



# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS COUNTY OF Medina

I, Debora L. DuBose of the

(Name of Duly Authorized District Representative)

East Medina County Special Utility District

(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of the Directors of the District on the 20th day of March 2018 its annual audit report for the fiscal year or period ended 2017 and those copies of the annual audit report have been filed in the district office, located at:

16313 FM 471 South, Devine, Texas 78016

(Address of District)

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

Date: 03/28/2018

By: Debora L. DuBose

(Signature of District Representative)

Debora L. DuBose, Business Manager

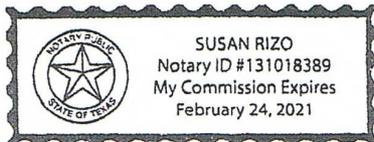
(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this 28 day of March 2018

(SEAL)

Susan Rizo

(Signature of Notary)



My Commission Expires On: 2.24.2021

Notary Public in the State of Texas.

# East Medina County Special Utility District

Report to the Board of Directors  
March 20, 2018





**RSM US LLP**

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San Antonio, TX 78259

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[www.rsmus.com](http://www.rsmus.com)

March 20, 2018

To the Board of Directors  
East Medina County Special Utility District  
Devine, Texas

Dear Members of the Board of Directors:

We are pleased to present this report related to our audit of the financial statements of East Medina County Special Utility District (the District) as of and for the year ended December 31, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to East Medina County Special Utility District.

*RSM US LLP*

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March 20, 2018

To the Board of Directors  
East Medina County Special Utility District  
Devine, Texas

Attention: Members of the Board of Directors

This letter is to inform the Board of Directors of East Medina County Special Utility District (the District) about significant matters related to the conduct of our audit as of and for the year ended December 31, 2017, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

#### **The Respective Responsibilities of the Auditor and Management**

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated November 14, 2017. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

#### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated November 14, 2017, regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

#### **Significant Accounting Practices, Including Policies, Estimates and Disclosures**

In our meeting with you, we will discuss our views about the qualitative aspects of the District's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. The following is a list of the matters that will be discussed, including the significant estimates, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

- Useful lives of capital assets
- Unbilled revenue
- Net pension liability and related disclosures

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**Audit Adjustments**

Management corrected the following misstatement that was identified as a result of our audit procedures:

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expense
To reconcile capital assets to actual per subledger	\$ 9,097	\$ -	\$ -	\$ -	\$ (9,097)
Total effect	\$ 9,097	\$ -	\$ -	\$ -	\$ (9,097)
Cumulative effect			\$ 9,097		

**Uncorrected Misstatements**

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

**Internal Control Matters**

We have issued a separate communication dated March 20, 2018, regarding a certain deficiency in internal control that we identified during the planning or performance of our audit of the financial statements, and this communication is attached as Exhibit A.

**Disagreements With Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management’s judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

**Consultation With Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

**Significant Issues Discussed or Subject to Correspondence With Management**

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

**Difficulties Encountered in Performing the Audit**

We did not encounter any significant difficulties in dealing with management during the audit.

**Management Representations**

Attached is a copy of the management representation letter. This letter can be found in Exhibit B.

**Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to East Medina County Special Utility District.

This report is intended solely for the information and use of the Board of Directors and management is not intended to be, and should not be, used by anyone other than these specified parties.

*RSM US LLP*

**Exhibit A—Letter Communicating Deficiencies in Internal Control  
Over Financial Reporting**



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March 20, 2018

To Management and the Board of Directors  
East Medina County Special Utility District  
Devine, Texas

In planning and performing our audit of the financial statements of East Medina County Special Utility District (the District) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 the 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within the District are not repeated herein.

Following is a description of an identified deficiency in internal control that we determined did not constitute a significant deficiency or material weakness.

#### **Meter Reading Policy**

The District's policies and procedures state that every meter is to be read by the District on an annual basis. The District has 18 meter reading books that are read by field personnel as time and resources permit. Each completed book is returned to the office and the readings are entered into each account to verify the meter readings provided by customers each month. During our audit, we noted that seven of the 25 customer water billing accounts tested did not have the water meter read for verification within calendar year 2017.

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To Management and the Board of Directors  
East Medina County Special Utility District  
March 20, 2018  
Page 2

Due to the District's limited resources and growth over the past years, we recommend the District update and clarify its physical meter reading policy to ensure compliance.

#### **Status of Prior-Year Management Letter Comment**

##### ***Capital Assets Accounting Software Module***

Over the years, we have maintained certain capital assets data and assisted the District with the calculation of depreciation. The accounting system now has capabilities for the District to fully maintain capital assets and calculate depreciation.

***Fiscal year 2017 status:*** The District has obtained the capital assets module for its accounting software and is in the process of transferring the capital assets data to this module. We recommend the District continue to update the module as feasibly possible.

This communication is intended solely for the information and use of management, the Board of Directors and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*RSM US LLP*

**Exhibit B—Significant Written Communication Between Management and Our Firm**

*E. M. C. S. U. D.*

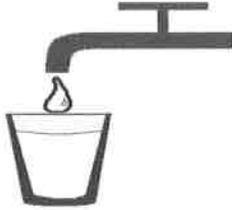
**EAST MEDINA COUNTY  
SPECIAL UTILITY DISTRICT**

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*DIRECTORS: Timothy L. Hildenbrand-President, Caroline A. Nentwich-Vice President, Barbara L. Gilliam-2<sup>nd</sup> Vice President, JoNell M. Tarvin-Secretary/Treasurer, Richard A. Sultenfuss-Member, Hector De La Fuente -Member, and Roy J. Tschirhart, Jr. -Member*

March 20, 2018

RSM US LLP  
100 N.E. Loop 410, Suite 1100  
San Antonio, TX 78216

This representation letter is provided in connection with your audits of the basic financial statements of East Medina County Special Utility District (the District), as of and for the years ended December 31, 2017 and 2016, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of March 20, 2018:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated November 14, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. There are no events subsequent to the date of the financial statements, for which U.S. GAAP requires adjustment or disclosure.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

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8. We have no knowledge of any uncorrected misstatements in the financial statements.
9. We have substantially omitted the compensated absence rollforward disclosure from the financial statements as the liability at year end is not material.
10. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Arrangements with financial institutions involving restrictions on cash balances.
  - b. Net position classifications
  - c. Expenses and revenues have been appropriately classified.
11. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
12. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statements.
13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
14. We have no knowledge of any uncorrected misstatements in the financial statements.

**Information Provided**

15. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audits;
  - c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence; and
  - d. Minutes of the meetings of the governing board and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. It is our responsibility to establish and maintain internal controls over financial reporting. One of the components of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk

assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.

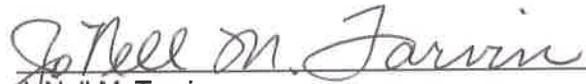
18. We have no knowledge of allegations of fraud or suspected fraud affecting the District's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
19. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements received in communications from employees, former employees, analysts, regulators, or others.
20. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
21. We are not aware of any pending or threatened litigation and claims whose effects were considered when preparing the financial statements, and we have not consulted legal counsel concerning litigation or claims.
22. We have disclosed to you the identity of the District's related parties and all the related-party relationships and transactions of which we are aware.
23. We are not aware of any significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect the District's ability to record, process, summarize, and report financial data.
24. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
25. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

#### **Supplementary Information**

26. With respect to supplementary information presented in relation to the financial statements as a whole:
  - a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP and/or the Water District Financial Management Guide issued by the Texas Commission on Environmental Quality, as applicable.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.

