

SOMERVELL COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
and
ANNUAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED SEPTEMBER 30, 2019

SOMERVELL COUNTY WATER DISTRICT

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INTRODUCTORY SECTION

SOMERVELL COUNTY WATER DISTRICT
Certificate of the Board of Directors
September 30, 2019

SOMERVELL COUNTY WATER DISTRICT
Name of Water District

SOMERVELL
County

We, the undersigned, do hereby certify that the audit report of the above named Water District for the fiscal year ended September 30, 2019, as received by the Board of Directors on the 10th day of February. And was reviewed and approved at a meeting of the Board of Directors of the District held on the 10th day of February, 2020.



Signature of Board President



Signature of Board Secretary

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF SOMERVELL }

I, Ben Mieth of the
(Name of Duly Authorized District Representative)

Somervell County Water District
(Name of District)

Hereby, swear, or affirm, that the District named above has reviewed and approved at a meeting of the District's Board of Directors on the 10th day of February, 2020, its annual audit report for the fiscal year ended September 30, 2019, and that copies of the annual audit report have been filed in the District office, located at 2099 CR 301, Glen Rose, Texas, 76043.
(Address of District)

The filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

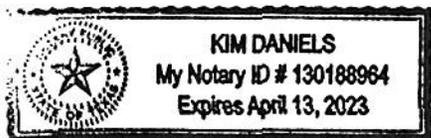
Date: February 10th, 2020

By: *Ben Mieth*
(Signature of District Representative)

Ben Mieth, President
(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this 10th day of February, 2020.

Kim Daniels
(Signature of Notary)



My commission expires on: 4-13, 2023
Notary Public in and for the State of Texas.

FINANCIAL SECTION

Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Somervell County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund information of Somervell County Water District, as of and for the year ended September 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the TCDRS schedules on pages 3 through 9 and pages 31 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, are 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 introductory section and the Texas supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section and the Texas supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

The introductory section and the Texas Supplementary Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020, on our consideration of Somervell County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Somervell County Water District's internal control over financial reporting and compliance.



MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
January 24, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Somervell County Water District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended September 30, 2019. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position increased \$760,999 from prior year.
- During the year, the District's expenses were \$760,999 less than the \$3,808,317 generated in taxes and other revenues for governmental programs.
- The total cost of the District's programs was \$3,047,318.
- The general fund reported fund balance of \$9,055,920.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The District also includes in this report, required supplementary information (RSI), a section that presents additional information as required by the Texas Commission of Environment Quality (TCEQ), and required compliance reporting

Government-wide Financial Statements

The District's annual report includes two government-wide financial statements. These 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 first of these government-wide statements is the *Statement of Net Position*. This is the District-wide statement of financial position presenting information that includes all of the District's assets and liabilities, 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 as a whole is improving or deteriorating. Evaluation of the overall economic health of the District would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of District infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which 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. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by the District's taxpayers.

Both government-wide financial statements distinguish governmental activities of the District that are principally supported by taxes and intergovernmental revenues, such as grants. Governmental activities include program activities and a section titled business-type activities, which include activities for water and sewer and park and recreation.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The District has only governmental funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist 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. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The budgetary comparison schedule for the general fund can be found in required supplementary information. This statement demonstrates compliance with the District's adopted and final revised budget. The District amended their budget during the year for park improvements.

Financial Analysis of the District as a Whole

Net position. As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the District as a whole.

Table 1
Condensed Statements of Net Position

	2019	2018	Dollar Change	Percent Change
Current assets	\$ 9,573,524	\$ 9,260,820	\$ 312,704	3%
Noncurrent assets	60,403,077	60,874,706	(471,629)	-1%
Total Assets	69,976,601	70,135,526	(158,925)	0%
Deferred outflows of resources	151,642	75,614	76,028	101%
Total Deferred Outflows of Resources	151,642	75,614	76,028	
Current liabilities	213,667	59,625	154,042	258%
Long-term liabilities	11,910,828	12,890,000	(979,172)	-8%
Total Liabilities	12,124,495	12,949,625	(825,130)	-6%
Deferred inflows of resources	54,182	72,948	(18,766)	-26%
Total Deferred Inflows of Resources	54,182	72,948	(18,766)	
Net investment in capital assets	48,536,077	47,913,670	622,407	1%
Restricted	303,806	214,569	89,237	42%
Unrestricted	9,109,683	9,060,328	49,355	1%
Total Net Position	\$ 57,949,566	\$ 57,188,567	\$ 760,999	1%

As the above table indicates, total current assets increased by \$312,704 during the fiscal year ended September 30, 2019. This increase is due primarily to an increase in cash. Noncurrent assets decreased \$471,629 due to depreciation expense. Current liabilities increased due to an increase in accounts payable due to timing of payments on the construction project. The District has noncurrent liabilities due to bonds payable and a net pension liability. The District's net position at fiscal year-end is \$57,949,566. This is an \$760,999 increase over last year's net position of \$57,188,567.

Changes in net position. The District's total revenues were \$3,808,317. Approximately three-fourths (76%) of the District's revenue comes from taxes, and 18 cents of every dollar raised comes from charges for services.

Table 2
Condensed Statements of Activities

	2019	2018	Dollar Change	Percent Change
Program revenues	\$ 671,244	\$ 713,797	\$ (42,553)	-6%
Operating grants and contributios		112,362	(112,362)	-100%
Total operating revenues	671,244	826,159	(42,553)	-5%
Program activities	709,945	705,136	4,809	1%
Business-type activities	2,337,373	2,447,986	(110,613)	-5%
Total operating expenses	3,047,318	3,153,122	4,809	0%
Increase from operations	(2,376,074)	(2,326,963)	(49,111)	2%

General revenues				
Ad valorem taxes	2,904,019	2,945,941	(41,922)	-1%
Investment earnings	242,168	156,732	85,436	55%
Other	(9,114)	12,000	(21,114)	-176%
Total general revenues	<u>3,137,073</u>	<u>3,114,673</u>	<u>22,400</u>	1%
Change in net position	760,999	787,710	(26,711)	-3%
Beginning Net Position	<u>57,188,567</u>	<u>56,400,857</u>	<u>787,710</u>	1%
Ending Net Position	\$ <u>57,949,566</u>	\$ <u>57,188,567</u>	\$ <u>760,999</u>	1%

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The general fund and the debt service fund are the only funds of the District. The general fund reported ending fund balances of \$9,055,920, while the debt service fund reported an ending fund balance of \$264,786. The total ending fund balances of the general fund shows an increase of \$102,266 over the prior year. This increase is primarily the result of increases in investment earnings and decreases in expenditures.

General Fund Budgetary Highlights

The District amended their budget once over the course of the year. The budget increase was to increase the park capital outlay line item by \$230,000. With this adjustment, actual expenses were \$305,303 under final budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, for governmental activities as of September 30, 2019, was \$60,403,077. The total change in net capital assets was a decrease of less than 1%. Major capital additions include land purchase, equipment and water line extensions. See Table A-3 for additional information about changes in capital assets during the fiscal year.

