Net Position | \$ 155 | \$ (432) | \$ 587 |

Revenues and Other Financing Sources were approximately \$1.9 million for the year ended December 31, 2019 including developer contributions of \$614 thousand. Expenses were approximately \$1.3 million for the year ended December 31, 2019. The following charts summarize the sources of revenue and areas of expenses, excluding Other Financing Sources and Uses.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**Management Discussion and Analysis
For the Year Ended December 31, 2019**



HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**Management Discussion and Analysis
For the Year Ended December 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND LEVEL STATEMENTS

In comparison to the Government-wide statements, the Fund-level statements focus on the key funds of the District. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District reports the following types of Governmental funds: General Fund, Debt Service Fund and Capital Projects Fund. The focus of the District's Governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

Summary Balance Sheet

| | Governmental Funds (in thousands) | | |
|--|--------------------------------------|------------------|------------------------|
| | December 2019 | December 2018 | Increase (Decrease) |
| Cash and Investments | \$ 1,067 | \$ 868 | \$ 199 |
| Accounts Receivable | 442 | 315 | 127 |
| Prepaid Expenses | 4 | 12 | (8) |
| Total Assets | 1,513 | 1,195 | 318 |
| Accounts Payable | 459 | 362 | 97 |
| Customer Deposits | 47 | 37 | 10 |
| Deferred Revenue | 184 | 160 | 24 |
| Total Liabilities | 690 | 559 | 131 |
| Nonspendable | 12 | 12 | - |
| Restricted for Debt Service | 516 | 479 | 37 |
| Restricted for Capital Projects | 12 | 11 | 1 |
| Unassigned | 283 | 134 | 149 |
| Total Fund Balances | 823 | 636 | 187 |
| Total Liabilities and Fund Balances | \$ 1,513 | \$ 1,195 | \$ 318 |

The General Operating Fund, which pays for daily operating expenses, has an unassigned balance of \$283 thousand at the end of the current fiscal year. This is an increase of \$149 thousand from the prior fiscal year.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

Management Discussion and Analysis For the Year Ended December 31, 2019

The Debt Service Fund increased \$37 thousand during the current fiscal year. The District issued no new bonds during the year. This fund remitted no bond principal and \$187 thousand in bond interest during the year.

The Capital Projects Fund was inactive during the year other than earning just under \$1 thousand in interest on temporary investments.

BUDGETARY HIGHLIGHTS

The Board of Directors adopted the fiscal year 2019 annual budget for the General Fund on August 30, 2018. The budget included revenues of \$925 thousand, including developer advances of \$240 thousand and expenditures of \$925 thousand. Actual revenue amounted to \$1.162 million and actual expenditures amounted to \$1.013 million. More detailed information about the District's budgetary comparison is presented in the Required Supplementary Information section.

CAPITAL ASSETS

The District's road facilities have been dedicated to Hays County which is responsible for operation and maintenance of these facilities. The District recognizes the \$4.689 million in costs, as road usage rights. These costs are being amortized over 40 years. In addition, the District acquired a wastewater treatment plant expansion at a cost of \$312 thousand by entering into a lease purchase agreement. This plant is being depreciated over 10 years. Land represents parcels conveyed to the District by the Developer.

Summary of Capital Assets

| | Governmental Activities (in thousands) | | Increase (Decrease) |
|-----------------------------------|---|-------------------|------------------------|
| | September 2019 | September 2018 | |
| Land | \$ 494 | \$ - | \$ 494 |
| Water and Wastewater System | 1,163 | 851 | 312 |
| Accumulated Depreciation | (163) | (49) | (114) |
| Usage Rights | 4,689 | 4,689 | - |
| Accumulated Amortization | (265) | (148) | (117) |
| Total Capital Assets (Net) | \$ 5,918 | \$ 5,343 | \$ 575 |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

Management Discussion and Analysis For the Year Ended December 31, 2019

LONG TERM DEBT

The District issued no new bonds during the year but did enter into an agreement to finance a wastewater treatment plant expansion in the amount of \$312 thousand for lease purchase payments. More detailed information about the District's long-term debt is presented in the Notes to the Basic Financial Statements.

ECONOMIC FACTORS

The taxable assessed value of property within the District as of January 1, 2019 has been fixed by the Hays County Appraisal District at \$61 million. The tax rates adopted by the District on August 15, 2019 for the coming fiscal year are \$0.50 for maintenance and operations and \$0.40 for debt service. The District expects this to produce \$550 thousand in total property tax revenue for next year. The adopted budget for fiscal year 2020 projects a small increase to the operating fund balance.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of McLean & Howard, 901 South MoPac, Suite 225, Austin, Texas 78746.

BASIC FINANCIAL STATEMENTS

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**STATEMENT OF NET ASSETS
AND GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2019**

| | GOVERNMENTAL FUNDS | | | | ADJUSTMENTS | STATEMENT OF NET ASSETS |
|---|--------------------|-------------------|---------------------|---------------------|---------------------|-------------------------------|
| | GENERAL | DEBT SERVICE | CAPITAL PROJECTS | TOTAL | | |
| ASSETS | | | | | | |
| Cash | \$ 302,729 | \$ - | \$ 12,808 | \$ 315,537 | \$ - | \$ 315,537 |
| Investments | 136 | 750,886 | - | 751,022 | - | 751,022 |
| Accounts Receivable (Net of Allowance) | 23,054 | - | - | 23,054 | - | 23,054 |
| Property Taxes Receivable | 102,037 | 81,629 | - | 183,666 | - | 183,666 |
| Due From Other Funds | 235,751 | - | - | 235,751 | (235,751) | - |
| Unrealized Expenses | 3,819 | - | - | 3,819 | - | 3,819 |
| Land | - | - | - | - | 494,380 | 494,380 |
| Intangible Assets (Net of Amortization) | | | | | | |
| Service Rights | - | - | - | - | 4,423,978 | 4,423,978 |
| Capital Assets (Net of Depreciation) | | | | | | |
| Wastewater Treatment Plant | - | - | - | - | 999,679 | 999,679 |
| Total Assets | \$ 667,526 | \$ 832,515 | \$ 12,808 | \$ 1,512,849 | \$ 5,682,286 | \$ 7,195,135 |
| LIABILITIES | | | | | | |
| Accounts Payable | \$ 223,132 | \$ - | \$ - | \$ 223,132 | 84,608 | \$ 307,740 |
| Customer Deposits | 47,400 | - | - | 47,400 | - | 47,400 |
| Due To Other Funds | - | 234,431 | 1,320 | 235,751 | (235,751) | - |
| Capital Lease Payable in less than one year | - | - | - | - | 127,071 | 127,071 |
| Capital Lease Payable in more than one year | - | - | - | - | 872,608 | 872,608 |
| Bonds Payable in less than one year | - | - | - | - | 75,000 | 75,000 |
| Bonds Payable in more than one year | - | - | - | - | 5,610,000 | 5,610,000 |
| Total Liabilities | 270,532 | 234,431 | 1,320 | 506,283 | 6,533,536 | 7,039,819 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Property Taxes | 102,037 | 81,629 | - | 183,666 | (183,666) | - |
| Total Deferred Inflows | 102,037 | 81,629 | - | 183,666 | (183,666) | - |
| FUND EQUITY | | | | | | |
| Nonspendable | 12,069 | - | - | 12,069 | (12,069) | - |
| Restricted For Debt Service | - | 516,455 | - | 516,455 | (516,455) | - |
| Restricted For Capital Projects | - | - | 11,488 | 11,488 | (11,488) | - |
| Unassigned | 282,888 | - | - | 282,888 | (282,888) | - |
| Total Fund Equity | 294,957 | 516,455 | 11,488 | 822,900 | (822,900) | - |
| Total Liabilities, Fund Equity & Deferred Inflows of Resources | \$ 667,526 | \$ 832,515 | \$ 12,808 | \$ 1,512,849 | | |
| NET POSITION | | | | | | |
| Net Investment in Capital Assets | | | | | (839,762) | (839,762) |
| Restricted for Debt Service | | | | | 598,084 | 598,084 |
| Unrestricted | | | | | 396,994 | 396,994 |
| Total Net Position | | | | | \$ 155,316 | \$ 155,316 |