- d. The underlying significant assumptions or interpretations regarding the measurement or presentation of such information include accounting and other records.
  - e. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
27. With respect to Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability, Schedule of the District's Pension Contributions, and Notes to the Required Supplementary Information - presented as required by GASB to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S GAAP.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. The underlying significant assumptions or interpretations regarding the measurement or presentation of such information include accounting and other records.

East Medina County Special Utility District

  
JoNell M. Tarvin  
Secretary/Treasurer, Board of Directors

  
Bruce A. Alexander  
Superintendent

  
Debora L. DuBose  
Business Manager



# **East Medina County Special Utility District**

Financial Statements and Supplemental Schedules  
(With Independent Auditor's Report Thereon)  
December 31, 2017 and 2016

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## Independent Auditor's Report

To the Board of Directors  
East Medina County Special Utility District

### Report on the Financial Statements

We have audited the accompanying financial statements of East Medina County Special Utility District (the District) as of and for the years ended December 31, 2017 and 2016, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11, Schedule of Changes in Net Pension Liability on page 40, Schedule of the District's Pension Contributions on page 41, and Notes to Required Supplementary Information on pages 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Schedules and Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The accompanying supplementary schedules and other information are presented for purposes of additional analysis, as required by the Water District Financial Management Guide issued by the Texas Commission on Environmental Quality, and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*RSM US LLP*

San Antonio, Texas  
March 20, 2018

## East Medina County Special Utility District

### Management's Discussion and Analysis (Unaudited) December 31, 2017

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The management of East Medina County Special Utility District (the District) offers the readers of the District's basic financial statements this narrative overview and analysis of the financial performance of the District for the year ended December 31, 2017. Please read it in conjunction with the District's basic financial statements, which follow this section.

#### Financial Highlights

- The District's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$9,597,987 (\$9,248,144 in 2016). This amount represents net position of \$7,346,521 (\$6,918,770 in 2016) of net investment in capital assets, \$518,802 (\$524,437 in 2016) restricted for debt service and capital improvements and \$1,732,664 (\$1,804,937 in 2016) in unrestricted net position.
- The District's total assets totaled \$13,540,992 (\$13,636,006 in 2016); of this amount, \$11,181,150 (\$11,166,795 in 2016) represents net capital assets and \$1,866,286 (\$2,080,543 in 2016) represents cash and cash equivalents under both current and restricted assets.
- Deferred outflows of resources totaled \$63,056 (\$74,776 in 2016), which is the deferred charge on refunding and pension amounts.
- Liabilities for the District totaled \$3,979,957 (\$4,432,184 in 2016), of which \$3,285,000 (\$3,575,000 in 2016) accounts for obligations under long-term bonds payable.
- Deferred inflows of resources totaled \$26,104 (\$30,454 in 2016), which relate to pension amounts.
- Operating revenues for the District totaled \$2,037,343 (\$1,899,844 in 2016) and exceeded operating expenses by \$288,342 (\$166,185 in 2016). The major revenue source is water sales.
- Nonoperating expenses exceeded nonoperating revenues by \$61,501 (\$32,586 in 2016). This included interest expense on bonds that totaled \$125,860 (\$118,430 in 2016), net of capitalized interest.

**Overview of the financial statements:** This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. Three components comprise the District's basic financial statements: (1) business-type activities financial statements, (2) notes to financial statements and (3) required supplementary information. This report also contains Supplementary Schedules and Other Information, in addition to the basic financial statements themselves.

**Enterprise funds:** Enterprise Funds are used to report the same functions presented as business-type activities in the basic financial statements. The District has only one major Enterprise Fund.

**Notes to financial statements:** The notes provide additional information that are essential to a full understanding of the data provided in the basic financial statements.

## East Medina County Special Utility District

### Management's Discussion and Analysis (Unaudited) December 31, 2017

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**Statements of net position:** The statements of net position for the District are similar in many ways to the balance sheets presented as basic financial statements for private-sector companies. The statements of net position include all the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources. A major function of the statements of net position is to measure the ability of the District to meet its current and long-term obligations. Perhaps the biggest difference between the statement of net position and the private-sector balance sheets is in the reporting of the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. In the balance sheets of a private-sector business, the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources is a measure of the value of the business that owners would realize if they sell their share.

Instead of measuring the owners' equity, state and local governments report the net value or net position in these major categories:

- Net investment in capital assets
- Restricted
- Unrestricted

Since the owners of the District are ultimately the citizens of the state of Texas and not an individual or group of investors, the Governmental Accounting Standards Board (GASB) believes it is more useful for the readers of the basic financial statements to know whether the net position of the District is invested in capital assets, is restricted for future use or if its future use is unrestricted.

**Supplementary schedules and other information:** The basic financial statements are followed by a section of supplementary information. This section includes a budgetary comparison schedule. It provides detailed comparisons of expenses. Comparisons can be made between the original budget, final budget and actual costs for the year.

**East Medina County Special Utility District**

**Management's Discussion and Analysis (Unaudited)  
December 31, 2017**

**Table A-1  
The District's Net Position Information**

	2017	2016	2015	Total Percentage Change	
				2017 to 2016	2016 to 2015
Current assets	\$ 1,676,684	\$ 1,567,529	\$ 1,632,501	6.96%	(3.98%)
Restricted assets	683,158	688,090	863,381	(0.72%)	(20.30%)
Noncurrent assets	-	213,592	-	(100.00%)	100.00%
Capital assets, net	11,181,150	11,166,795	10,806,035	0.13%	3.34%
<b>Total assets</b>	<b>\$ 13,540,992</b>	<b>\$ 13,636,006</b>	<b>\$ 13,301,917</b>	<b>(0.70%)</b>	<b>2.51%</b>
Total deferred outflows of resources	\$ 63,056	\$ 74,776	\$ 65,206	(15.67%)	14.68%
Current liabilities	\$ 214,715	\$ 296,082	\$ 87,490	(27.48%)	238.42%
Current liabilities payable from restricted assets	309,556	307,819	305,059	0.56%	0.90%
Noncurrent liabilities	3,455,686	3,828,283	3,925,201	(9.73%)	(2.47%)
<b>Total liabilities</b>	<b>\$ 3,979,957</b>	<b>\$ 4,432,184</b>	<b>\$ 4,317,750</b>	<b>(10.20%)</b>	<b>2.65%</b>
Total deferred inflows of resources	\$ 26,104	\$ 30,454	\$ -	(14.28%)	100.00%
Net position:					
Net investment in capital assets	\$ 7,346,521	\$ 6,918,770	\$ 6,829,863	6.18%	1.30%
Restricted for debt service	418,802	424,437	428,994	(1.33%)	(1.06%)
Restricted for capital improvements	100,000	100,000	100,000	-	-
Unrestricted	1,732,664	1,804,937	1,690,516	(4.00%)	6.77%
<b>Total net position</b>	<b>\$ 9,597,987</b>	<b>\$ 9,248,144</b>	<b>\$ 9,049,373</b>	<b>3.78%</b>	<b>2.20%</b>

- Current assets increased by \$109,155, which represents a 6.96 percent increase from 2016 to 2017. This is mainly due to a certificate of deposit (CD) being short-term during fiscal year-end 2017 versus long-term in fiscal year-end 2016. Current assets decreased by \$64,972, which represents a 3.98 percent decrease from 2015 to 2016. This is mainly due to the CDs being long-term during fiscal year-end 2016 versus short-term in fiscal year-end 2015.
- Deferred outflows of resources decreased by \$11,720, which represents a 15.67 percent decrease from 2016 and 2017 due to pension investment losses and accumulated amortization of pension investment losses incurred by the Texas County and District Retirement System (TCDRS).
- Total liabilities decreased by \$452,227, which is a 10.20 percent decrease from 2016 to 2017, and an increase of \$114,434, which is a 2.65 percent increase from 2015 to 2016. The decrease in 2017 is attributable to payments on long-term bonds, note payable and the completion of construction projects. The increase in 2016 is attributable to payments related to construction in progress at year-end.
- Deferred inflows of resources decreased by \$4,350, which represents a 14.28 percent decrease from 2016 to 2017. The decrease is due to the accumulated amortization of the pension economic/demographic gain.