Table 3
District's Capital Assets

	2019	2018	Dollar Change	Percent Change
Land	\$ 2,636,598	\$ 2,417,879	\$ 218,719	9.0%
Construction in progress	257,705		257,705	100.0%
Building	483,814	483,814		
Equipment	1,032,703	1,039,778	(7,075)	-0.7%
Office equipment	44,082	59,006	(14,924)	-25.3%
Land improvements	252,620	228,620	24,000	10.5%
Park	1,162,115	1,154,315	7,800	0.7%
Distribution system	<u>63,845,183</u>	<u>63,320,233</u>	<u>524,950</u>	0.8%
Total at historical cost	69,714,820	68,703,645	1,011,175	1.5%
Accumulated depreciation	<u>9,311,743</u>	<u>7,899,975</u>	<u>1,411,768</u>	17.9%
Net Capital Assets	\$ <u>60,403,077</u>	\$ <u>60,803,670</u>	\$ <u>(400,593)</u>	-0.7%

Debt

At year-end, the District had \$11,867,000 in bonds payable for the governmental activities, as shown in the following table.

Table 4
Long Trm Debt

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% Change</u>
Refunding Bond Series 2011	\$ 737,000	\$ 804,000	\$ (67,000)	-8%
Revenue Bond Series 2012	5,219,000	5,694,000	(475,000)	-8%
Refunding Bond Series 2015	5,491,000	5,932,000	(441,000)	-7%
Refunding Bond Series 2016	420,000	460,000	(40,000)	-9%
	<u>\$ 11,867,000</u>	<u>\$ 12,890,000</u>	<u>\$ (1,023,000)</u>	

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

The District’s Board approved a tax rate of \$.129 for maintenance and operations and \$.048 for interest and sinking for a total of \$.177.

The District’s 2019-2020 fiscal budget for the general fund anticipates \$2,495,831 in tax, water, park, and other revenues and expenditures of \$2,495,831 for operating and administrative costs. If these estimates are realized, the District’s budgetary general fund fund balance is expected to remain consistent with the prior year.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

The District’s financial report is designed to present users (citizens, taxpayers, investors, and creditors) with a general overview of the District’s finances and to demonstrate the district’s accountability. If you have questions about this report or need additional financial information, contact the Somervell County Water District, P.O. Box 1386, 2099 CR 301, Glen Rose Texas 76043.

BASIC FINANCIAL STATEMENTS

SOMERVELL COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
 SEPTEMBER 30, 2019

	<u>Primary Governmental Activities</u>
ASSETS	
Current Assets	
Cash	\$ 1,699,050
Investments	7,445,594
Restricted	
Cash	303,806
Receivables	
Property tax	60,235
Allowance for uncollectible tax	(9,434)
Accounts receivable	61,608
Other receivables	1,954
Accrued interest receivable	10,711
Total current assets	<u>9,573,524</u>
Non-current Assets	
Capital assets:	
Land	2,636,598
Construction in progress	257,705
Building, net	324,941
Equipment, net	136,585
Office equipment, net	2,952
Land improvements, net	151,035
Park, net	638,292
Distribution system, net	56,254,969
Total non-current assets	<u>60,403,077</u>
Total Assets	<u>69,976,601</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>151,642</u>
Total Deferred Outflows of Resources	<u>151,642</u>
LIABILITIES	
Current Liabilities	
Accounts payable	153,115
Payroll liabilities	9,095
Accrued interest	11,650
Security deposits	39,807
Total current liabilities	<u>213,667</u>
Noncurrent liabilities	
Due within one year	1,029,000
Due in more than one year	10,838,000
Net pension liability	43,828
Total noncurrent liabilities	<u>11,910,828</u>
Total Liabilities	<u>12,124,495</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>54,182</u>
Total Deferred Inflows of Resources	<u>54,182</u>
NET POSITION	
Net investment in capital assets	48,536,077
Restricted	303,806
Unrestricted	9,109,683
Total Net Position	<u>\$ 57,949,566</u>

The accompanying notes are an integral part of this statement.

SOMERVELL COUNTY WATER DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for</u>	<u>Operating</u>	<u>and Changes in Net Position</u>
		<u>Services</u>	<u>Grants and</u>	<u>Governmental</u>
			<u>Contributions</u>	<u>Activities</u>
Primary Government				
Program activities:				
Professional fees	\$ 36,356	\$	\$	(36,356)
Contracted services	95,541			(95,541)
Repair and maintenance	26,191			(26,191)
Administration	285,941			(285,941)
Interest	138,045			(138,045)
Depreciation	127,871			(127,871)
Total governmental activities	<u>709,945</u>			<u>(709,945)</u>
Business-type activities				
Water and sewer	2,176,655	573,916		(1,602,739)
Park and recreation	160,718	97,328		(63,390)
Total business-type activities	<u>2,337,373</u>	<u>671,244</u>		<u>(1,666,129)</u>
Total Primary Government	<u>\$ 3,047,318</u>	<u>\$ 671,244</u>	<u>\$</u>	<u>(2,376,074)</u>
General Revenues:				
Taxes:				
				2,904,019
				242,168
				(9,256)
				142
				<u>3,137,073</u>
				760,999
Change in Net Position				
				<u>57,188,567</u>
				<u>\$ 57,949,566</u>

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

SOMERVELL COUNTY WATER DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	<u>General</u>	<u>Debt</u>	<u>Total</u>
	<u>Fund</u>	<u>Service</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Funds</u>
ASSETS:			
Current:			
Cash	\$ 1,699,050	\$	\$ 1,699,050
Investments	7,445,594		7,445,594
Restricted			
Cash	39,807	263,999	303,806
Receivables			
Property tax	45,763	14,472	60,235
Allowance for uncollectible tax	(7,167)	(2,267)	(9,434)
Accounts receivable	61,608		61,608
Other receivables	1,167	787	1,954
Accrued interest receivable	10,711		10,711
Total Assets	\$ <u>9,296,533</u>	\$ <u>276,991</u>	\$ <u>9,573,524</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	\$ 153,115	\$	\$ 153,115
Payroll liabilities	9,095		9,095
Security deposits	39,807		39,807
Total Liabilities	<u>202,017</u>		<u>202,017</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - property taxes	<u>38,596</u>	<u>12,205</u>	<u>50,801</u>
Total Deferred Inflows of Resources	<u>38,596</u>	<u>12,205</u>	<u>50,801</u>
FUND BALANCE:			
Restricted:			
Debt service		264,786	264,786
Assigned	6,937,455		6,937,455
Unassigned	<u>2,118,465</u>		<u>2,118,465</u>
Total Fund Balance	<u>9,055,920</u>	<u>264,786</u>	<u>9,320,706</u>
Total Liabilities, Deferred Inflows, and Fund Balances	\$ <u>9,296,533</u>	\$ <u>276,991</u>	\$ <u>9,573,524</u>

The accompanying notes are an integral part of this statement.

SOMERVELL COUNTY WATER DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2019

Total fund balances - governmental funds balance sheet	\$ 9,320,706
<p>Amounts reported for governmental activities in the statement of net position (SNP) are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$68,703,645 and the accumulated depreciation was \$7,899,975.</p>	60,803,670
<p>Capital assets are recorded as capital outlay (expenditure) in the fund financial statements, but are recorded as an increase in capital assets in the government-wide statements.</p>	1,063,774
<p>Capital asset disposals decrease capital assets in the government-wide statements.</p>	(9,256)
<p>Depreciation expense decreases net position in SNP.</p>	(1,455,111)
<p>Long-term debt is not recorded in governmental funds. The beginning balance of long-term debt, included bonds of \$12,890,000.</p>	(12,890,000)
<p>Long-term debt principal payments are expenditures in the fund financial statements, but are shown as decreases in liabilities in the statement of net position.</p>	1,023,000
<p>Interest payable decreases the net position in the government-wide statements.</p>	(11,650)
<p>Included in the noncurrent assets is the recognition of the District's net pension asset required by GASB 68 in the amount of \$43,828, a deferred resource inflow in the amount of \$54,182, and a deferred resource outflow in the amount of \$151,642. This resulted in an increase in net position.</p>	53,632
<p>Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.</p>	<u>50,801</u>
Net position of governmental activities - statement of net position	\$ <u><u>57,949,566</u></u>

The accompanying notes are an integral part of this statement.