The notes to financial statements are an integral part of this statement.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | GOVERNMENTAL FUNDS | | | | ADJUSTMENTS | STATEMENT OF ACTIVITIES |
|--|--------------------|-------------------|------------------|-------------------|---------------------|-------------------------|
| | GENERAL | DEBT SERVICE | CAPITAL PROJECTS | TOTAL | | |
| REVENUES | | | | | | |
| Property Tax | \$ 351,312 | \$ 214,249 | \$ - | \$ 565,561 | \$ 23,689 | \$ 589,250 |
| Water Service | 303,771 | - | - | 303,771 | - | 303,771 |
| Wastewater Service | 96,836 | - | - | 96,836 | - | 96,836 |
| Tap and Connection Fees | 288,948 | - | - | 288,948 | - | 288,948 |
| Interest | 1,023 | 10,024 | 487 | 11,534 | - | 11,534 |
| TOTAL REVENUES | 1,041,890 | 224,273 | 487 | 1,266,650 | 23,689 | 1,290,339 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Water Service Fees | 273,577 | - | - | 273,577 | - | 273,577 |
| Wastewater Services | - | - | - | - | - | - |
| Repairs and Maintenance | 61,505 | - | - | 61,505 | - | 61,505 |
| Inspection Fees | 31,917 | - | - | 31,917 | - | 31,917 |
| Utilities | 15,061 | - | - | 15,061 | - | 15,061 |
| Laboratory Expenses | 18,504 | - | - | 18,504 | - | 18,504 |
| Solid Waste Services | 47,786 | - | - | 47,786 | - | 47,786 |
| Landscaping | 73,551 | - | - | 73,551 | - | 73,551 |
| Insurance | 9,830 | - | - | 9,830 | - | 9,830 |
| Tax Assessor -Collector | 2,376 | - | - | 2,376 | - | 2,376 |
| Director Salaries and Taxes | 4,521 | - | - | 4,521 | - | 4,521 |
| Legal Fees | 40,565 | - | - | 40,565 | - | 40,565 |
| Audit Fees | 8,000 | - | - | 8,000 | - | 8,000 |
| Accounting | 37,950 | - | - | 37,950 | - | 37,950 |
| Management and Consulting Fees | 99,765 | 462 | - | 100,227 | - | 100,227 |
| Engineering Fees | 102,052 | - | - | 102,052 | - | 102,052 |
| Legal Notices | 500 | - | - | 500 | - | 500 |
| Printing and Office Supplies | 11,399 | - | - | 11,399 | - | 11,399 |
| Debt Service: | | | | | | |
| Interest | 60,383 | 186,247 | - | 246,630 | - | 246,630 |
| Principal | 114,127 | - | - | 114,127 | (114,127) | - |
| Amortization | - | - | - | - | 117,221 | 117,221 |
| Depreciation | - | - | - | - | 114,127 | 114,127 |
| Capital Expenditures | - | - | - | - | - | - |
| TOTAL EXPENDITURES | 1,013,369 | 186,709 | - | 1,200,078 | 117,221 | 1,317,299 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Developer Advances | 120,056 | - | - | 120,056 | 494,380 | 614,436 |
| Bond Proceeds | - | - | - | - | - | - |
| Bond Issuance Costs | - | - | (317) | (317) | - | (317) |
| TOTAL OTHER SOURCES | 120,056 | - | (317) | 119,739 | 494,380 | 614,119 |
| Excess (Deficit) of Revenues and Other Financing Sources over Expenditures | 148,577 | 37,564 | 170 | 186,311 | (186,311) | - |
| Change in Net Position | | | | | 587,159 | 587,159 |
| Fund Balance/Net Position - Beginning | 146,380 | 478,891 | 11,318 | 636,589 | (1,068,432) | (431,843) |
| Fund Balance/Net Position - Ending | \$ 294,957 | \$ 516,455 | \$ 11,488 | \$ 822,900 | \$ (667,584) | \$ 155,316 |

The notes to financial statements are an integral part of this statement.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

1. Summary of Significant Accounting Policies

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (GAAP) as applied to governmental entities. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board* (GASB), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Headwaters Municipal Utility District of Hays County (the District), a political subdivision of the State of Texas, was created on August 8, 2007, by the Texas Commission on Environmental Quality pursuant to the provisions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code. The District was created and organized for the purpose of constructing water, sewer, and drainage facilities and providing water and sewer services to residential and commercial establishments within the District.

These financial statements report the financial activity of the District. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five-member Board of Directors (the Board) that has been elected by District residents. The funds and government-wide financial statements presented in this report are within the oversight responsibility of the Board, in accordance with Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting. There are no component units of the District, nor is the District a component unit of any other entity.

A. Basis of Presentation, Basis of Accounting

In accordance with GASB Statement No. 34, the District has elected to combine their Government-wide and Governmental Fund Financial Statements into one set of financial statements with a reconciliation of the individual line items in a separate column on the financial statements.

Government-wide Financial Statements:

The **Statement of Net Position** and the **Statement of Activities** include the financial activities of the overall government. Governmental activities are generally financed through property taxes and utility service revenue.

The **Statement of Activities** presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

1. Summary of Significant Accounting Policies (continued)

Fund Financial Statements:

The governmental fund financial statement columns are labeled **Governmental Funds Balance Sheet** and **Governmental Funds Revenue, Expenditures and Changes in Fund Balance**. In the fund financial statements, the accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of financial resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund: The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities. Principal sources of revenue are municipal long-term debt proceeds and interest income.