**East Medina County Special Utility District**

**Management's Discussion and Analysis (Unaudited)  
December 31, 2017**

**Statements of revenues, expenses and changes in net position:** The statements of revenues, expenses and changes in net position serve a similar function to the statements of income for private-sector businesses. Unlike private-sector businesses, the District does not seek to earn a profit in the long-term. However, the District must cover its operations, maintenance and other costs annually from fees and charges, since the District does not levy or collect any tax revenue. The statements of revenues, expenses and changes in net position measure how well annual costs are covered by fees and charges (see Table A-2).

**Table A-2  
Statement of Revenues, Expenses, and Changes in Net Position**

	2017	2016	2015	Total Percentage Change	
				2017 to 2016	2016 to 2015
<b>Revenues:</b>					
Water sales, net of bad-debt expense	\$ 1,652,637	\$ 1,558,576	\$ 1,550,419	6.04%	0.53%
Late fees and reconnection charges	123,820	113,976	114,216	8.64%	(0.21%)
Customer deposits	13,423	12,924	14,397	3.86%	(10.23%)
Connection fees, net of expense	81,035	75,944	37,302	6.70%	103.59%
Water acquisition fees	94,203	76,697	90,874	22.82%	(15.60%)
Lease income	72,225	61,727	66,475	17.01%	(7.14%)
Interest income	22,868	15,368	5,556	48.80%	176.60%
Gain on sale of asset	12,507	11,955	-	4.62%	100.00%
Other income	151,986	123,693	37,041	22.87%	233.94%
<b>Total revenues</b>	<b>2,224,704</b>	<b>2,050,860</b>	<b>1,916,280</b>	<b>8.48%</b>	<b>7.02%</b>
<b>Expenses:</b>					
Salaries	475,866	501,732	468,464	(5.16%)	7.10%
Utilities	124,882	112,108	111,674	11.39%	0.39%
Repairs and maintenance	171,551	179,793	134,593	(4.58%)	33.58%
Vehicle expense	25,648	30,898	39,844	(16.99%)	(22.45%)
Insurance	97,605	106,930	105,892	(8.72%)	0.98%
Payroll taxes	37,866	34,428	42,191	9.99%	(18.40%)
Professional services	64,625	57,936	72,731	11.55%	(20.34%)
Retirement plan expense	21,220	12,082	30,938	75.63%	(60.95%)
Edwards Aquifer Authority management fee	85,711	94,410	123,099	(9.21%)	(23.31%)
Other administrative expenses	131,125	121,379	103,994	8.03%	16.72%
Depreciation	512,902	481,963	431,193	6.42%	11.77%
Interest expense	125,860	118,430	11,604	6.27%	920.60%
<b>Total expenses</b>	<b>1,874,861</b>	<b>1,852,089</b>	<b>1,676,217</b>	<b>1.23%</b>	<b>10.49%</b>
<b>Change in net position</b>	<b>349,843</b>	<b>198,771</b>	<b>240,063</b>	<b>76.00%</b>	<b>(17.20%)</b>
<b>Net position at beginning of year</b>	<b>9,248,144</b>	<b>9,049,373</b>	<b>8,809,310</b>	<b>2.20%</b>	<b>2.73%</b>
<b>Net position at end of year</b>	<b>\$ 9,597,987</b>	<b>\$ 9,248,144</b>	<b>\$ 9,049,373</b>	<b>3.78%</b>	<b>2.20%</b>

## East Medina County Special Utility District

### Management's Discussion and Analysis (Unaudited) December 31, 2017

#### Financial Analysis

The District uses the accrual basis of accounting to ensure and demonstrate compliance with finance-related legal requirements.

- Total revenues increased by \$173,844, or 8.48 percent, from 2016 to 2017 and increased by \$134,580, or 7.02 percent, from 2015 to 2016, primarily due to the weather conditions in South Texas.
- Connection fee revenues increased by \$5,091, or 6.70 percent, from 2016 to 2017 and increased by \$38,642, or 103.59 percent, from 2015 to 2016, primarily due to a larger line extension project during 2015.
- Other income revenues increased by \$28,293, or 22.87 percent, from 2016 to 2017 due to the Southwest Gulf Railroad Agreement. Other income increased by \$86,652 or 233.94 percent, from 2015 to 2016 due to the Edwards Aquifer Authority (EAA) grant payment of \$84,000.
- Total expenses increased by \$22,772, or 1.23 percent, from 2016 to 2017, primarily due to increased professional services, other administrative expenses and depreciation expense. Total expenses increased by \$175,872, or 10.49 percent, from 2015 to 2016, primarily due to increased interest expense and gross up of management fees related to lease income.

#### Capital Assets and Debt Administration

**Capital assets:** The District's investment in capital assets totaled \$11,181,150 (\$11,166,795 in 2016). This investment in capital assets includes land, water allotments, construction in progress, buildings, machinery and equipment and plants and distribution system. Capital assets of the District were 82.57 percent (81.89 percent in 2016) of total assets (see Table A-3). More information about the District's capital assets is presented in the notes to financial statements.

**Table A-3  
Capital Assets**

	2017	2016	2015	Total Percentage Change	
				2017 to 2016	2016 to 2015
Land	\$ 61,599	\$ 61,599	\$ 61,599	-	-
Land improvements	8,376	-	-	100.00%	-
Water allotments	1,958,350	1,958,350	1,950,790	-	0.39%
Water allotments-leased	956,475	956,475	652,500	-	46.59%
Construction in progress	119,432	339,150	-	(64.78%)	100.00%
Buildings	388,840	379,040	340,288	2.59%	11.39%
Machinery and equipment	671,372	582,569	587,636	15.24%	(0.86%)
Plants and distribution system	14,628,445	14,063,457	13,983,909	4.02%	0.57%
	<b>18,792,889</b>	<b>18,340,640</b>	<b>17,576,722</b>	<b>2.47%</b>	<b>4.35%</b>
Less accumulated depreciation	(7,611,739)	(7,173,845)	(6,770,687)	6.10%	5.95%
	<b>\$ 11,181,150</b>	<b>\$ 11,166,795</b>	<b>\$ 10,806,035</b>	<b>0.13%</b>	<b>3.34%</b>

**East Medina County Special Utility District**

**Management’s Discussion and Analysis (Unaudited)  
December 31, 2017**

**Long-term debt:** The District had \$3,575,000 (\$3,863,000 in 2016) in bonds outstanding as shown in Table A-4. More detailed information about the District’s debt is presented in the notes to financial statements.

**Table A-4  
Long-Term Debt**

	2017	2016	2015	Total Percentage Change	
				2017 to 2016	2016 to 2015
Bonds payable	\$ 3,575,000	\$ 3,863,000	\$ 4,148,000	(7.46%)	(6.87%)
Note payable	227,981	303,975	-	(25.00%)	100.00%
Total long-term debt—including current maturities	<u>\$ 3,802,981</u>	<u>\$ 4,166,975</u>	<u>\$ 4,148,000</u>	(8.74%)	0.46%

**Economic Factors and Next Year’s Budget**

The District will employ a new firm for engineering services in 2018. Work will continue on the review and updates to the Capital Improvement Plan (CIP). The cost of engineering services associated with the CIP will be through the use of District reserve funds. Updates to the CIP will be considered by the Board of Directors (the Board) in 2018.