SOMERVELL COUNTY WATER DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
 YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes	\$ 1,708,018	\$ 1,190,733	\$ 2,898,751
Water sales	573,916		573,916
Park revenue	97,328		97,328
Interest	220,728	21,440	242,168
Miscellaneous	142		142
Total Revenues	<u>2,600,132</u>	<u>1,212,173</u>	<u>3,812,305</u>
EXPENDITURES			
Operations			
Professional fees	36,356		36,356
Contracted services	95,541		95,541
Repair and maintenance	26,191		26,191
Administration	277,109		277,109
Distribution	375,580		375,580
Production	523,282		523,282
Park and recreation	100,033		100,033
Capital outlay	1,063,774		1,063,774
Debt service			
Principal		1,023,000	1,023,000
Interest		138,956	138,956
Total Expenditures	<u>2,497,866</u>	<u>1,161,956</u>	<u>3,659,822</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	102,266	50,217	152,483
Fund Balance - Beginning	<u>8,953,654</u>	<u>214,569</u>	<u>9,168,223</u>
Fund Balance - Ending	<u>\$ 9,055,920</u>	<u>\$ 264,786</u>	<u>\$ 9,320,706</u>

The accompanying notes are an integral part of this statement.

SOMERVELL COUNTY WATER DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019**

Total change in fund balances - total governmental funds	\$	152,483
<p>Amounts reported for governmental activities in the statement of activities (SOA) are different because:</p>		
Capital assets are recorded as capital outlay (expenditure) in the fund financial statements, but are recorded as an increase in capital assets in the government-wide statements.		1,063,774
Capital asset disposals decrease capital assets in the government-wide statements.		(9,256)
Depreciation expense decreases net position in SNP.		(1,455,111)
Long-term debt principal payments are expenditures in the fund financial statements, but are shown as decreases in liabilities in the statement of net position.		1,023,000
Interest payable decreases the net position in the government-wide statements.		911
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of December 31, 2018 cause the change in the ending net position to increase \$59,574. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. The City's reported TCDRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$79,644. The result of these changes is to decrease the change in net position.		(20,070)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.		<u>5,268</u>
Total change in net position of governmental activities - statement of activities	\$	<u><u>760,999</u></u>

The accompanying notes are an integral part of this statement.

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS

Somervell County Water District (the District) was created by an act of the Texas Legislature in 1985 and encompasses all of Somervell County, Texas. Voters of the District confirmed the creation of the District by a majority vote on August 6, 1985 and elected a Board of Directors. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water. The District began supplying water services to customers in Somervell County, Texas in November 2011.

As a political subdivision of the State of Texas, the District is exempt from federal income taxes, state and local sales and use taxes, and local real and personal property taxes. The voters gave the District the authority to levy real and personal property taxes for maintenance and operations and for debt service.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the Somervell County Water District (District) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended September 30, 2019.

Basis of Presentation

The financial statements of the District are prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to governmental units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Government-wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole. The primary government is presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and District general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The District has no business-type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to uses of the District's services; and (2) operating grants and contributions which finance annual operating activities. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental funds.

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: property taxes, water sales, park revenue, and investment income. In general, other revenues are recognized when cash is received.

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

Fund Types and Major Funds

Governmental funds

The District reports the following major governmental fund:

General Fund – reports as the primary fund of the District. This fund is used to account for all financial resources.

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt.

Assets, Liabilities, and Net Position or Equity

Cash

The District maintains and controls several cash accounts. Some of these accounts are interest-bearing accounts but none are considered to be investments nor need to be considered cash equivalents.

Investments

Investments are reported at fair value (generally based on quoted market prices).

Inventory

The costs of inventory are recorded as expenditures when purchased (purchase method).

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital assets, depreciation, and amortization

The District adopted a formal capitalization policy whereby the District capitalizes assets with a cost greater than \$5,000 and a useful life greater than one year. The District's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Building and land improvements	10 - 25 years
Office furniture and equipment	3 - 5 years
Machinery and equipment	7 years
Wheeler Branch Park	10 - 30 years
Water system	50 years

Long-term debt

In the government-wide financial statements, outstanding debt is reported as liabilities.

Deferred Inflows of Resources

Deferred outflows of resources refer to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. The District has no amounts recorded as deferred outflows of resources in the governmental fund financial statements and \$151,642 of deferred outflows related to TCDRS in the government-wide financial statements.

Deferred inflows of resources refer to the acquisition of net assets that applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Specifically, for the current period, the difference in delinquent taxes receivable and the associated allowance for uncollectible taxes of \$50,801 is considered a deferred inflow of resources in the governmental fund financial statements, while \$54,182 of deferred inflows related to TCDRS is considered deferred inflow of resources in the government-wide financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the Fiduciary Net Position of the Texas County & District Retirement System (the "TCDRS") and additions to/deductions from TCDRS' Fiduciary Net Position have been determined on the same basis as they are reported to TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Investments are reported at fair value.

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Nonspendable – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) are legally or contractually required to be maintained intact. The District had no nonspendable funds at September 30, 2019.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation. The District had \$264,786 restricted for debt service at September 30, 2019.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District Council. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District had no committed funds at September 30, 2019.

Assigned – This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the District Council or through the Council delegating this responsibility to the General Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has \$6,937,455 for capital maintenance and improvements at September 30, 2019.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Estimates

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

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budget policy and practice

The District's budget is based upon estimated revenues and expenditures on the modified accrual basis for which the Board of Directors uses as a guideline for operations during the year. The Board adopts the budget in a public meeting.

NOTE 4: DEPOSITS AND INVESTMENTS

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Compliance with the Public Funds Investment Act

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District has an investment policy and therefore, is in compliance with this requirement.

Additional policies and contractual provisions governing deposits and investments for the District are as follows:

Credit Risk – To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District only has checking accounts, money market accounts, and certificates of deposit.

Custodial Credit Risk for Investments – To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the District's deposits are secured by FDIC and pledged securities.

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4: DEPOSITS AND INVESTMENTS - continued

Concentration of Credit Risk – The District’s cash and investments consist of checking accounts, money market accounts, and certificates of deposits at their depository bank and several other financial institutions and were fully collateralized by FDIC and pledged securities.

Interest Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District monitors the interest rate of the money market accounts and certificates of deposit.

The District’s investments at September 30, 2019, were as follows:

Investment Type:	Market Value	Weighted Average Maturity (Days)
Certificates of deposit	\$ <u>7,445,594</u>	<u>438</u>
	\$ <u><u>7,445,594</u></u>	

NOTE 5: RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Water Receivables

Significant receivables include amounts due from customers primarily for water services. These receivables are due within one year. The District expects to collect substantially all of the receivables and, therefore, no allowance for uncollectable is recorded.

Receivables at September 30, 2019 are as follows:

Water services	\$ 61,608
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Property Taxes Receivable and Property Tax Calendar

The District’s property tax is levied each October 1st on the assessed value listed as of the prior January 1st for all real property located in Somervell County, Texas. Appraised values are established by the Somervell Central Appraisal District at 100% of estimated market value and certified by the Appraisal Review Board. Tax statements are mailed as soon as possible after October 1st and the taxes are due immediately upon receipt of the tax statement by the taxpayer. Property taxes are attached as an enforceable lien as of January 1st following the tax levy date. Taxes are considered delinquent if the taxes are still unpaid after the following January 31st. Property taxes are recorded as receivables and deferred revenue at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes become available. Property taxes available include amounts collected during the year. Delinquent taxes are considered only partially collectible and are, therefore, reduced by a percentage factor for the expected uncollectible amounts.