B. Measurement Focus, Basis of Accounting

The Government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources management focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year end to be available in the current period. Revenues from local sources consist primarily of property taxes. Miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long term debt, which is recognized as an expenditure to the extent that it has matured. General capital asset acquisitions are reported as expenditures in major governmental funds. Proceeds of general long-term debt are reported as other financing sources.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

1. Summary of Significant Accounting Policies (continued)

C. Fund Balances

The District has adopted GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Those fund balance classifications are described below.

Nonspendable – Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constraints imposed by external providers or imposed by constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned – For the General Fund, amounts that are appropriated by the Board or Board designee, if any, that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned – Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has not delegated the authority to assign fund balance.

D. Budget

The Board adopted an annual budget for the General Fund on the basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year end.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

1. Summary of Significant Accounting Policies (continued)

E. Pensions

The District has not established a pension plan.

F. Cash and Cash Equivalents

These include cash on deposit as well as investments with maturities of three months or less at the time of purchase.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid assets in both the government-wide and fund financial statements. Prepaid assets are charged to expenditures when consumed.

H. Service Accounts Receivable

The District provides for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amount considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. As of December 31, 2017, the allowance for uncollectible accounts was \$-0-.

I. Capital Assets

Intangible assets, which consist of the right to use roads within the District, are reported in the governmental activities columns in the government-wide financial statements. Intangible assets are defined by GASB Statement No. 51 as assets which lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Such assets are recorded at historical cost if purchased or estimated fair value at the date of donation if donated. Intangible assets are amortized using the straight-line method over the estimated life of the assets, which in this case is estimated to be 40 years.

J. Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivable and payables if there is intent to repay that amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

1. Summary of Significant Accounting Policies (continued)

K. Long-Term Debt

Unlimited tax bonds, which have been issued to acquire capital assets, are to be repaid from tax revenues of the District. In the Government-wide financial statements, long-term debt and other long-term obligations are, once issued and outstanding, reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statement, governmental fund types 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 and discounts on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

L. Deferred Outflows and Inflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period. GASB Statement No. 63 became effective for fiscal years beginning after December 15, 2011 and has been implemented in the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 is effective for fiscal years beginning after December 15, 2012 and has been implemented in these financial statements.

M. Recently Issued Account Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019, with earlier implementation encouraged. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

1. Summary of Significant Accounting Policies (continued)

No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management has evaluated the effects that the full implementation of GASB Statement No. 87 will have on its financial statements and implemented the new requirements during the year ended December 31, 2018.

In March 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of GASB Statement No. 88 is to improve the consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This statement is effective for reporting periods beginning after June 15, 2018. GASB Statement No. 88 has been implemented in these financial statements.

2. Cash and Investments

The investment policies of the District are governed by State statute and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's Investment Policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third-party trustees.

Cash – At year end, deposits were held by the District's depository bank in accounts that were secured at the balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage or by pledged collateral held by the District's agent bank in the District's name.

Investments - The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirement of the Act. Additionally, investment practices of the District were in accordance with local policies.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

2. Cash and Investments (continued)

The Act determines the types of investments which are allowable for the District. These include, with certain restriction, (1) obligations of the US Treasury, certain US Agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker’s acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Not all assets meeting the definition of an investment are required to be reported at fair value. Including among excepted investments are certain investments held by 2a7-like external investments pools. As detailed below the District has invested funds in specific 2a7-like external investment pools that are valued at amortized cost and not subject to the fair value hierarchy levels.

The District’s investments at year end are shown below.

| | Fair Value | | | | |
|-------------------|--------------|---------------|-----------------|--|-------------------|
| <u>Investment</u> | <u>Level</u> | <u>Rating</u> | <u>Maturity</u> | | <u>Fair Value</u> |
| TexPool | N/A | AAAm | 1 Day Average | | \$ 751,022 |

Analysis of Specific Cash and Investment Risks – GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and, if so, the reporting of certain related disclosures.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At year end, the District’s investments, other than those which are obligations of or guaranteed by the US Government, are rated as to credit quality as detailed above:

Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

2. Cash and Investments (continued)

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterpart or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

Concentration of Credit Risk – This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

Foreign Currency Risk – This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy – The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools – Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the Pool and other person who do not have a business relationship with the Pool and are qualified to advise the Pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least on nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio with one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the Pool's underling portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like Pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

2. Cash and Investments (continued)

TexPool – The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor’s and operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

3. Property Taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the levy date. Taxes are due if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

Property taxes were levied by the District for the 2019 fiscal year at the rate of \$0.90 per hundred assessed value (\$0.65 for maintenance and \$0.25 for debt service). Uncollected property taxes amounted to \$183,666 at the end of the year.

4. Capital Assets

During previous years, the District has reimbursed developers \$4,688,835 for the construction of roads within the District. These roads have been dedicated to Hays County however the District recognizes the rights to use of these roads as an intangible asset. This cost is amortized over an estimated useful life of 40 years. Amortization in the amount of \$117,221 has been charged to system operations for the year. Accumulated amortization amounted to \$264,857 at the end of the year, leaving a net book value of \$4,423,978.

Also during the year, the District expanded its wastewater treatment facilities at a cost of \$312,000 by entering into a lease purchase agreement. These facilities, along with the original plant, are being depreciated over an estimated useful life of 10 years. Depreciation in the amount of \$114,127 has been charged to system operations for the year. Accumulated depreciation amounted to \$163,698 at the end of the year, leaving a net book value of \$999,679.

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

4. Capital Assets (continued)

| <u>Capital Assets:</u> | <u>Balance</u> <u>1/1/2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/2019</u> |
|---|-----------------------------------|-----------------------|------------------|-------------------------------------|
| Land | \$ - | 494,380 | - | \$ 494,380 |
| Wastewater System | 851,377 | 312,000 | - | 1,163,377 |
| Usage Rights | 4,688,835 | - | - | 4,688,835 |
| Total | <u>5,540,212</u> | <u>806,380</u> | <u>-</u> | <u>6,346,592</u> |
| <u>Accumulated Amortization and Depreciation:</u> | | | | |
| Land | - | - | - | - |
| Wastewater System | (49,571) | (114,127) | - | (163,698) |
| Usage Rights | (147,636) | (117,221) | - | (264,857) |
| Total | <u>(197,207)</u> | <u>(231,348)</u> | <u>-</u> | <u>(428,555)</u> |
| Capital Assets (Net) | <u>\$ 5,343,005</u> | <u>575,032</u> | <u>-</u> | <u>\$ 5,918,037</u> |

5. Bonds

At an election held within the District on November 6, 2007, voters authorized a total of \$64,700,000 of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, owning, improving, extending, maintaining, repairing, or operating a waterworks system, a sanitary sewer system, and a drainage and storm water system for the District. At the same election, the voters of the District authorized the issuance of a total of \$97,050,000 of refunding bonds.

At an election held on November 3, 2015, voters authorized the issuance of \$54,545,000 in bonds for constructing, improving, acquiring, maintaining, financing or operating roads and related improvements. Additionally, at an election held on November 5, 2019, voters approved the creation of a commercial defined area within the boundaries of the District and authorized the issuance of \$138,500,000 of bonds for water, wastewater and drainage system facilities to serve the commercial defined area and the levy of taxes in payment of the bonds.