The District will change group health insurance providers for employees in 2018 to UnitedHealthcare through the Texas Municipal League (TML) from Humana reducing the cost of employee health care by \$36,000.

The District will continue to lease water rights for a payment of \$8,625 for 150 acre feet of water entered into the EAA VISPO component of the Edwards Aquifer Habitat Conservation Program (HCP) in 2018. The District was also permitted to enroll the same 150 acre feet of water into the HCP Aquifer Storage (ASR) Program for \$18,000 for 2018. The ASR lease is a one-year lease. The one-year ASR lease program will not be available for renewal beyond 2018.

The District has leased 300 acre feet of water rights for one year into the ASR for 2018. The District will receive \$36,000 from EAA in 2018 for this lease. The one-year ASR lease program will not be available for renewal beyond 2018.

The District will receive a payment of \$9,600 from EAA in 2018 for the annual payment associated with the remainder of a seven-year lease for 60 acre feet of water in the ASR Program.

The District has entered into a Reimbursement Agreement with Southwest Gulf Railroad for the relocation and extension of waterlines on CR4516 and CR454 to provide for the construction of new railroad tracks. The District expects a reimbursement of approximately \$450,000 for construction and approximately \$39,000 for engineering services.

The District has entered into an Emergency Interconnect Agreement with the City of Natalia. The City of Natalia will fund the cost of construction of the interconnect. The interconnect is designed to provide service to the City of Natalia during a defined emergency. The interconnect is not to be used as an alternative water supply for the City of Natalia.

The District will continue the pilot that program began in 2016 for the installation of radio read meters. The District currently has 320 radio read meters in operation in the Unit 3 PWS 1630030 (Plant 6) service area.

## **East Medina County Special Utility District**

### **Management's Discussion and Analysis (Unaudited) December 31, 2017**

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The District will work with engineering services to review and propose potential updates to the Board for review and consideration associated with the costs of development, rates and fees.

The District is required to include written language in all contracts that state that the party doing business with the District does not boycott Israel and will not boycott Israel during the term of the contract. The District is prohibited from doing business with any service provider without this statement in writing.

#### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: East Medina County Special Utility District, P.O. Box 628, Devine, Texas 78016.

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## **Basic Financial Statements**

**East Medina County Special Utility District**

**Statements of Net Position  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 1,183,128	\$ 1,392,453
Certificates of deposit	215,521	-
Accounts receivable, net of allowance of \$5,000 for 2017 and 2016	135,422	136,644
Receivable for construction	108,062	-
Inventory	34,551	38,432
<b>Total current assets</b>	<b>1,676,684</b>	<b>1,567,529</b>
Noncurrent assets:		
Restricted cash equivalents—revenue bond covenant accounts	683,158	688,090
Certificate of deposit	-	213,592
Capital assets:		
Land	61,599	61,599
Land improvements	8,376	-
Water allotments	1,958,350	1,958,350
Water allotments—leased	956,475	956,475
Buildings	388,840	379,040
Machinery and equipment	671,372	582,569
Plants and distribution system	14,628,445	14,063,457
Less accumulated depreciation	(7,611,739)	(7,173,845)
Construction in progress	119,432	339,150
<b>Net capital assets</b>	<b>11,181,150</b>	<b>11,166,795</b>
<b>Total noncurrent assets</b>	<b>11,864,308</b>	<b>12,068,477</b>
<b>Total assets</b>	<b>13,540,992</b>	<b>13,636,006</b>
<b>Deferred outflows of resources:</b>		
Deferred charge on refunding	7,414	9,268
Pension amounts	55,642	65,508
<b>Total deferred outflows of resources</b>	<b>63,056</b>	<b>74,776</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 13,604,048</b>	<b>\$ 13,710,782</b>

See accompanying notes to financial statements.

	2017	2016
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 8,097	\$ 13,352
Construction payables	39,062	90,352
Retainage payable	-	29,814
Accrued liabilities	45,404	44,673
Due to customers	43,402	39,141
Note payable, current portion	78,750	78,750
<b>Total current liabilities</b>	<b>214,715</b>	<b>296,082</b>
Current liabilities payable from restricted assets:		
Interest payable	19,556	19,819
Current maturities of long-term bond payable	290,000	288,000
<b>Total current liabilities payable from restricted assets</b>	<b>309,556</b>	<b>307,819</b>
Noncurrent liabilities:		
Long-term bond payable, net of current maturities	3,285,000	3,575,000
Note payable, long-term portion	149,231	225,225
Net pension liability	21,455	28,058
<b>Total noncurrent liabilities</b>	<b>3,455,686</b>	<b>3,828,283</b>
<b>Total liabilities</b>	<b>3,979,957</b>	<b>4,432,184</b>
Deferred inflows of resources:		
Pension amounts	26,104	30,454
<b>Total deferred inflows of resources</b>	<b>26,104</b>	<b>30,454</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>4,006,061</b>	<b>4,462,638</b>
Net position:		
Net investment in capital assets	7,346,521	6,918,770
Restricted for debt service	418,802	424,437
Restricted for capital improvements	100,000	100,000
Unrestricted	1,732,664	1,804,937
<b>Total net position</b>	<b>9,597,987</b>	<b>9,248,144</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 13,604,048</b>	<b>\$ 13,710,782</b>

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**East Medina County Special Utility District**

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2017 and 2016**

	2017	2016
Operating revenues:		
Water sales, net of bad-debt expense of \$4,006 (\$5,264 in 2016)	\$ 1,652,637	\$ 1,558,576
Late fees and reconnection charges	123,820	113,976
Customer deposits	13,423	12,924
Connection fees, net of expense	81,035	75,944
Water acquisition fees	94,203	76,697
Lease income	72,225	61,727
<b>Total operating revenues</b>	<b>2,037,343</b>	<b>1,899,844</b>
Operating expenses:		
Salaries	475,866	501,732
Utilities	124,882	112,108
Repairs and maintenance	171,551	179,793
Vehicle expense	25,648	30,898
Insurance	97,605	106,930
Payroll taxes	37,866	34,428
Professional services	64,625	57,936
Retirement plan expense	21,220	12,082
Edwards Aquifer Authority management fee	85,711	94,410
Other administrative expenses	131,125	121,379
Depreciation	512,902	481,963
<b>Total operating expenses</b>	<b>1,749,001</b>	<b>1,733,659</b>
<b>Net operating income</b>	<b>288,342</b>	<b>166,185</b>
Nonoperating revenues (expenses):		
Interest income	22,868	15,368
Gain on sale of asset	12,507	11,955
Other income	151,986	123,693
Interest expense	(125,860)	(118,430)
<b>Total nonoperating revenues (expenses), net</b>	<b>61,501</b>	<b>32,586</b>
<b>Change in net position</b>	<b>349,843</b>	<b>198,771</b>
Net position at beginning of year	9,248,144	9,049,373
Net position at end of year	<b>\$ 9,597,987</b>	<b>\$ 9,248,144</b>

See accompanying notes to financial statements.