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6: CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets:

	<u>Balance at</u> <u>9/30/18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>9/30/19</u>
Governmental Activities				
Non-Depreciable Assets:				
Land	\$ 2,417,879	\$ 218,719	\$	\$ 2,636,598
Construction in progress		<u>257,705</u>		<u>257,705</u>
Total non-depreciable assets	<u>2,417,879</u>	<u>476,424</u>		<u>2,894,303</u>
Depreciable Assets:				
Building	483,814			483,814
Equipment	1,039,778	6,300	13,375	1,032,703
Office equipment	59,006		14,924	44,082
Land improvements	228,620	24,000		252,620
Park	1,154,315	7,800		1,162,115
Distribution system	<u>63,320,233</u>	<u>549,250</u>	<u>24,300</u>	<u>63,845,183</u>
Total depreciable assets	<u>66,285,766</u>	<u>587,350</u>	<u>52,599</u>	<u>66,820,517</u>
Less accumulated depreciation				
Building	141,809	17,064		158,873
Equipment	810,466	97,067	11,415	896,118
Office equipment	55,200	843	14,913	41,130
Land improvements	90,772	10,813		101,585
Park	463,539	60,284		523,823
Distribution system	<u>6,338,189</u>	<u>1,269,040</u>	<u>17,015</u>	<u>7,590,214</u>
Total accumulated depreciation	<u>7,899,975</u>	<u>1,455,111</u>	<u>43,343</u>	<u>9,311,743</u>
Total Governmental Activities, net:	\$ <u>60,803,670</u>	\$ <u>(391,337)</u>	\$ <u>9,256</u>	\$ <u>60,403,077</u>

Depreciation expense is allocated as follows:

Water and sewer	\$ 1,266,956
Park and recreation	60,284
Unallocated	<u>127,871</u>
	\$ <u>1,455,111</u>

NOTE 7: LONG-TERM DEBT

2009A General Obligation Bonds (EDAP at 0%), due in annual installments beginning September 1, 2011 through September 1, 2030.

2009B General Obligation Bonds (WIF Rural Loan at 0%), due in annual installments beginning September 1, 2011 through September 1, 2030.

2009C General Obligation Bonds (WIF), due in annual installments beginning September 1, 2011 through September 1, 2030, having an interest rate ranging from .854% in 2017 to 2.822% in 2030.

2012 General Obligation Bonds (DEAP at 0%), due in annual installments beginning March 14, 2013 through March 14, 2030.

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7: LONG-TERM DEBT - continued

Change in Long-term Debt

	Balance at 9/30/18	Increases	Decreases	Balance at 9/30/19	Due in One Year
GO Bonds Series 2009A	\$ 804,000	\$	\$ 67,000	\$ 737,000	\$ 67,000
GO Bonds Series 2009B	5,694,000		475,000	5,219,000	475,000
GO Bonds Series 2009C	5,932,000		441,000	5,491,000	447,000
GO Bonds Series 2012	460,000		40,000	420,000	40,000
Total Bonds	<u>12,890,000</u>		<u>1,023,000</u>	<u>11,867,000</u>	<u>1,029,000</u>
Pension Liability	\$ (71,036)	\$ 208,127	\$ 93,263	\$ 43,828	
	<u>\$ (71,036)</u>	<u>\$ 208,127</u>	<u>\$ 93,263</u>	<u>\$ 43,828</u>	

Debt service for long-term notes is as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,029,000	\$ 132,906	\$ 1,161,906
2021	1,036,000	125,566	1,161,566
2022	1,045,000	116,726	1,161,726
2023	1,055,000	106,860	1,161,860
2024	1,066,000	96,076	1,162,076
2025-2029	5,491,000	293,460	5,784,460
2030	1,145,000	15,916	1,160,916
	<u>\$ 11,867,000</u>	<u>\$ 887,510</u>	<u>\$ 12,754,510</u>

NOTE 8: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties

NOTE 9: UNFAVORABLE BUDGET VARIANCES

During the Year Ended September 30, 2019, the District had the following unfavorable budget variances:

Distribution	\$ 9,980
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All expenditures were approved by the District, and total expenditures were \$305,303 less than budget.

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10: HEALTH CARE COVERAGE

During the year ended September 30, 2019, the District covered the cost of a health insurance plan (the Plan) through TML. The District paid premiums of \$166 to \$668 per month per employee for health insurance. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

NOTE 11: RETIREMENT PLAN – TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional, defined benefit pension plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer, public-employee retirement system. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

Pension Plan Fiduciary Net Pension

Detailed information about TCDRS' fiduciary net position (in the aggregate) is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. The CAFR can be found at the following link: www.tcdrs.gov.

Under state law governing TCDRS since 1991, the District has had the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer-contribution rate required to adequately finance the plan. Effective January 1, 2003, the District adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 30-year amortization period which began January 1, 2003 using the entry age actuarial cost method. Monthly contributions by the District are based on the covered payroll and the employer contribution rate in effect. The employer contribution rate for calendar year 2019 is 11.11% and for calendar year 2018 was 11.29%.

The plan provisions are adopted by the Board of Directors of the District, within the options available in the state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 8 or more years of service, with 20 years regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump-sum are not entitled to any amounts contributed by the District.

Benefits Provided

TCDRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of the District.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the Board of Directors, within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11: RETIREMENT PLAN – TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM - continued

monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Contributions

TCDRS is a model for responsible, disciplined funding. TCDRS does not receive any state funding. As an agent, multiple-employer plan, each participating employer in the system funds its plan independently. A combination of three elements fund each employer’s plan: employee deposits, employer contributions, and investment income.

The District has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. The District contributed using actuarially determined rate of 11.29% for the months of the calendar year in 2018 and 11.11% for the months of the calendar year in 2019.

The contribution rate payable by the employee members for 2019 and 2018 is the rate of 7.0% as adopted by the District’s Board of Directors. The employee contribution rate and the employer contribution rate may be changed by the Board of Directors, within the options available in the TCDRS Act.

<u>Contribution rates</u>	2018	2019
Members	11.29%	11.11%
Employer	7.00%	7.00%

At September 30, 2019, there were nine active employees contributing to the plan. Additionally, there were two inactive employees receiving benefits and one inactive employee entitled to but not receiving benefits.

Annual Pension Costs

For the District’s accounting year ending September 30, 2019, the annual pension cost for the TCDRS plan was \$79,644.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with GASB Statement No. 68, *Accounting for Pensions by State and Local Governmental Employees*, parameters based on the actuarial valuations as of December 31, 2017 and December 31, 2018, the basis for determining the contribution rates for calendar years 2017 and 2018. The most recent valuation is as of December 31, 2018.

Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis.

Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate by adopting an elected rate of making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future experience.

In addition, employers annually review their plans and may adjust benefits and costs based on their local needs and budgets. Although accrued benefits may not be reduced, employers may reduce future benefit accruals and immediately reduce costs.