The District's bonds are collateralized by the levy of an annual ad valorem tax against all taxable property within the District. The District has no direct borrowings or direct placement debt.

Under the terms of the Second Amendment to the Agreement Concerning Creation and Operation of Headwaters Municipal Utility District, as amended, the District has agreed to limit the amount of unlimited tax bonds to be issued to a maximum amount of \$80,000,000.

Bond activity during the year is summarized as follows:

| <u>Bonds:</u> | <u>Balance</u> <u>1/1/2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/2019</u> |
|---------------------------------------|-----------------------------------|--------------------|--------------------|-------------------------------------|
| Unlimited Tax Road Bonds, Series 2017 | \$ 3,000,000 | - | - | \$ 3,000,000 |
| Unlimited Tax Road Bonds, Series 2018 | 2,685,000 | - | - | 2,685,000 |
| Total Bond Indebtedness | <u>\$ 5,685,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,685,000</u> |

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

5. Bonds (continued)

In December 2017 the District issued \$3,000,000 in Series 2017 unlimited road tax bonds and used the proceeds to acquire certain road facilities within the District. The bonds are payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District.

In December 2018 the District issued \$2,685,000 in Series 2018 unlimited road tax bonds and used the proceeds to acquire certain road facilities within the District. The bonds are payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District.

The District's outstanding bonds are described as follows:

| <u>Issue</u> | <u>Original Issue Amount</u> | <u>Installments (In Thousands)</u> | <u>Final Maturity</u> | <u>Interest Rates</u> | <u>Outstanding</u> |
|--------------|------------------------------|------------------------------------|-----------------------|-----------------------|--------------------|
| Series 2017 | \$3,000,000 | \$75 to 205 | 2042 | 2.25 – 4.125% | \$3,000,000 |
| Series 2018 | \$2,685,000 | \$65 to 185 | 2043 | 3.50 – 4.600% | \$2,685,000 |

Redemption

Series 2017 Bonds maturing on or after August 15, 2025, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on August 15, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, term bonds maturing on August 15 in the years 2028, 2030, 2032, 2037 and 2042 are subject to mandatory sinking fund redemption.

Series 2018 Bonds maturing on or after August 15, 2025, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on August 15, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, term bonds maturing on August 15 in the years 2027, 2030, 2033, 2036, 2039 and 2043 are subject to mandatory sinking fund redemption.

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

5. Bonds (continued)

Debt Service Requirements-Bonds

Debt service requirements on long-term bond debt as of the end of the year are as follows:

| <u>Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|----------------------------|---------------------|---------------------|---------------------|
| 2020 | \$ 75,000 | \$ 225,621 | \$ 300,621 |
| 2021 | 145,000 | 223,933 | 368,933 |
| 2022 | 150,000 | 219,658 | 369,658 |
| 2023 | 160,000 | 215,008 | 375,008 |
| 2024 | 165,000 | 209,833 | 374,833 |
| 2025-2029 | 970,000 | 956,024 | 1,926,024 |
| 2030-2034 | 1,210,000 | 757,019 | 1,967,019 |
| 2035-2039 | 1,525,000 | 482,288 | 2,007,288 |
| 2040-2044 | 1,285,000 | 131,174 | 1,416,174 |
| Totals | \$ 5,685,000 | \$ 3,420,558 | \$ 9,105,558 |

6. Capital Leases

The District assumed responsibility for a lease purchase agreement in May 2018 to facilitate the acquisition of certain capital assets. At year end the agreement has a remaining non-cancellable term of 38 months with an option to extend for another 40 months. The District may exercise its option to purchase the facilities during the term of the lease for an amount that declines monthly. In addition, the District has an obligation to reimburse the developer in the amount of \$299,860 for payments made prior to assumption by the District. In July 2018 the District entered into another lease purchase agreement with similar terms for its Phase 2 plant expansion. Payments under this lease purchase agreement commenced in February 2019.

Debt service requirements on lease purchase agreements as of the end of the year are as follows:

| <u>Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|----------------------------|-------------------|-------------------|---------------------|
| 2020 | \$ 127,071 | \$ 52,689 | \$ 179,760 |
| 2021 | 129,116 | 42,064 | 171,180 |
| 2022 | 130,993 | 31,607 | 162,600 |
| 2023 | 142,128 | 20,472 | 162,600 |
| 2024 | 105,254 | 9,577 | 114,831 |
| 2025-2029 | 365,117 | 7,458 | 372,575 |
| Totals | \$ 999,679 | \$ 163,867 | \$ 1,163,546 |

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

7. Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

8. Contingencies

The District has an obligation to reimburse developers that have incurred costs benefitting the District and costs expended on behalf of the District for the construction of water, sewer, drainage and road systems designed to serve the District. Since the construction of these facilities is not yet complete, the ultimate amount of the future reimbursements cannot be determined at this time.

9. Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

10. Subsequent Events

The District has evaluated subsequent events as of March 15, 2020, the date the financial statements were available to be issued.

11. Reconciliation of Government-wide and Fund Financial Statements

Adjustments to convert the Governmental Funds Balance Sheet to the Statement of Net Assets are as follows:

| | |
|--|-------------------|
| Governmental Funds Total Fund Balances | \$ 822,900 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 5,918,037 |
| Long-term liabilities (bonds payable) are not due and payable in the current period and, therefore, are not reported in the funds | (6,684,679) |
| Interest is accrued on outstanding debt in the government-wide statements, whereas in the governmental funds, an interest expenditure is reported when made and not accrued in the funds | (84,608) |
| Deferred tax revenue is not available to pay for current period expenditures and, therefore, is deferred in the funds | 183,666 |
| Total Net Position | \$ 155,316 |

HEARWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY
Notes to the General Purpose Financial Statements
At and For the Year Ended December 31, 2019

11. Reconciliation of Government-wide and Fund Financial Statements (continued)

Adjustments to convert the Governmental Funds, Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities are as follows:

| | |
|--|--------------------------|
| Governmental Funds Excess of Revenues over Expenditures | \$ 186,311 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds | |
| Change in Deferred Tax Revenue | 23,689 |
| Governmental funds report capital outlays as expenditures however, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense | |
| Capital Outlay | - |
| Amortization Expense | (117,221) |
| Depreciation Expense | (114,127) |
| Governmental funds do not report contributions of capital assets as revenue however, in the Statement of Activities, such contributions are reported as revenue | |
| Developer Contributions of Capital Assets-Land | 494,380 |
| Governmental funds report principal payments as expenditures however, in the Statement of Activities, these payments are not reported as operating expenses | |
| Bond Principal | - |
| Lease Purchase Principal | 114,127 |
| Governmental funds do not report the change in accrued interest as an expenditure, however, in the Statement of Activities, this change in the amount accrued is reported as an expense | |
| Accrued Interest | - |
| Bond Proceeds are reported as other financing sources in the governmental funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities | |
| Bond Proceeds | - |
| Change in Net Assets | <u>\$ 587,159</u> |