**East Medina County Special Utility District**

**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 2,034,496	\$ 1,893,573
Cash paid to employees	(579,686)	(624,239)
Cash paid to suppliers	(679,627)	(629,173)
<b>Net cash provided by operating activities</b>	<b>775,183</b>	<b>640,161</b>
Cash flows from capital and related financing activities:		
Principal payments	(288,000)	(285,000)
Note payable payment	(78,750)	-
Purchase of capital assets	(183,728)	(120,751)
Upgrade to water distribution system	(225,838)	(79,548)
Construction of capital assets	(119,432)	(71,451)
Proceeds from sale of assets—gain	14,248	11,955
Interest paid	(130,808)	(139,955)
<b>Net cash used in capital and related financing activities</b>	<b>(1,012,308)</b>	<b>(684,750)</b>
Cash flows from investing activities:		
Certificate of deposit maturities	-	(211,867)
Purchase of certificates of deposits	-	209,871
Interest received	22,868	15,368
<b>Net cash provided by investing activities</b>	<b>22,868</b>	<b>13,372</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(214,257)</b>	<b>(31,217)</b>
Cash and cash equivalents at beginning of year	2,080,543	2,111,760
Cash and cash equivalents at end of year—including restricted cash equivalents of \$683,158 (\$688,090 in 2016)	<b>\$ 1,866,286</b>	<b>\$ 2,080,543</b>

(Continued)

**East Medina County Special Utility District**

**Statements of Cash Flows (Continued)  
Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Net operating income	\$ 288,342	\$ 166,185
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	512,902	481,963
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,222	(5,649)
Decrease in inventory	3,881	3,099
(Increase) decrease in deferred outflows—pension	9,866	(11,424)
(Decrease) increase in accounts payable	(5,255)	451
Decrease in retainage payable	(29,814)	-
Increase in accrued liabilities	731	9,847
Increase (decrease) in due to customers	4,261	(622)
Decrease in net pension liability	(6,603)	(34,143)
Increase (decrease) in deferred inflows—pension	(4,350)	30,454
<b>Net cash provided by operating activities</b>	<b>\$ 775,183</b>	<b>\$ 640,161</b>
Supplemental disclosures of cash flow information:		
Issuance of note payable for water allotments under lease	\$ -	\$ 315,000
Construction payables	\$ 39,062	\$ 90,352
Retainage payable related to construction	\$ -	\$ 29,814

See accompanying notes to financial statements.

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## East Medina County Special Utility District

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

The financial statements of East Medina County Special Utility District (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the District's significant policies.

**Reporting entity:** The District was established on September 17, 1996. The District is the successor to the East Medina County Water Supply Corporation, which was incorporated in 1967. The District is a Political Subdivision of the state of Texas, organized under Chapters 49 and 65 of the Texas Water Code, for the purpose of furnishing potable water service to the southeast area of Medina County.

The District is governed by a seven-member Board of Directors (the Board) that is elected by the public. The District is not included in any other governmental reporting entity, as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. In addition, there are no other entities which should be combined as a component unit to constitute the reporting entity.

**Measurement focus and basis of accounting:** The District accounts for its transactions as business-type activities. Operations are financed and operated in a manner similar to private business or where the Board has decided the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The financial statements of the District are prepared using the accrual basis of accounting with the economic resources measurement focus as prescribed by GASB. The District applies all applicable GASB pronouncements and presents its financial statements in accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. Under this approach, all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the District are reported in the statement of net position, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Revenue recognition:** The District recognizes operating revenues as they are earned. The District's primary revenues are from customer billings. On a monthly basis, customers read their meters and submit the information to the District, who then records the revenue. The District generally reads customer meters every year or soon thereafter and adjusts the customer account accordingly. Revenues earned after meters are read are estimated and accrued as unbilled revenues at the end of the fiscal year. Accounts receivable include unbilled water sales of \$127,060 and \$124,758 for fiscal years 2017 and 2016, respectively.

Late fees and reconnect charges are recognized as operating revenues as they are earned. The revenue from late fees are penalties collected on customer accounts when monthly billings are not paid by specified dates stated in District policy. The revenue from reconnect charges are penalties collected to reconnect a customer account after service has been discontinued for nonpayment.

Connection fees are revenue collected from customers requesting water service from the District. The fees collected are generally recognized as operating revenue. Portions of the fees collected are to provide funding for system maintenance, operations and system development.

Water acquisition fees are revenues collected from customers requesting service from the District. These fees collected are for the purchase of Edwards Aquifer Water Rights as needed to meet system and operational demands for water and are generally recognized as operating revenue.

The District records deposits received from new customers as revenue when received, as all deposits are considered to be nonrefundable to the customer.

## East Medina County Special Utility District

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

In 2017, the District entered into a Reimbursement Agreement for the relocation and extension of waterlines for the construction of new railroad tracks. For the fiscal year ended, the District incurred a total of \$108,062 in costs, which has been recorded as receivable for construction and other income for the same amount.

**Revenue and expense classification:** The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. The principal operating revenues of the District are charges to customers for water usage. Operating expenses include the cost of service, administrative expenses and depreciation of capital items. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Estimates and assumptions:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents:** For the purposes of the statements of cash flows, the District considers as cash and cash equivalents, including restricted, all cash on hand, demand deposits and external investment pools with original maturities of three months or less at the time of purchase with the exception of certificates of deposit (CDs).

**Accounts receivable and unbilled revenue:** The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The accounts receivable balance also includes an accrual related to unbilled revenues, which reflects an estimate of revenues earned prior to year-end that have not been billed.

**Inventory:** Inventory is stated at the lower of cost (average cost) or market (net realizable value). Inventories include pipes, meters, connectors and materials and supplies.

**Capital assets:** Property, plant and equipment are stated at cost. The District's policy is to capitalize purchases of assets if the asset has a useful life of more than one year and an individual value of \$1,000 or greater. Depreciation is calculated on the straight-line method based on the following estimated useful lives: land improvement—10 years; buildings—eight to 40 years; machinery and equipment—three to 10 years and plants and distribution system—five to 50 years.

**Capitalized interest:** Interest expense during the construction period is capitalized as part of the costs of capital assets. The District capitalized \$11,370 and \$23,840 of interest in fiscal years 2017 and 2016, respectively.

**Water allotments:** Water allotments are water rights purchased by the District and are recorded at cost. Since water allotments are considered to have no evident limited life, no amortization is recognized.

**East Medina County Special Utility District**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Compensated absences:** The District pays any unused vacation leave time earned at the time an employee terminates employment with the District. The accrued vacation leave at December 31, 2017 and 2016, totaled \$23,023 and \$23,446, respectively, and is included in accrued liabilities. Sick leave does not vest nor accrue; therefore, terminated employees are not paid for accumulated sick leave.

**Net position:** Net position represents the residual of assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent borrowing proceeds, as applicable.

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position represents the remaining portion of net position.

A summary of the net investment in capital assets is as follows:

	December 31	
	2017	2016
Total capital assets, net of accumulated depreciation	\$ 11,181,150	\$ 11,166,795
Total long-term bonds payable	(3,575,000)	(3,863,000)
Construction payable	(39,062)	(90,352)
Deferred charge on refunding	7,414	9,268
Unspent bond proceeds	-	34
Note payable—water rights	(227,981)	(303,975)
Net investment in capital assets	\$ 7,346,521	\$ 6,918,770

**Restricted and unrestricted resources:** It is the District’s policy to use restricted resources first when an allowable restricted expense is made for purposes for which both restricted and unrestricted resources are available.

**Retirement plan—pension:** The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Texas County and District Retirement System (TCDRS), an Agent Plan, and additions to/deductions from TCDRS’s fiduciary net position have been determined on the same basis as they are reported by 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. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred outflows of resources/deferred inflow of resources:** In addition to assets, the statements of financial position will sometime report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses) until then. The District has two items that qualify for reporting in this category. One is the deferred charge on refunding reported in the statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is contributions made to the pension plan during the fiscal year and other pension amounts.

## East Medina County Special Utility District

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. This item is the change in net pension liability that is not immediately recognized in pension expense.