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11: RETIREMENT PLAN – TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM - continued

Change in Net Pension Liability/Asset

	Increase (Decrease)		
		Plan Fiduciary	Net Pension
	Total Pension Liability (a)	Net Position (b)	Liability (a)-(b)
Balance at 12/31/17	\$ 1,118,003	\$ 1,189,041	\$ (71,038)
Changes for the year:			
Service Cost	87,734		87,734
Interest on total pension liability (1)	96,370		96,370
Effect of plan changes (2)	2,775		2,775
Effect of economic/demographic gains/losses	2,119		2,119
Benefit payments	(32,599)	(32,599)	-
Administrative expenses		(988)	988
Member contributions		35,030	(35,030)
Net investment income		(21,459)	21,459
Employer contributions		59,584	(59,584)
Other (3)	1	1,966	(1,965)
Net changes	156,400	41,534	114,866
Balance at 12/31/18	\$ 1,274,403	\$ 1,230,575	\$ 43,828

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Reflects plan changes adopted in 2019.

(3) Relates to allocation of system-wide items.

Oversight

The Board has established review policies to ensure that actuarial assumptions are appropriate and that the methodology for determining employer contribution rates is being correctly applied.

An actuarial audit of every investigation of experience is required and must be performed by an independent auditing actuary to review the consulting actuary’s analysis, conclusions and recommendations for accuracy, appropriateness and reasonableness. These audits alternate between a peer review and a full replication audit of the investigation of experience. In a peer review audit of the investigation, the reviewing actuary uses the raw results of the investigation for demographic assumptions as calculated by the consulting actuary to test the conclusions and recommendations. In addition, the reviewing actuary independently analyzes economic assumptions to test the results and recommendations of the consulting actuary. The reviewing actuary also examines the consulting actuary’s methods and assumptions for reasonableness and internal consistency.

In a full replication audit of the investigation, in addition to performing all of the steps of a peer review, the auditing actuary fully replicates the calculation of the investigation’s raw results.

Discount Rate

The discount rate used to measure the total pension liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

**NOTE 11: RETIREMENT PLAN – TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM –
continued**

of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 8.1%. The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown below are based on January 2018 information for a 7 to 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 – December 31, 2016 for more details.

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected minus Inflation) (2)
US Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (3)	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities - Developed Markets	MSCI World Ex USA (net) Index	10.00%	5.40%
International Equities - Emerging Markets	MSCI EM Standard (net) Index	7.00%	5.90%
Investment - Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index (4)	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

**NOTE 11: RETIREMENT PLAN – TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM –
continued**

Private Real Estate Partnerships	Cambridge Associates Real Estate Index (5)	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%
Total		<u>100.00%</u>	

- (1) Target asset allocation adopted at the April 2019 TCDRS Board meeting.
 (2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70%, per Cliffwater's 2019 capital market assumptions.
 (3) Includes vintage years 2006 - present of Quarter Pooled Horizon IRRs.
 (4) Includes vintage years 2005 - present of Quarter Pooled Horizon IRRs.
 (5) Includes vintage years 2007 - present of Quarter Pooled Horizon IRRs.

Discount Rate Sensitivity Analysis

The following shows the net pension liability calculated using the discount rate of 8.1%, as well as what the District's net pension asset would be if it were calculated using a discount rate that is 1 percent point lower (7.1%) or 1 percent point higher (9.1%) than the current rate.

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
District's net pension liability (asset)	<u>205,489</u>	43,828	<u>(93,914)</u>

Pension expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2019, the District reported a liability of \$43,828 for its net pension liability. The net pension was measured as of September 30 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that time.

There was no change of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affect measurement of the total pension liability during the measurement period.

At September 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 28,159	\$ 51,805
Changes in actuarial assumptions	\$ 3,079	\$ 2,377
Differences between projected and actual investment earnings (net of current year amortization)	\$ 77,821	
Contributions subsequent to the measurement date	\$ 42,583	
Total	<u>\$ 151,642</u>	<u>\$ 54,182</u>

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11: RETIREMENT PLAN – TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM - continued

The net amount of the District’s balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2020	\$ 25,447
2021	\$ 9,274
2022	\$ 7,818
2023	\$ 20,310
2024	\$ (3,743)
Thereafter	\$ (4,229)

NOTE 12: COMMITMENTS AND CONTINGENCIES

In March 2009, the District and the City of Glen Rose entered into an agreement for the City to purchase water from the District. The District agreed to sell and deliver water to the City to serve the City’s water distribution system up to, but not to exceed a total of 225 million gallons per year. The City will pay, monthly, at a rate of \$1.75 per thousand gallons. The initial rate will be reviewed annually. The rate may not increase or decrease more than fifteen percent (15%) of the preceding fiscal year’s gallonage rate. The contract expired in March 2019. However, the City and the District are negotiating terms and conditions of a new contract. Until such an agreement is reached, the original agreement continued on a month to month basis.

NOTE 13: NEW ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84 *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2017, the GASB issued Statement No. 87 *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases 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. It 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 this statement, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of this statement are effective for reporting periods beginning after December

SOMERVELL COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13: NEW ACCOUNTING PRONOUNCEMENTS - continued

15, 2019. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In April 2018, the GASB issued Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The District determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In June 2018, the GASB issued Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2018, the GASB issued Statement No. 90 *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2019, the GASB issued Statement No. 91 *Conduit debt obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

REQUIRED SUPPLEMENTARY INFORMATION

SOMERVELL COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,680,169	\$ 1,680,169	\$ 1,708,018	\$ 27,849
Water sales	543,000	543,000	573,916	30,916
Park revenue	75,000	75,000	97,328	22,328
Interest	145,000	145,000	220,728	75,728
Miscellaneous		-	142	142
Total Revenues	<u>2,443,169</u>	<u>2,443,169</u>	<u>2,600,132</u>	<u>156,963</u>
EXPENDITURES				
Operations				
Professional fees	42,000	42,000	36,356	5,644
Contracted services	107,500	107,500	95,541	11,959
Repair and maintenance	26,500	26,500	26,191	309
Administration	306,500	306,500	277,109	29,391
Distribution	365,600	365,600	375,580	(9,980)
Production	608,700	608,700	523,282	85,418
Park and recreation	116,000	116,000	100,033	15,967
Capital outlay	1,000,369	1,230,369	1,063,774	166,595
Total Expenditures	<u>2,573,169</u>	<u>2,803,169</u>	<u>2,497,866</u>	<u>305,303</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(130,000)	(360,000)	102,266	462,266
Fund Balance - Beginning	<u>8,953,654</u>	<u>8,953,654</u>	<u>8,953,654</u>	
Fund Balance - Ending	<u>\$ 8,823,654</u>	<u>\$ 8,593,654</u>	<u>\$ 9,055,920</u>	<u>\$ 462,266</u>

SOMERVELL COUNTY WATER DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - TCDRS PENSION