REQUIRED SUPPLEMENTARY INFORMATION

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>ORIGINAL BUDGET</u> | <u>ACTUAL</u> | <u>FAVORABLE (UNFAVORABLE)</u> |
|--|----------------------------|-------------------------|------------------------------------|
| <u>REVENUES</u> | | | |
| Property Tax | \$ 240,401 | \$ 351,312 | \$ 110,911 |
| Water Service | 242,537 | 303,771 | 61,234 |
| Wastewater Service | 122,423 | 96,836 | (25,587) |
| Tap and Connection Fees | 79,500 | 288,948 | 209,448 |
| Interest | 135 | 1,023 | 888 |
| TOTAL REVENUES | <u>684,996</u> | <u>1,041,890</u> | <u>356,894</u> |
| <u>EXPENDITURES</u> | | | |
| Current: | | | |
| Water Service Fees | 247,766 | 273,577 | (25,811) |
| Wastewater Services | 7,500 | - | 7,500 |
| Repairs and Maintenance | 37,500 | 61,505 | (24,005) |
| Inspection Fees | 40,402 | 31,917 | 8,485 |
| Utilities | 17,828 | 15,061 | 2,767 |
| Laboratory Expenses | 23,000 | 18,504 | 4,496 |
| Solid Waste Services | 5,000 | 47,786 | (42,786) |
| Landscaping | 66,731 | 73,551 | (6,820) |
| Insurance | 5,000 | 9,830 | (4,830) |
| Tax Assessor -Collector | 2,500 | 2,376 | 124 |
| Director Salaries and Taxes | 9,690 | 4,521 | 5,169 |
| Legal Fees | 45,000 | 40,565 | 4,435 |
| Audit Fees | 8,000 | 8,000 | - |
| Accounting | 30,000 | 37,950 | (7,950) |
| Management and Consulting Fees | 120,000 | 99,765 | 20,235 |
| Engineering Fees | 45,000 | 102,052 | (57,052) |
| Legal Notices | 3,000 | 500 | 2,500 |
| Printing and Office Supplies | 31,430 | 11,399 | 20,031 |
| Debt Service: | | | |
| Interest | 65,633 | 60,383 | 5,250 |
| Principal | 114,127 | 114,127 | - |
| Capital Expenditures | - | - | - |
| TOTAL EXPENDITURES | <u>925,107</u> | <u>1,013,369</u> | <u>(88,262)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | |
| Developer Advances | 240,111 | 120,056 | (120,055) |
| TOTAL OTHER SOURCES | <u>240,111</u> | <u>120,056</u> | <u>(120,055)</u> |
| Excess (Deficit) of Revenues over Expenditures | - | 148,577 | 148,577 |
| Fund Balance - Beginning of Year | 146,380 | 146,380 | - |
| Fund Balance - End of Year | <u>\$ 146,380</u> | <u>\$ 294,957</u> | <u>\$ 148,577</u> |

The notes to financial statements are an integral part of this statement.

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

SUPPLEMENTARY INFORMATION

HEADWATERS MUNICIPAL UTILITY DISTRICT
INDEX OF SUPPLEMENTAL SCHEDULES REQUIRED
BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
FOR THE YEAR ENDED DECEMBER 31, 2019

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

- [√] Schedule of Services and Rates

- [√] Schedule of General Fund Expenditures

- [√] Temporary Investments

- [√] Analysis of Taxes Levied and Receivable

- [√] General Long Term Debt Service Requirements by Years

- [√] Analysis of Changes in General Long Term Debt

- [√] Comparative Schedule of Revenues and Expenditures - General Fund

- [√] Comparative Schedule of Revenues and Expenditures – Debt Service Fund

- [√] Board Members, Key Personnel, and Consultants

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**SCHEDULE OF GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Current:

Purchased Services for Resale

| | |
|-------|------------|
| Water | \$ 273,577 |
|-------|------------|

Professional Fees

| | |
|-------------|----------------------|
| Audit | 8,000 |
| Engineering | 90,052 |
| Rate Study | 12,000 |
| Legal | 40,565 |
| | <hr/> 150,617 |

Contracted Services

| | |
|--------------------------|----------------------|
| Accounting | 37,950 |
| Inspection Fees | 31,917 |
| Landscaping | 73,551 |
| Operations | 99,765 |
| Repairs and Maintenance | 61,505 |
| Solid Waste | 47,786 |
| Tax Appraisal/Collection | 2,376 |
| | <hr/> 354,850 |

Utilities

| | |
|-------------|---------------------|
| Electricity | 15,061 |
| Laboratory | 18,504 |
| | <hr/> 33,565 |

Administrative

| | |
|-------------------------------------|---------------------|
| Director Salaries and Payroll Taxes | 4,521 |
| Insurance | 9,830 |
| Legal Notices | 500 |
| Printing and Office Supplies | 11,399 |
| | <hr/> 26,250 |

Current:

| | |
|------------------|----------------------|
| Interest | 60,383 |
| Principal | 114,127 |
| | <hr/> 174,510 |

Capital Expenditures

| |
|----------------|
| <hr/> - |
|----------------|

| | |
|---------------------------|---------------------------|
| TOTAL EXPENDITURES | <hr/> \$ 1,013,369 |
|---------------------------|---------------------------|

Number of persons employed by the District: -0-

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**TEMPORARY INVESTMENTS
DECEMBER 31, 2019**

| Funds | Identification or Certificate Number | Interest Rate | Maturity Date | Balance at End of Year | Accrued Interest Receivable at End of Year |
|-------------------------------------|--|------------------|------------------|------------------------------|--|
| <u>GENERAL FUND</u> | | | | | |
| State Investment Pool | 7941200005 | 2.19% | N/A | \$ 136 | \$ - |
| Total | | | | <u>136</u> | <u>-</u> |
| <u>DEBT SERVICE FUND</u> | | | | | |
| State Investment Pool | 7941200003 | 2.19% | N/A | 342,116 | - |
| State Investment Pool | 7941200001 | 2.19% | N/A | 408,770 | - |
| Total | | | | <u>750,886</u> | <u>-</u> |
| <u>CAPITAL PROJECTS FUND</u> | | | | | |
| State Investment Pool | N/A | N/A | N/A | - | - |
| Total | | | | <u>-</u> | <u>-</u> |
| TOTALS - ALL FUNDS | | | | <u><u>\$ 751,022</u></u> | <u><u>\$ -</u></u> |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**ANALYSIS OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | MAINTENANCE TAXES | DEBT SERVICE TAXES |
|---------------------------------------|------------------------------|-----------------------------------|
| Taxes Receivable, Beginning of Period | \$ 119,097 | \$ 40,880 |
| 2019 Original Levy | 304,395 | 243,516 |
| Adjustments | 29,745 | 11,439 |
| Add: Penalty & Interest | 112 | 43 |
| | <hr/> | <hr/> |
| Total to be accounted for | 453,349 | 295,878 |
| Tax collections: | | |
| Current year | 202,358 | 161,886 |
| Prior years | 148,954 | 52,363 |
| Total Collections | <hr/> | <hr/> |
| | 351,312 | 214,249 |
| | <hr/> | <hr/> |
| Taxes Receivable, End of Period | <u>\$ 102,037</u> | <u>\$ 81,629</u> |