**Reclassifications:** Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

**Future GASB Statement implementations—The following pronouncements have been issued, but have not yet been adopted:** GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017, will be effective for the District beginning with its fiscal year ending December 31, 2018. GASB Statement No. 86 is designed to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also requires the inclusion of any remaining prepaid insurance related to extinguished debt in the net carrying amount of the debt when calculating the difference between the reacquisition price and the net carrying amount of the debt for debt that is extinguished through a legal extinguishment or an in-substance defeasance. This statement also improves notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the District beginning with its fiscal year ending December 31, 2021, with earlier adoption encouraged. GASB Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the District must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. This statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties.

Management is currently evaluating the impact, if any, these pronouncements will have on the District's basic financial statements.

#### Note 2. Cash, Cash Equivalents and Certificates of Deposit

**Cash and cash equivalents:** The funds of the District must be deposited and invested under the terms of a depository contract, contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping and trust with the District's agent bank or file a corporate surety bond in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At December 31, 2017 and 2016, the carrying amount of the District's deposits was \$105,314 and \$97,017, respectively, and the bank balance was \$203,531 and \$126,139, respectively. The District also had \$600 in petty cash at December 31, 2017 and 2016, respectively. The District's cash deposits at December 31, 2017 and 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

## East Medina County Special Utility District

### Notes to Financial Statements

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#### Note 2. Cash, Cash Equivalents and Certificates of Deposit (Continued)

**Investments:** The District is required by Texas Government Code Chapter 2256, the Public Funds Investment Act (PFIA), 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 and (9) bid solicitation preferences for certificates of deposit (CDs). PFIA determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the Treasury, certain United States agencies and the state of Texas; (2) CDs; (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 and (10) common trust funds.

**Public funds investment pools:** Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and are subject to the provisions of PFIA, Chapter 2256 of the Texas Government Code. In addition to other provisions of PFIA designed to promote liquidity and safety of principal, it requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, (2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

Local Government Investment Cooperative (LOGIC) (the Pool) was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and PFIA, Chapter 2256 of the Texas Government Code, and operates as a public funds investment pool under the Public Funds Investment Act. The fund is rated AAAM or equivalent rating from at least one nationally recognized rating agency. Class A Units of LOGIC I are currently rated "AAAM" by Standard and Poor's. The fund seeks to maintain a dollar-weighted average portfolio maturity that does not exceed 60 days (or fewer days if required to maintain its rating). The Pool seeks to maintain a net asset value (NAV) of \$1.00 per unit. The maximum final stated maturity is 397 days. Withdrawals from the Pool and transfers to another pool may be made on any business day with deadlines and provisions. For liquidity and to respond to unusual market conditions, the Pool may hold all or most of its total assets in cash for temporary defensive purposes. The District's investments managed through LOGIC are valued and recorded at amortized cost in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The carrying value of these investments at amortized cost totaled \$1,659,140 in 2017 and \$1,882,570 in 2016.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard & Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. The portfolio is a government-repurchase agreement (REPO) pool, utilizing primarily United States Treasury securities, United States agency securities and REPO collateralized obligations, the principal and interest of which are unconditionally guaranteed or insured by the full faith and credit of the United States or its agencies or its instrumentalities. Consistent with the investment pool, the District values and records these investments at fair value. The values of these investments are at NAV per share are \$101,232 in 2017 and \$100,356 in 2016.

**Interest rate risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by investing in investment pools which have no stated maturity date; therefore, the funds are always available to meet operational needs.

**East Medina County Special Utility District**

**Notes to Financial Statements**

**Note 2. Cash, Cash Equivalents and Certificates of Deposit (Continued)**

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity as of December 31:

Description	Maturity	Days of Maturity	2017 NAV		2016 NAV	
TexSTAR investment fund	N/A	Daily	\$	101,232	\$	100,356
Total investments			\$	101,232	\$	100,356

**Custodial credit risk for investments:** Generally, custodial credit risk for investments is 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 the possession of an outside party. At December 31, 2017 and 2016, investments held at TexSTAR were uninsured and uncollateralized.

**Concentration of credit risk:** Generally, concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District did not hold any investments subject to concentration of credit risk.

**Credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the District’s investment policy and PFIA. The actual rating as of year-end for these investments is as follows:

Description	Minimum Legal Rating	Investment Rating	Rating Organization	2017		2016	
				NAV	Percent Invested	NAV	Percent Invested
TexSTAR investment fund	AAA	AAAm	Standard & Poor’s	\$ 101,232	100.00%	\$ 100,356	100.00%
Total investments				\$ 101,232	100.00%	\$ 100,356	100.00%

**CDs:** The District also invests in CDs that are nonparticipating and earn an interest rate of 0.90 percent. The CDs are carried at amortized cost. The District has two CDs that mature May 28, 2018, and March 21, 2018, with balances of \$109,578 and \$105,943 at year-end, respectively. At December 31, 2016, the balances of these two CDs were \$108,597 and \$104,995, respectively.

**Note 3. Restricted Cash Equivalents**

The District’s bond agreements require the establishment and maintenance of several reserve funds. A description of these funds is as follows:

**Bond Interest and Sinking Fund:** The District is required to make monthly deposits into this fund in sufficient amounts to pay the semiannual interest and principal due on the long-term bonds payable. At December 31, 2017 and 2016, the balance of the fund totaled \$164,356 and \$163,619, respectively.

## East Medina County Special Utility District

### Notes to Financial Statements

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#### Note 3. Restricted Cash Equivalents (Continued)

**Reserve Fund:** The District is required to maintain an amount equal to the maximum annual principal and interest requirements on all outstanding bonds. Amounts are to be used only if needed to meet debt service requirements of the long-term bonds payable. At December 31, 2017 and 2016, the balance of the fund totaled \$418,802 and \$424,437, respectively.

**Capital Improvements Fund:** Under the 2009 Bonds, the District is required to maintain an amount not less than \$100,000 in the Capital Improvements Fund. Monies in this fund are to be used to pay for costs of improvements, enlargements, extensions, additions, replacements or other capital expenses of the District or for unexpected or extraordinary repairs or replacements and unexpected or extraordinary expenses of operations and maintenance for which other funds are not available. The balance of the fund at December 31, 2017 and 2016, totaled \$100,000.

In addition, the Series 2014 Bonds are restricted for the purpose of making certain renovations, repairs, extensions and improvements to the District's waterworks system. The unspent bond proceeds at December 31, 2017 and 2016, totaled \$-0- and \$34, respectively.

Components of restricted cash equivalents are as follows:

	December 31	
	2017	2016
Restricted for debt service:		
Bond Interest and Sinking Fund	\$ 164,356	\$ 163,619
Reserve Fund	418,802	424,437
	<u>583,158</u>	<u>588,056</u>
Restricted for capital improvements:		
Capital Improvements Fund—2009 Bonds	100,000	100,000
Series 2014 Waterworks System Revenue Bonds	-	34
Total restricted cash equivalents	<u>\$ 683,158</u>	<u>\$ 688,090</u>

## East Medina County Special Utility District

### Notes to Financial Statements

#### Note 4. Capital Assets

The following table summarizes the changes in the components of capital assets as of December 31, 2017:

	Balance at January 1, 2017	Additions	Deletions	Transfers	Balance at December 31, 2017
Capital assets—not depreciated:					
Land	\$ 61,599	\$ -	\$ -	\$ -	\$ 61,599
Water allotments	1,958,350	-	-	-	1,958,350
Water allotments-leased	956,475	-	-	-	956,475
Construction in progress	339,150	119,432	-	(339,150)	119,432
Total capital assets—not depreciated	<u>3,315,574</u>	<u>119,432</u>	<u>-</u>	<u>(339,150)</u>	<u>3,095,856</u>
Capital assets—being depreciated:					
Land improvements	-	8,376	-	-	8,376
Buildings	379,040	9,800	-	-	388,840
Machinery and equipment	582,569	165,552	(76,749)	-	671,372
Plants and distribution system	14,063,457	225,838	-	339,150	14,628,445
Total capital assets—being depreciated	<u>15,025,066</u>	<u>409,566</u>	<u>(76,749)</u>	<u>339,150</u>	<u>15,697,033</u>
Accumulated depreciation:					
Land improvements	-	(698)	-	-	(698)
Buildings	(167,806)	(8,601)	-	-	(176,407)
Machinery and equipment	(362,128)	(55,679)	75,008	-	(342,799)
Plants and distribution system	(6,643,911)	(447,924)	-	-	(7,091,835)
Total accumulated depreciation	<u>(7,173,845)</u>	<u>(512,902)</u>	<u>75,008</u>	<u>-</u>	<u>(7,611,739)</u>
Total depreciable assets, net	7,851,221	(103,336)	(1,741)	339,150	8,085,294
Total capital assets, net	<u>\$ 11,166,795</u>	<u>\$ 16,096</u>	<u>\$ (1,741)</u>	<u>\$ -</u>	<u>\$ 11,181,150</u>

## East Medina County Special Utility District

### Notes to Financial Statements

#### Note 4. Capital Assets (Continued)

The following table summarizes the changes in the components of capital assets as of December 31, 2016:

	Balance at January 1, 2016	Additions	Deletions	Transfers	Balance at December 31, 2016
Capital assets—not depreciated:					
Land	\$ 61,599	\$ -	\$ -	\$ -	\$ 61,599
Water allotments	1,950,790	7,560	-	-	1,958,350
Water allotments-leased	652,500	303,975	-	-	956,475
Construction in progress	-	339,150	-	-	339,150
Total capital assets—not depreciated	2,664,889	650,685	-	-	3,315,574
Capital assets—being depreciated:					
Buildings	340,288	38,752	-	-	379,040
Machinery and equipment	587,636	74,439	(79,506)	-	582,569
Plants and distribution system	13,983,909	79,548	-	-	14,063,457
Total capital assets—being depreciated	14,911,833	192,739	(79,506)	-	15,025,066
Accumulated depreciation:					
Buildings	(159,984)	(7,822)	-	-	(167,806)
Machinery and equipment	(398,336)	(42,597)	78,805	-	(362,128)
Plants and distribution system	(6,212,367)	(431,544)	-	-	(6,643,911)
Total accumulated depreciation	(6,770,687)	(481,963)	78,805	-	(7,173,845)
Total depreciable assets, net	8,141,146	(289,224)	(701)	-	7,851,221
Total capital assets, net	\$ 10,806,035	\$ 361,461	\$ (701)	\$ -	\$ 11,166,795

Depreciation expense for the years ended December 31, 2017 and 2016, totaled \$512,902 and \$481,963, respectively.

#### Note 5. Long-Term Bonds Payable

The following is a summary of bond transactions for fiscal year 2017:

Bonds	Interest Rates	Original Issue	Balance at January 1, 2017	Additions	Deductions	Balance at December 31, 2017	Payable Within One Year
Series 2009-R	4.375%	\$ 975,000	\$ 906,000	\$ -	\$ 12,000	\$ 894,000	\$ 12,000
Series 2013	1.720%	1,566,000	992,000	-	191,000	801,000	193,000
Series 2014	3.250%-4.500%	2,250,000	1,965,000	-	85,000	1,880,000	85,000
			\$ 3,863,000	\$ -	\$ 288,000	\$ 3,575,000	\$ 290,000

**East Medina County Special Utility District**

**Notes to Financial Statements**

**Note 5. Long-Term Bonds Payable (Continued)**

The following is a summary of bond transactions for fiscal year 2016:

Bonds	Interest Rates	Original Issue	Balance at January 1, 2016	Additions	Deductions	Balance at December 31, 2016	Payable Within One Year
Series 2009-R	4.375%	\$ 975,000	\$ 917,000	\$ -	\$ 11,000	\$ 906,000	\$ 12,000
Series 2013	1.720%	1,566,000	1,181,000	-	189,000	992,000	191,000
Series 2014	3.250%-4.500%	2,250,000	2,050,000	-	85,000	1,965,000	85,000
			<u>\$ 4,148,000</u>	<u>\$ -</u>	<u>\$ 285,000</u>	<u>\$ 3,863,000</u>	<u>\$ 288,000</u>

Long-term bonds payable is as follows:

	December 31	
	2017	2016
\$975,000, Series 2009-R Waterworks System Revenue Bonds—serial bonds due in annual installments from \$9,000 to \$52,000 through July 1, 2049; bearing interest at 4.375%	\$ 894,000	\$ 906,000
\$1,566,000, Series 2013 Waterworks System Revenue Refunding Bonds—serial bonds due in annual installments from \$191,000 to \$207,000 through July 1, 2021; bearing interest at 1.720%	801,000	992,000
\$2,250,000, Series 2014 Waterworks System Revenue Bonds—serial bonds due in annual installments from \$85,000 to \$160,000 through July 1, 2033; bearing interest of 3.250% to 4.500%	1,880,000	1,965,000
	<u>3,575,000</u>	<u>3,863,000</u>
Less current maturities	290,000	288,000
	<u>\$ 3,285,000</u>	<u>\$ 3,575,000</u>

In 2009, the District was approved for a Rural Development Loan from the United States Department of Agriculture Rural Development Office in the amount of \$975,000 for the purpose of constructing improvements and extensions to the District’s existing waterworks system and to pay costs of issuance related to the bonds. The balance on the loan at December 31, 2017 and 2016, totaled \$894,000 and \$906,000, respectively.

On April 9, 2013, the District issued \$1,566,000 in Waterworks System Revenue Refunding Bonds, Series 2013 with an interest rate of 1.72 percent. The bonds were issued to refund \$1,685,000 in Waterworks System Revenue Bonds, Series 2001, which had interest rates of 3.20 percent to 3.70 percent. This refunding reduced its total debt service payments over the next eight years by \$111,514 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$103,655. The balance at December 31, 2017 and 2016, totaled \$801,000 and \$992,000, respectively.

On January 7, 2014, the District issued \$2,250,000 in Waterworks System Revenue Refunding Bonds, Series 2014 with interest rates of 3.25 percent to 4.50 percent, with an overall average rate of 4.04 percent. The balance at December 31, 2017 and 2016, totaled \$1,880,000 and \$1,965,000, respectively.

**East Medina County Special Utility District**

**Notes to Financial Statements**

**Note 5. Long-Term Bonds Payable (Continued)**

In accordance with the bond resolutions, the District is required, at all times, to fix, maintain, charge and collect for services rendered by the District, rates and charges which will produce gross revenues not less than (i) 1.25 times the amount required to pay all principal and interest requirements for such fiscal year plus (ii) 1.00 times the amount required to pay all budgeted operations and maintenance expenses and to make all other deposits now or hereafter required to be made into the funds created by the bond resolutions. The District is required to adjust its rates if its annual audit shows that these covenants are not met.