Last 10 Years (will ultimately be displayed)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability				
Service cost	\$ 87,734	\$ 83,406	\$ 74,163	\$ 71,966
Interest (on the total pension liability)	96,370	84,850	74,597	70,503
Changes in benefit terms	2,776			(9,825)
Difference between expected and actual experience	2,119	5,204	(26,012)	(49,680)
Change of assumptions		(2,970)		
Benefit payments, including refunds of employee contributions	(32,599)	(32,599)	(53,408)	(18,866)
Net Change in Total Pension Liability	<u>156,400</u>	<u>137,891</u>	<u>69,340</u>	<u>64,098</u>
Total Pension Liability - Beginning	<u>1,118,003</u>	<u>980,112</u>	<u>910,772</u>	<u>846,674</u>
Total Pension Liability - Ending	<u>\$ 1,274,403</u>	<u>\$ 1,118,003</u>	<u>\$ 980,112</u>	<u>\$ 910,772</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 59,584	\$ 58,794	\$ 56,547	\$ 59,574
Contributions - employee	35,030	34,469	32,129	33,228
Net investment income	(21,460)	144,574	65,138	(11,937)
Benefit payments, including refunds of employee contributions	(32,599)	(32,599)	(53,408)	(18,866)
Administrative expense	(988)	(791)	(708)	(609)
Other	1,967	806	13,553	3,059
Net Change in Plan Fiduciary Net Position	<u>41,534</u>	<u>205,253</u>	<u>113,251</u>	<u>64,449</u>
Plan Fiduciary Net Position - Beginning	<u>1,189,041</u>	<u>983,788</u>	<u>870,537</u>	<u>806,088</u>
Plan Fiduciary Net Position - Ending	<u>\$ 1,230,575</u>	<u>\$ 1,189,041</u>	<u>\$ 983,788</u>	<u>\$ 870,537</u>
Net Pension Liability - Ending	\$ 43,828	\$ (71,038)	\$ (3,676)	\$ 40,235
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.56%	106.35%	100.38%	95.58%
Covered Employee Payroll	\$ 500,430	\$ 492,410	\$ 458,982	\$ 474,691
Net Pension Liability as a Percentage of Covered Employee Payroll	8.76%	-14.43%	-0.80%	8.48%

CITY OF GLEN ROSE
SCHEDULE OF CONTRIBUTIONS - TMRS PENSION

Last 10 Fiscal Years (will ultimately be displayed)

	2019	2018	2017	2016
Actuarially Determined Contribution	\$ 56,499	\$ 58,794	\$ 56,547	\$ 59,574
Contributions in relation to the actuarially determined contribution	\$ (56,499)	\$ (58,794)	\$ (56,547)	\$ (59,574)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 500,430	\$ 492,410	\$ 458,982	\$ 474,691
Contribution as a percentage of covered employee payroll	11.29%	11.94%	12.32%	12.55%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	14.5 Years (based on contribution rate calculated at 12/31/18 valuation)
Asset Valuation Method	5 Year smoothed market
Inflation	2.8%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.0%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age a service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Other Information:

Changes in Assumptions and Methods Reflected in Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule 2016: No changes inplan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for the benefits after 2017. 2018: No changes in plan provisions were reflected in the Schedule.

* Only changes effective 2015 and later are shown in the Notes to Schedule

TEXAS SUPPLEMENTARY INFORMATION

SOMERVELL COUNTY WATER DISTRICT

TSI-1. SERVICES AND RATES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2019

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

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

2. **Retail Service Providers**

(You may omit this information if your district does not provide retail services)

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum Use	Usage Levels
WATER:	\$	0	N	\$ 2.00	0-15,000
Residential				\$ 2.50	15,001-25,000
5/8"	15.00			\$ 3.00	25,001-100,000
1"	30.00			\$ 3.25	> 100,000
Commercial	\$	0	N	\$ 2.25	0-20,000
1"	37.50			\$ 2.50	20,001-50,000
2"	75.00			\$ 3.00	50,001-100,000
6"	200.00			\$ 3.25	> 100,000
WASTEWATER:	\$ n/a			\$	
				\$	
SURCHARGE:	\$ n/a			\$	

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water: Wastewater: \$

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered			x 1.0	
5/8"	712	712	x 1.0	712
3/4"			x 1.0	0
1"	31	31	x 2.5	78
1 1/2"		0	x 5.0	0
2"	6	6	x 8.0	48
3"		0	x 16.0	0
4"			x 25.0	0
6"	1	1	x 50.0	50
8"			x 80.0	0
Total Water	750	750		888
Total Wastewater			x 1.0	

SOMERVELL COUNTY WATER DISTRICT

TSI-1. SERVICES AND RATES - UNAUDITED (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2019

3. **Total Water Consumption during the Fiscal Year** (rounded to the nearest thousand):

Gallons pumped into system:
245,781,000

Water Accountability Ratio:
(Gallons billed / Gallons pumped)
0.81493

Gallons billed to customers:
200,295,000

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

Does the District have Debt Service standby fees:

Yes

No

If yes, Date of the most recent Commission Order:

Does the District have Operation and Maintenance
standby fees?

Yes

No

If yes, Date of the most recent Commission Order:

5. **Location of District** (required for first audit year or when information changes,

County(ies) in which the District is located:

Somervell

Is the District located entirely in one county?

Yes

No

Is the District located within a city?

Entirely

Partly Not at all

City(ies) in which the District is located: Glen Rose

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely

Partly Not at all

ETJs in which the District is located:

Are the Board members appointed by an office outside the district:

Yes

No

If Yes, by whom?

SOMERVELL COUNTY WATER DISTRICT

TSI-3. TEMPORARY INVESTMENTS - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2019

	<u>I.D. or Cert No</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
Enterprise Fund					
Certificate of Deposit	200028996	2.40%	3/1/2020	\$ 1,836,152	\$ 3,622
Certificate of Deposit	5828	2.96%	9/4/2020	1,634,581	3,446
Certificate of Deposit	8238	2.77%	3/1/2021	1,728,399	3,643
Certificate of Deposit	8385	2.74%	3/8/2021	528,115	
Certificate of Deposit	9450	1.84%	9/27/2021	<u>1,718,347</u>	
				\$ <u>7,445,594</u>	\$ <u>10,711</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-4. TAXES LEVIED AND RECEIVABLE

YEAR ENDED SEPTEMBER 30, 2019

	Maintenance Taxes*	Debt Service Taxes*	Total Taxes*
Taxes receivable, beginning of year	\$ 39,962	\$ 20,748	\$ 60,710
2018 original tax levy	1,703,724	1,188,123	2,891,847
Adjustments	<u>2,532</u>	<u>(8,752)</u>	<u>(6,220)</u>
Total to be accounted for	<u>1,706,256</u>	<u>1,179,371</u>	<u>2,885,627</u>
Tax collections			
Current year	(1,692,788)	(1,180,497)	(2,873,285)
Prior years	<u>(7,667)</u>	<u>(5,150)</u>	<u>(12,817)</u>
Total collections	<u>(1,700,455)</u>	<u>(1,185,647)</u>	<u>(2,886,102)</u>
Taxes receivable, end of year	\$ <u>45,763</u>	\$ <u>14,472</u>	\$ <u>60,235</u>
Taxes receivable, by years			
Prior years			
2009	\$ 4,054	\$	\$ 4,054
2010	1,362		1,362
2011	1,689		1,689
2012	2,104	350	2,454
2013	2,345	670	3,015
2014	3,092	770	3,862
2015	4,020	958	4,978
2016	4,992	1,425	6,417
2017	10,666	2,322	12,988
2018	<u>11,439</u>	<u>7,977</u>	<u>19,416</u>
Total taxes receivable, by year	\$ <u>45,763</u>	\$ <u>14,472</u>	\$ <u>60,235</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-4. TAXES LEVIED AND RECEIVABLE - CONTINUED
YEAR ENDED SEPTEMBER 30, 2019

Property Valuations:

	2019	2018	2017	2016
Land	\$ 224,774,315	\$ 216,625,110	\$ 211,777,230	\$ 202,635,390
Improvements	1,005,195,866	981,918,450	940,487,890	909,212,450
Personal property	367,837,099	322,946,850	291,205,930	281,937,620
Minerals	1,323,511,112	1,426,439,022	1,883,615,166	1,726,260,191
Less: exemptions	<u>(679,576,532) a</u>	<u>(670,409,277) b</u>	<u>(769,939,442) c</u>	<u>(622,466,837) d</u>
	<u>\$ 2,241,741,860</u>	<u>\$ 2,277,520,155</u>	<u>\$ 2,557,146,774</u>	<u>\$ 2,497,578,814</u>