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------------|-------------------|-------------------|------------------|------------------|
| Property Valuations: | | | | | |
| Land & Improvements | <u>60,879,048</u> | <u>37,581,750</u> | <u>22,646,944</u> | <u>902,900</u> | <u>237,900</u> |
| Tax Rates Per \$100 Valuation: | | | | | |
| Debt Service tax rates | \$ 0.4000 | \$ 0.2500 | \$ - | \$ - | \$ - |
| Maintenance tax rates | 0.5000 | 0.6500 | 0.9000 | 0.9000 | 0.9000 |
| Totals | <u>\$ 0.9000</u> | <u>\$ 0.9000</u> | <u>\$ 0.9000</u> | <u>\$ 0.9000</u> | <u>\$ 0.9000</u> |
| Original Tax Levy | <u>\$ 547,911</u> | <u>\$ 338,236</u> | <u>\$ 203,822</u> | <u>\$ 8,126</u> | <u>\$ 2,141</u> |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**GENERAL LONG TERM DEBT SERVICE REQUIREMENTS-BY YEARS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| DUE DURING FISCAL YEARS ENDING | SERIES 2017 | | |
|--------------------------------------|---------------------------|--------------------------|--|
| | TOTAL PRINCIPAL DUE | TOTAL INTEREST DUE | TOTAL PRINCIPAL AND INTEREST DUE |
| 2020 | 75,000 | 111,313 | 186,313 |
| 2021 | 80,000 | 109,625 | 189,625 |
| 2022 | 80,000 | 107,625 | 187,625 |
| 2023 | 85,000 | 105,425 | 190,425 |
| 2024 | 90,000 | 102,875 | 192,875 |
| 2025 | 95,000 | 100,085 | 195,085 |
| 2026 | 100,000 | 97,045 | 197,045 |
| 2027 | 105,000 | 93,745 | 198,745 |
| 2028 | 110,000 | 90,175 | 200,175 |
| 2029 | 115,000 | 86,435 | 201,435 |
| 2030 | 120,000 | 82,410 | 202,410 |
| 2031 | 125,000 | 78,210 | 203,210 |
| 2032 | 130,000 | 73,585 | 203,585 |
| 2033 | 135,000 | 68,775 | 203,775 |
| 2034 | 145,000 | 63,375 | 208,375 |
| 2035 | 150,000 | 57,575 | 207,575 |
| 2036 | 155,000 | 51,575 | 206,575 |
| 2037 | 165,000 | 45,375 | 210,375 |
| 2038 | 170,000 | 38,775 | 208,775 |
| 2039 | 180,000 | 31,763 | 211,763 |
| 2040 | 190,000 | 24,338 | 214,338 |
| 2041 | 195,000 | 16,500 | 211,500 |
| 2042 | 205,000 | 8,456 | 213,456 |
| 2043 | - | - | - |
| | <u>\$ 3,000,000</u> | <u>\$ 1,645,060</u> | <u>\$ 4,645,060</u> |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**GENERAL LONG TERM DEBT SERVICE REQUIREMENTS-BY YEARS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| DUE DURING FISCAL YEARS ENDING | SERIES 2018 | | |
|--------------------------------------|---------------------------|--------------------------|--|
| | TOTAL PRINCIPAL DUE | TOTAL INTEREST DUE | TOTAL PRINCIPAL AND INTEREST DUE |
| 2020 | - | 114,308 | 114,308 |
| 2021 | 65,000 | 114,308 | 179,308 |
| 2022 | 70,000 | 112,033 | 182,033 |
| 2023 | 75,000 | 109,583 | 184,583 |
| 2024 | 75,000 | 106,958 | 181,958 |
| 2025 | 80,000 | 104,239 | 184,239 |
| 2026 | 85,000 | 101,239 | 186,239 |
| 2027 | 90,000 | 97,945 | 187,945 |
| 2028 | 95,000 | 94,458 | 189,458 |
| 2029 | 95,000 | 90,658 | 185,658 |
| 2030 | 100,000 | 86,858 | 186,858 |
| 2031 | 105,000 | 82,858 | 187,858 |
| 2032 | 110,000 | 78,395 | 188,395 |
| 2033 | 115,000 | 73,720 | 188,720 |
| 2034 | 125,000 | 68,833 | 193,833 |
| 2035 | 130,000 | 63,364 | 193,364 |
| 2036 | 135,000 | 57,676 | 192,676 |
| 2037 | 140,000 | 51,770 | 191,770 |
| 2038 | 145,000 | 45,470 | 190,470 |
| 2039 | 155,000 | 38,945 | 193,945 |
| 2040 | 160,000 | 31,970 | 191,970 |
| 2041 | 170,000 | 24,610 | 194,610 |
| 2042 | 180,000 | 16,790 | 196,790 |
| 2043 | 185,000 | 8,510 | 193,510 |
| | <u>\$ 2,685,000</u> | <u>\$ 1,775,498</u> | <u>\$ 4,460,498</u> |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**GENERAL LONG TERM DEBT SERVICE REQUIREMENTS-BY YEARS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| DUE DURING FISCAL YEARS ENDING | ALL SERIES | | |
|--------------------------------------|---------------------------|--------------------------|--|
| | TOTAL PRINCIPAL DUE | TOTAL INTEREST DUE | TOTAL PRINCIPAL AND INTEREST DUE |
| 2020 | 75,000 | 225,621 | 300,621 |
| 2021 | 145,000 | 223,933 | 368,933 |
| 2022 | 150,000 | 219,658 | 369,658 |
| 2023 | 160,000 | 215,008 | 375,008 |
| 2024 | 165,000 | 209,833 | 374,833 |
| 2025 | 175,000 | 204,324 | 379,324 |
| 2026 | 185,000 | 198,284 | 383,284 |
| 2027 | 195,000 | 191,690 | 386,690 |
| 2028 | 205,000 | 184,633 | 389,633 |
| 2029 | 210,000 | 177,093 | 387,093 |
| 2030 | 220,000 | 169,268 | 389,268 |
| 2031 | 230,000 | 161,068 | 391,068 |
| 2032 | 240,000 | 151,980 | 391,980 |
| 2033 | 250,000 | 142,495 | 392,495 |
| 2034 | 270,000 | 132,208 | 402,208 |
| 2035 | 280,000 | 120,939 | 400,939 |
| 2036 | 290,000 | 109,251 | 399,251 |
| 2037 | 305,000 | 97,145 | 402,145 |
| 2038 | 315,000 | 84,245 | 399,245 |
| 2039 | 335,000 | 70,708 | 405,708 |
| 2040 | 350,000 | 56,308 | 406,308 |
| 2041 | 365,000 | 41,110 | 406,110 |
| 2042 | 385,000 | 25,246 | 410,246 |
| 2043 | 185,000 | 8,510 | 193,510 |
| | <u>\$ 5,685,000</u> | <u>\$ 3,420,558</u> | <u>\$ 9,105,558</u> |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**ANALYSIS OF CHANGES IN GENERAL LONG TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | SERIES 2017 | SERIES 2018 | SERIES FUTURE | SERIES FUTURE | TOTALS |
|--|---------------------|---------------------|------------------|-----------------------|---------------------|
| Interest Rate | 2.25 - 4.125% | 3.5 - 4.6% | | | |
| Dates Interest Payable | 2/15 : 8/15 | 2/15 : 8/15 | | | |
| Maturity Dates | 2020-42 | 2021-43 | | | |
| Bonds-Beginning of Year | \$ 3,000,000 | \$ 2,685,000 | \$ - | \$ - | \$ 5,685,000 |
| Bonds Sold During the Year | - | - | - | - | - |
| Bonds Defeased During the Year | - | - | - | - | - |
| Retirements During the Year | - | - | - | - | - |
| Bonds-End of Year | \$ 3,000,000 | \$ 2,685,000 | \$ - | \$ - | \$ 5,685,000 |
| Interest Paid During the Year | \$ 111,312 | \$ 74,935 | \$ - | \$ - | \$ 186,247 |
| Accrued Interest-Beginning | (41,743) | (42,865) | - | - | (84,608) |
| Accrued Interest-Ending | 41,743 | 42,865 | - | - | 84,608 |
| Interest on Financial Statements | \$ 111,312 | \$ 74,935 | \$ - | \$ - | \$ 186,247 |
| Paying Agent: | BOKF | BOKF | | | |
| Bond Authority: | Tax Bonds | Refunding Bonds | Road Bonds | Defined Area Bonds | Refunding Bonds |
| Amount Authorized By Voters | \$ 64,700,000 | \$ 97,050,000 | \$ 54,545,000 | \$ 138,500,000 | \$ 81,817,500 |
| Amount Issued | \$ - | \$ - | \$ 5,685,000 | \$ - | \$ - |
| Remaining To Be Issued | \$ 64,700,000 | \$ 97,050,000 | \$ 48,860,000 | \$ 138,500,000 | \$ 81,817,500 |
| Debt Service Fund Cash and Temporary Investments balances as of December 31, 2019 | | | | | \$ 750,886 |
| Average annual debt service payment (principal & interest) for remaining term of all bond debt | | | | | \$ 379,398 |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | AMOUNTS | | | | |
|---|-------------------|-------------------|--------------------|-------------------|-------------------|
| | <u>12/31/2019</u> | <u>12/31/2018</u> | <u>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> |
| <u>REVENUES</u> | | | | | |
| Property Tax | \$ 351,312 | \$ 304,466 | \$ 43,345 | \$ 18,964 | \$ 2,141 |
| Water Service | 303,771 | 104,361 | 45,002 | 2,273 | - |
| Wastewater Service | 96,836 | 48,858 | 25,513 | 2,156 | - |
| Tap and Connection Fees | 288,948 | 134,369 | 91,630 | 28,375 | - |
| Interest | 1,023 | 939 | 42 | 7 | 3 |
| TOTAL REVENUES | <u>1,041,890</u> | <u>592,993</u> | <u>205,532</u> | <u>51,775</u> | <u>2,144</u> |
| <u>EXPENDITURES</u> | | | | | |
| Current: | | | | | |
| Water Service Fees | 273,577 | 275,169 | 308,354 | 162,417 | 135,223 |
| Wastewater Services | - | 753 | 33,723 | - | - |
| Repairs and Maintenance | 61,505 | 35,170 | 16,517 | - | - |
| Inspection Fees | 31,917 | 33,044 | 5,673 | 480 | - |
| Utilities | 15,061 | 14,323 | 7,727 | 1,608 | - |
| Laboratory Expenses | 18,504 | 29,632 | 7,281 | - | - |
| Solid Waste | 47,786 | 4,270 | 615 | - | - |
| Landscaping | 73,551 | 66,816 | 51,340 | - | - |
| Insurance | 9,830 | 2,503 | 1,975 | 1,975 | 1,975 |
| Tax Assessor -Collector | 2,376 | 1,443 | 60 | 10 | 10 |
| Director Salaries and Taxes | 4,521 | 5,167 | 6,459 | 5,652 | 3,875 |
| Legal Fees | 40,565 | 43,481 | 47,899 | 56,958 | 30,355 |
| Audit Fees | 8,000 | 8,000 | 8,000 | - | - |
| Accounting | 37,950 | 37,000 | 20,185 | 14,975 | 10,250 |
| Management and Consulting Fees | 99,765 | 88,017 | 15,696 | 14,320 | - |
| Engineering Fees | 102,052 | 58,538 | 58,706 | 20,291 | 13,609 |
| Legal Notices | 500 | - | - | - | - |
| Printing and Office Supplies | 11,399 | 14,417 | 8,454 | 6,077 | 4,742 |
| Debt Service: | | | | | |
| Interest | 60,383 | 28,269 | - | - | - |
| Principal | 114,127 | 49,571 | - | - | - |
| Capital Expenditures | - | - | - | - | - |
| TOTAL EXPENDITURES | <u>1,013,369</u> | <u>795,583</u> | <u>598,664</u> | <u>284,763</u> | <u>200,039</u> |
| <u>OTHER FINANCING SOURCES</u> | | | | | |
| Developer Advances | 120,056 | 347,922 | 354,156 | 232,431 | 215,889 |
| TOTAL OTHER SOURCES | <u>120,056</u> | <u>347,922</u> | <u>354,156</u> | <u>232,431</u> | <u>215,889</u> |
| Excess (Deficit) of Revenues & Other Sources over Expenditures | <u>\$ 148,577</u> | <u>\$ 145,332</u> | <u>\$ (38,976)</u> | <u>\$ (557)</u> | <u>\$ 17,994</u> |
| TOTAL ACTIVE CONNECTIONS | <u>210</u> | <u>142</u> | <u>55</u> | <u>25</u> | <u>-</u> |