Tax Rates per \$100 Valuation

Maintenance tax rates	\$ 0.076	\$ 0.076	\$ 0.076	\$ 0.072
Debt service tax rate	0.053	0.053	0.048	0.046
Total tax rate *	<u>\$ 0.129</u>	<u>\$ 0.129</u>	<u>\$ 0.124</u>	<u>\$ 0.118</u>

Tax Levy	\$ 2,891,847	\$ 2,938,001	\$ 3,170,862	\$ 2,947,143
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Percent of Taxes Collected
to Taxes Levied

<u>99.4%</u>	<u>99.1%</u>	<u>99.4%</u>	<u>93.8%</u>
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* Maximum tax rate approved by voters: \$0.25 on January 18, 1986

NOTE: Improvements include Ag of \$423,499,934 and timber of \$399,900.

a Includes productivity loss of \$418,087,072, homestead cap of \$77,513,103, and exemptions of \$169,852,058.

b Includes productivity loss of \$419,401,370, homestead cap of \$72,134,774, and exemptions of \$165,206,789.

c Includes productivity loss of \$409,917,420 homestead cap of \$68,156,474, and exemptions of \$161,839,769.

d Includes productivity loss of \$383,907,400 homestead cap of \$67,766,452, and exemptions of \$113,739,777.

SOMERVELL COUNTY WATER DISTRICT

TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS
(SERIES 2009A) - BY YEARS (UNAUDITED)
 YEAR ENDED SEPTEMBER 30, 2019

Due During Fiscal Years Ending	SERIES 2009A		
	Principal Due	Interest Due	Total
2020	\$ 67,000	\$	\$ 67,000
2021	67,000		67,000
2022	67,000		67,000
2023	67,000		67,000
2024	67,000		67,000
2025	67,000		67,000
2026	67,000		67,000
2027	67,000		67,000
2028	67,000		67,000
2029	67,000		67,000
2030	67,000		67,000
	<u>\$ 737,000</u>	<u>\$</u>	<u>\$ 737,000</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - continued

(SERIES 2009B) - BY YEARS (UNAUDITED)

YEAR ENDED SEPTEMBER 30, 2019

Due During Fiscal Years Ending	SERIES 2009B		
	Principal Due	Interest Due	Total
2020	\$ 475,000	\$	\$ 475,000
2021	475,000		475,000
2022	475,000		475,000
2023	475,000		475,000
2024	475,000		475,000
2025	474,000		474,000
2026	474,000		474,000
2027	474,000		474,000
2028	474,000		474,000
2029	474,000		474,000
2030	474,000		474,000
	<u>\$ 5,219,000</u>	<u>\$</u>	<u>\$ 5,219,000</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - continued

(SERIES 2009C) - BY YEARS (UNAUDITED)

YEAR ENDED SEPTEMBER 30, 2019

Due During Fiscal Years Ending	SERIES 2009C		
	Principal Due	Interest Due	Total
2020	\$ 447,000	\$ 132,906	\$ 579,906
2021	454,000	125,566	579,566
2022	463,000	116,726	579,726
2023	473,000	106,860	579,860
2024	484,000	96,076	580,076
2025	495,000	84,696	579,696
2026	508,000	72,162	580,162
2027	520,000	59,652	579,652
2028	534,000	45,580	579,580
2029	549,000	31,370	580,370
2030	564,000	15,916	579,916
	<u>\$ 5,491,000</u>	<u>\$ 887,510</u>	<u>\$ 6,378,510</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - continued

(SERIES 2012) - BY YEARS (UNAUDITED)

YEAR ENDED SEPTEMBER 30, 2019

Due During Fiscal Years Ending	SERIES 2012		
	Principal Due	Interest Due	Total
2020	\$ 40,000	\$	\$ 40,000
2021	40,000		40,000
2022	40,000		40,000
2023	40,000		40,000
2024	40,000		40,000
2025	40,000		40,000
2026	35,000		35,000
2027	35,000		35,000
2028	35,000		35,000
2029	35,000		35,000
2030	40,000		40,000
	<u>\$ 420,000</u>	<u>\$</u>	<u>\$ 420,000</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - continued
(ALL BONDED DEBT SERIES) - BY YEARS (UNAUDITED)
 YEAR ENDED SEPTEMBER 30, 2019

Due During Fiscal Years Ending	ANNUAL REQUIREMENTS FOR ALL SERIES		
	Principal Due	Interest Due	Total
2020	\$ 1,029,000	\$ 132,906	\$ 1,161,906
2021	1,036,000	125,566	1,161,566
2022	1,045,000	116,726	1,161,726
2023	1,055,000	106,860	1,161,860
2024	1,066,000	96,076	1,162,076
2025	1,076,000	84,696	1,160,696
2026	1,084,000	72,162	1,156,162
2027	1,096,000	59,652	1,155,652
2028	1,110,000	45,580	1,155,580
2029	1,125,000	31,370	1,156,370
2030	1,145,000	15,916	1,160,916
	<u>\$ 11,867,000</u>	<u>\$ 887,510</u>	<u>\$ 12,754,510</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-6. CHANGES IN LONG-TERM BONDED DEBT (UNAUDITED)

YEAR ENDED SEPTEMBER 30, 2019

	Bond Issues				Total
	Series 2012	Series 2009C	Series 2009B	Series 2009A	
Interest Rate	0.0%	0.854 % -2.822%	0.0%	0.0%	
Dates Interest Payable	3/15; 9/15	3/1; 9/1	3/1; 9/1	3/1; 9/1	
Maturity Dates	3/15/2030	9/1/2030	9/1/2030	9/1/2030	
Beginning Bonds Outstanding	\$ 460,000	\$ 5,932,000	\$ 5,694,000	\$ 804,000	\$ 12,890,000
Bonds Sold During Fiscal Year					0
Bonds Retired During Fiscal Year	<u>40,000</u>	<u>441,000</u>	<u>475,000</u>	<u>67,000</u>	<u>1,023,000</u>
Ending Bonds Outstanding	<u>\$ 420,000</u>	<u>\$ 5,491,000</u>	<u>\$ 5,219,000</u>	<u>\$ 737,000</u>	<u>\$ 11,867,000</u>
Interest Paid During Fiscal Year	\$ 0	\$ 138,956	\$ 0	\$ 0	\$ 138,956
Paying Agents Name and City					
Series 2009A	Wells Fargo Corporate Trust Services Minneapolis, MN				
Series 2009B	Wells Fargo Corporate Trust Services Minneapolis, MN				
Series 2009C	Wells Fargo Corporate Trust Services Minneapolis, MN				
Series 2012	Wells Fargo Corporate Trust Services Minneapolis, MN				
Bond Authority					
	General	General	General	General	
	Obligation	Obligation	Obligation	Obligation	
Board of Directors Resolution	\$ 700,000	\$ 9,367,000	\$ 9,494,000	\$ 1,340,000	
Debt Service Fund cash and temporary investments					
Balances September 30, 2019	\$ 263,999				
Average annual debt service payment (principal and interest)					
for remaining term of all debt					
Series 2009A	\$ 67,000				
Series 2009B	474,455				
Series 2009C	579,865				
Series 2012	38,182				
	<u>\$ 1,159,501</u>				

SOMERVELL COUNTY WATER DISTRICT

TSI-7a. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - GENERAL FUND - UNAUDITED

Five Years Ended December 31, 2015, 2016, 2017, 2018, and 2019

	AMOUNTS				
	2019	2018	2017	2016	2015
Operating revenues:					
Property taxes	\$ 1,708,018	\$ 1,732,172	\$ 2,465,525	\$ 1,162,219	\$ 1,862,139
Water sales	573,916	627,652	503,501	481,070	325,372
Park revenue	97,328	86,145	75,765	76,614	65,398
Interest	220,728	143,052	95,180	62,136	40,754
Miscellaneous income	142	12,000	20,561	4,886	4,951
Total operating revenues	<u>2,600,132</u>	<u>2,601,021</u>	<u>3,160,532</u>	<u>1,786,925</u>	<u>2,298,614</u>
Operating expenses:					
Professional fees	36,356	14,422	14,562	16,510	39,874
Contracted services	95,541	112,566	114,856	145,837	110,303
Repair and maintenance	26,191	10,638	14,228	16,948	14,491
Administration	277,109	284,303	279,425	288,178	281,711
Distribution	375,580	338,220	348,947	340,574	383,114
Production	523,282	697,837	536,675	593,025	457,106
Park and recreation	100,033	94,352	89,685	86,428	84,555
Capital outlay	1,063,774	1,031,279	880,144	173,295	
Total operating expenses	<u>2,497,866</u>	<u>2,583,617</u>	<u>2,278,522</u>	<u>1,660,795</u>	<u>1,371,154</u>
Other financing sources / (uses)					
Grant revenue		112,362	112,933		
Transfers in / (out)			277,326	(1,715,808)	(921,638)
Total other financing sources / (uses)		<u>112,362</u>	<u>390,259</u>	<u>(1,715,808)</u>	<u>(921,638)</u>
Net Income	\$ <u>102,266</u>	\$ <u>129,766</u>	\$ <u>1,272,269</u>	\$ <u>(1,589,678)</u>	\$ <u>5,822</u>

PERCENT OF FUND TOTAL REVENUE

2019	2018	2017	2016	2015
65.7%	66.6%	78.0%	65.0%	81.0%
22.1%	24.1%	15.9%	26.9%	14.2%
3.7%	3.3%	2.4%	4.3%	2.8%
8.4%	5.5%	3.0%	3.5%	1.8%
0.0%	0.5%	0.7%	0.3%	0.2%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
1.5%	0.6%	0.5%	0.9%	1.7%
3.7%	4.3%	3.6%	8.2%	4.8%
1.0%	0.4%	0.5%	0.9%	0.6%
10.7%	10.9%	8.8%	16.1%	12.3%
14.4%	13.0%	11.0%	19.1%	16.7%
20.1%	26.8%	17.0%	33.2%	19.9%
3.8%	3.6%	2.8%	4.8%	3.7%
40.9%	39.6%	27.8%	9.7%	
<u>96.1%</u>	<u>99.3%</u>	<u>72.1%</u>	<u>92.9%</u>	<u>59.7%</u>
	4.3%	3.6%		
		8.8%	-96.0%	-40.1%
	<u>4.3%</u>	<u>12.3%</u>	<u>-96.0%</u>	<u>-40.1%</u>
<u>3.9%</u>	<u>5.0%</u>	<u>40.3%</u>	<u>-89.0%</u>	<u>0.3%</u>

SOMERVELL COUNTY WATER DISTRICT

TSI-7a. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - DEBT SERVICE FUND - UNAUDITED

Five Years Ended December 31, 2015, 2016, 2017, 2018, and 2019

	AMOUNTS				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:					
Property taxes	\$ 1,190,733	\$ 1,206,048	\$ 1,566,682	\$ 740,198	\$ 1,185,669
Interest	21,440	13,681	5,984	1,873	487
Total operating revenues	<u>1,212,173</u>	<u>1,219,729</u>	<u>1,572,666</u>	<u>742,071</u>	<u>1,186,156</u>
Debt service:					
Principal	1,023,000	1,018,000	1,015,000	1,012,000	1,010,000
Interest	138,956	143,595	147,293	150,062	151,963
Total operating expenses	<u>1,161,956</u>	<u>1,161,595</u>	<u>1,162,293</u>	<u>1,162,062</u>	<u>1,161,963</u>
Other financing sources / (uses)					
Grant revenue					
Transfers in / (out)			(268,958)	268,958	
Total other financing sources / (uses)			<u>(268,958)</u>	<u>268,958</u>	
Net Income	\$ <u>50,217</u>	\$ <u>58,134</u>	\$ <u>141,415</u>	\$ <u>(151,033)</u>	\$ <u>24,193</u>

PERCENT OF FUND TOTAL REVENUE

2019	2018	2017	2016	2015
98.2%	98.9%	99.6%	99.7%	100.0%
1.7%	1.1%	0.4%	0.3%	0.0%
100.0%	100.0%	100.0%	100.0%	100.0%
84.5%	83.5%	64.5%	136.4%	85.1%
11.5%	11.8%	9.4%	20.2%	12.8%
95.9%	95.2%	73.9%	156.6%	98.0%
		-17.1%	36.2%	
		-17.1%	36.2%	
4.1%	4.8%	9.0%	-20.4%	2.0%

SOMERVELL COUNTY WATER DISTRICT

TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS - UNAUDITED
 YEAR ENDED SEPTEMBER 30, 2019

Complete District Mailing Address: 1100 P.O. Box 1386, Glen Rose, Texas 76043

District Business Telephone Number: (254) 897-4141

Submission Date of the most recent District Registration Form:
 (TWC Sections 36.054 and 49.054): None

Limit on Fees of Office that a Director may receive during a fiscal year: No limit imposed
 (Set by Board Resolution (TWC Section 49.060))

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 12/31/2018	Expense Reimburse- ments 12/31/2018	Title at Year End
Board Members:				
Ben Mieth	(Elected) Place II 5/18 - 5/22	\$		President
Larry Fleming	(Elected) Place I 5/16 - 5/20			Director
Maurice English	(Elected) Place VI 5/18 - 5/22			Director
Lee Magee	(Elected) Place IV 5/16 - 5/20			Secretary/Treasurer
Karen Richardson	(Elected) Place III 11/17 - 11/20			Director
Nemo Britton	(Elected) Place VII 5/16 - 5/20			Vice President
Kevin Morgan	(Elected) Place V 5/16 - 5/20			Director
Key Administrative Personnel:				
Kevin Taylor		141,997		General Manager
John Flippen		77,567		Director of Operations
Consultants:				
Gerald Nelson, P.C.		4,100		Auditor
Valley View Consulting		10,000		Financial advisor
Michael Cody, CPA, PC		10,500		Accounting services
Wheeler Branch Bookkeeping		7,200		Accounting services
Hilltop Securities		3,500		Financial advisor

OTHER INFORMATION REQUIRED BY GAO

Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Somervell County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of Somervell County Water District, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Somervell County Water District's basic financial statements, and have issued our report thereon dated January 24, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Somervell County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Somervell County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Somervell County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Merritt, McLane & Hamby, P.C.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
January 24, 2020

SOMERVELL COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2019

I. Summary of Auditor's Report

- a. The type of report issued on the financial statements of Somervell County Water District was an unqualified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting required by the GAO's *Government Auditing Standards*.
- c. No instances of noncompliance not material to the financial statements of Somervell County Water District were disclosed during the audit.

II. Findings Required to be Reported in Accordance with *Government Auditing Standards*.

None

SOMERVELL COUNTY WATER DISTRICT

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2019

Findings/Noncompliance

None