PERCENT OF REVENUES

| <u>12/31/2019</u> | <u>12/31/2018</u> | <u>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| 34% | 51% | 21% | 37% | 100% |
| 29% | 18% | 22% | 4% | 0% |
| 9% | 8% | 12% | 4% | 0% |
| 28% | 23% | 45% | 55% | 0% |
| 0% | 0% | 0% | 0% | 0% |
| <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |
| 26% | 46% | 150% | 314% | 6307% |
| 0% | 0% | 16% | 0% | 0% |
| 6% | 6% | 8% | 0% | 0% |
| 3% | 6% | 3% | 1% | 0% |
| 1% | 2% | 4% | 3% | 0% |
| 2% | 5% | 4% | 0% | 0% |
| 5% | 1% | 0% | 0% | 0% |
| 7% | 11% | 25% | 0% | 0% |
| 1% | 0% | 1% | 4% | 92% |
| 0% | 0% | 0% | 0% | 0% |
| 0% | 1% | 3% | 11% | 181% |
| 4% | 7% | 23% | 110% | 1416% |
| 1% | 1% | 4% | 0% | 0% |
| 4% | 6% | 10% | 29% | 478% |
| 10% | 15% | 8% | 28% | 0% |
| 10% | 10% | 29% | 39% | 635% |
| 0% | 0% | 0% | 0% | 0% |
| 1% | 2% | 4% | 12% | 221% |
| 6% | 5% | 0% | 0% | 0% |
| 11% | 8% | 0% | 0% | 0% |
| 0% | 0% | 0% | 0% | 0% |
| <u>97%</u> | <u>134%</u> | <u>291%</u> | <u>550%</u> | <u>9330%</u> |
| 12% | 59% | 172% | 449% | 10069% |
| <u>12%</u> | <u>59%</u> | <u>172%</u> | <u>449%</u> | <u>10069%</u> |
| <u>14%</u> | <u>25%</u> | <u>-19%</u> | <u>-1%</u> | <u>839%</u> |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | AMOUNTS | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>12/31/2019</u> | <u>12/31/2018</u> | <u>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> |
| <u>REVENUES</u> | | | | | |
| Property Tax | \$ 214,249 | \$ 55,157 | \$ - | \$ - | \$ - |
| Interest | 10,024 | 4,152 | 93 | - | - |
| TOTAL REVENUES | <u>224,273</u> | <u>59,309</u> | <u>93</u> | <u>-</u> | <u>-</u> |
| <u>EXPENDITURES</u> | | | | | |
| Debt Service: | | | | | |
| Tax Assessor-Collector | - | - | - | - | - |
| Interest | 186,247 | 72,353 | - | - | - |
| Principal | - | - | - | - | - |
| Fiscal Agent Fees | 462 | 200 | - | - | - |
| TOTAL EXPENDITURES | <u>186,709</u> | <u>72,553</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Bond Proceeds & Transfers | <u>-</u> | <u>246,419</u> | <u>245,623</u> | <u>-</u> | <u>-</u> |
| Excess (Deficit) of Revenues and Transfers Over Expenditures | <u>\$ 37,564</u> | <u>\$ 233,175</u> | <u>\$ 245,716</u> | <u>\$ -</u> | <u>\$ -</u> |

PERCENT OF REVENUES

| <u>12/31/2019</u> | <u>12/31/2018</u> | <u>12/31/2017</u> | <u>12/31/2015</u> | <u>12/31/2014</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| 96% | 93% | 0% | n/a | n/a |
| 4% | 7% | 100% | n/a | n/a |
| <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>n/a</u> | <u>n/a</u> |
| 0% | 0% | 0% | n/a | n/a |
| 83% | 122% | 0% | n/a | n/a |
| 0% | 0% | 0% | n/a | n/a |
| 0% | 0% | 0% | n/a | n/a |
| <u>83%</u> | <u>122%</u> | <u>0%</u> | <u>n/a</u> | <u>n/a</u> |
| <u>0%</u> | <u>415%</u> | <u>264111%</u> | <u>n/a</u> | <u>n/a</u> |
| <u>17%</u> | <u>393%</u> | <u>264211%</u> | <u>n/a</u> | <u>n/a</u> |

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

**BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

DISTRICT MAILING ADDRESS: c/o McLean & Howard, 901 S MoPac, Suite 225, Austin, TX 78746

DISTRICT BUSINESS TELEPHONE NUMBER: (512) 328-2008

LIMITS ON FEES OF OFFICE THAT A DIRECTOR MAY RECEIVE DURING A FISCAL YEAR: \$7,200

| <u>NAMES</u> | <u>TERM OF OFFICE</u> | <u>SALARY FYE 12/31/19</u> | <u>REIMBURSEMENTS FYE 12/31/19</u> | <u>TITLE AT YEAR END</u> |
|----------------------------|-----------------------|--------------------------------|--|------------------------------|
| <u>DIRECTORS</u> | | | | |
| Harvey Zinn, Jr. | Elected 5/18-5/22 | \$ 1,200 | \$ - | President |
| Lisa Stephens | Elected 5/18-5/22 | 600 | - | Vice President |
| Chase Belew | Elected 5/18-5/22 | 600 | - | Secretary |
| William Farrell | Elected 5/16-5/20 | 900 | - | Treasurer |
| Brian Jacks | Appointed 11/18-5/20 | 900 | - | Asst Sec |
| Payments to Past Directors | | - | - | |
| | | <u>\$ 4,200</u> | <u>\$ -</u> | |

CONSULTANTS

| | | | | |
|---------------------------------|--|-----------|------|-----------------|
| Crossroads Utility Services | | \$ 99,765 | \$ - | Operator |
| McLean & Howard | | \$ 40,565 | \$ - | Attorney |
| West, Davis & Company | | \$ 8,000 | \$ - | Auditor |
| Municipal Accounts & Consulting | | \$ 37,950 | \$ - | Accountant |
| Allen Engineering Group | | \$ 61,575 | \$ - | Engineer |
| Malone Wheeler | | \$ 90,052 | \$ - | Engineer |
| Expergy | | \$ 12,000 | \$ - | Rate Consultant |

OTHER INFORMATION

HEADWATERS MUNICIPAL UTILITY DISTRICT OF HAYS COUNTY

PRINCIPAL TAXPAYERS

DECEMBER 31, 2019

| Taxpayer | Taxable Assessed Value | % of 2019 Certified Taxable Assessed Value |
|--------------------------------|-------------------------------|---|
| Weekley Homes, LLC | \$ 4,106,078 | 6.74% |
| WFC Headwaters Owner VII, LP | * 2,885,230 | 4.74% |
| Taylor Morrison of Texas, Inc. | 2,319,110 | 3.81% |
| Ridge at Headwaters, Ltd. | 1,581,700 | 2.60% |
| Dream Finders Homes, LLC | 1,087,670 | 1.79% |
| Trendmaker Homes, Inc | 1,067,175 | 1.75% |
| DFH Wildwood, LLC | 1,047,340 | 1.72% |
| DFH Wildwood, LLC | 972,530 | 1.60% |
| Individual | 636,260 | 1.05% |
| Individual | 609,540 | 1.00% |
| Total | \$ 16,312,633 | 26.80% |

* Developer Entity

ASSESSED VALUE BY CLASSIFICATION

DECEMBER 31, 2019

| Type of Property | 2019 Taxable Assessed Value |
|-----------------------------------|------------------------------------|
| Land | \$ 43,133,270 |
| Improvements | \$ 39,818,501 |
| Personal Property | 154,643 |
| Total Assessed Valuation | 83,106,414 |
| Exemptions | 22,227,366 |
| Total Taxable Appraised Valuation | \$ 60,879,048 |