Aggregate maturities of the bonds outstanding at December 31, 2017, are as follows:

Years ending December 31:	Principal	Interest	Total
2018	\$ 290,000	\$ 128,802	\$ 418,802
2019	303,000	121,133	424,133
2020	310,000	113,074	423,074
2021	316,000	104,729	420,729
2022	115,000	96,281	211,281
2023-2027	646,000	412,756	1,058,756
2028-2032	805,000	278,475	1,083,475
2033-2037	297,000	133,394	430,394
2038-2042	172,000	93,538	265,538
2043-2047	219,000	51,931	270,931
2048-2049	102,000	6,738	108,738
	\$ 3,575,000	\$ 1,540,851	\$ 5,115,851

**Note 6. Note Payable**

The District issued a note payable on August 2, 2016, with a face amount of \$315,000 for the acquisition of water rights as discussed in Note 7. The balance of this note payable is due in annual installments of \$78,750 over a four-year period beginning January 5, 2017, and is secured by the related water rights ending on January 5, 2020. This note is noninterest bearing and has been recorded, net of unamortized discount of \$11,025, imputed at a rate of 3.5 percent. At December 31, 2017 and 2016, the carrying value of this note payable, net of the unamortized discount, is \$227,981 and \$303,975, respectively.

**Note 7. Water Allotments Held for Lease**

Water allotments leased to others under both long-term and short-term agreements consist of the following at December 31, 2017 and 2016:

	Balance at January 1, 2017	Additions	Deletions	Balance at December 31, 2017
Water allotments leased	\$ 956,475	\$ -	\$ -	\$ 956,475
	January 1, 2016	Additions	Deletions	December 31, 2016
Water allotments leased	\$ 652,500	\$ 303,975	\$ -	\$ 956,475

## East Medina County Special Utility District

### Notes to Financial Statements

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#### Note 7. Water Allotments Held for Lease

The District is the lessor of water rights under agreements expiring in various years to 2020 as follows:

- Sixty acre-feet (a/f) per annum of unrestricted irrigation groundwater from Edwards Aquifer. The lease payments begin on January 5, 2017, and end on January 5, 2024. The aforementioned lease has a corresponding note payable discussed in Note 6. The lease is payable in annual installments of \$9,600 over the remaining seven-year period. Lease payment received for the year ended December 31, 2017, totaled \$9,600.
- A Voluntary Irrigation Suspension Program Option (VISPO) wherein the District is compensated to forbear making withdrawals from the Edwards Aquifer during times of certain droughts. The District agrees to a forbearance of 150 a/f per annum of base irrigation groundwater and 150 a/f per annum of unrestricted irrigation groundwater. VISPO agreement was initiated in 2001 and ends on December 31, 2018. Lease payment received for the years ended December 31, 2017 and 2016, totaled \$8,625 and \$7,500, respectively.
- VISPO to forbear withdrawing 150 a/f per annum of unrestricted irrigation groundwater. VISPO agreement was initiated in 2003 and ended December 31, 2017. Lease payment received for each of the years ended December 31, 2017 and 2016, totaled \$18,000. This is a one-year lease that is renewable. The one-year HCP Aquifer Storage (ASR) Program was renewed for 2018; however, it will not be available for renewal beyond 2018.
- The District received a check in the amount of \$36,000 for an annual renewable lease of 300 a/f of water rights to the EEA portion of the San Antonio Water System ASR for 2016. This is a one-year lease that is renewable. The one-year lease program was renewed for 2018; however, it will not be available for renewal beyond 2018.

At December 31, 2017, future minimum lease payments under leases are as follows:

Years ending December 31:

2018	\$	71,100
2019		9,600
2020		9,600
2021		9,600
2022		9,600
Thereafter		9,600
		<u>119,100</u>

#### Note 8. Retirement Plan

**Texas County and District Retirement System (TCDRS):** The District provides retirement, disability and death benefits for all its employees through a nontraditional defined benefit pension plan in the statewide TCDRS. The board of trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system, which consists of 677 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a Comprehensive Annual Financial Report (CAFR) on a calendar-year basis. The TCDRS CAFR can be downloaded at <http://www.tcdrs.org>.

## East Medina County Special Utility District

### Notes to Financial Statements

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#### Note 8. Retirement Plan (Continued)

The plan provisions are adopted and may be amended by the governing body of the District within the options available in the Texas state statutes governing TCDRS (the TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 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 and who are not eligible to retire are not entitled to any amounts contributed by their employer.

**Benefits provided:** 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 governing body of the employer 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 or death, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

In addition, the District offers the TCDRS group term life program, which provides a payment equal to the employee's final annual salary to his/her beneficiary.

**Employees covered by benefit terms:** At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to, but not yet receiving benefits	6
Active employees	11
Total	<u>17</u>

**Contributions:** Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of plan members and the District are established and may be amended. For 2017 and 2016, the contribution rate for the plan members was 5.00 percent of gross pay. The District pays a matching portion to the pension plan totaling 5.25 percent of gross pay for 2017 and 2016, which totaled \$21,493 and \$26,353, respectively.

**Net pension liability:** The District's net pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability, measured as of December 31, 2016 were as follows:

**Actuarial assumptions:** The actuarial assumptions that determined the total pension liability as of December 31, 2016 and 2015, were based on the results of an actuarial experience study for the period January 1, 2009, through December 31, 2012, except where required to be different by GASB Statement No. 68.

## East Medina County Special Utility District

### Notes to Financial Statements

#### Note 8. Retirement Plan (Continued)

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.5% including inflation plus average merit, promotion and longevity of 1.4%
Investment rate of return	8.1%
Cost of living	None

Mortality rates were based on the following:

**Depositing members**—The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.

**Service retirees, beneficiaries and nondepositing members**—The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.

**Disabled retirees**—RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

**Long-term expected rate of return on assets:** 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. The numbers shown are based on January 2017 information for a 7-10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (2)
United States Equities	Dow Jones U.S. Total Stock Market Index	13.5%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (3)	16.0%	7.70%
Global Equities	MSCI World (net) Index	1.5%	5.00%
International Equities—Developed Markets	MSCI World Ex USA (net)	10.0%	4.70%
International Equities—Emerging Markets	MSCI EM Standard (net) Index	7.0%	5.70%
Investment—Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.0%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.0%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.0%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.0%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index (4)	3.0%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index plus 33% FTSE EPRA/NAREIT Global Real Estate Index	2.0%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.0%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (5)	6.0%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.0%	3.85%

(1) Target asset allocation adopted at the April 2017 TCDRS board meeting.

**East Medina County Special Utility District**

**Notes to Financial Statements**

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**Note 8. Retirement Plan (Continued)**

- (2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 2 percent, per Cliffwater's 2017 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:** The discount rate used to measure the total pension liability was 8.1 percent. In order to determine the discount rate to be used by the employer, the TCDRS used an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

TCDRS has a funding policy where the unfunded actuarial accrued liability shall be amortized as a level percent of pay over 20-year closed layered periods. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost. Any increased cost due to the adoption of a cost of living adjustment (COLA) is required to be funded over a period of 15 years, if applicable.

Based on these assumptions, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years. Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments, the municipal bond rate does not apply.

**Sensitivity analysis:** The following presents the net pension liability (asset) of the District, calculated using the discount rate of 8.1 percent, as well as what the District's net pension liability (asset) would be if it were calculated using a discount rate that is 1.0 percentage point lower (7.1 percent) or 1.0 percentage point higher (9.1 percent) than the current rate:

	Discount Rate Sensitivity at December 31, 2017		
		Current	
	1.0% Decrease	Discount Rate	1.0% Increase
	7.1%	8.1%	9.1%
Net pension liability (asset)	\$ 66,288	\$ 21,455	\$ (15,601)

	Discount Rate Sensitivity at December 31, 2016		
		Current	
	1.0% Decrease	Discount Rate	1.0% Increase
	7.1%	8.1%	9.1%
Net pension liability (asset)	\$ 64,100	\$ 28,058	\$ (1,567)

**East Medina County Special Utility District**

**Notes to Financial Statements**

**Note 8. Retirement Plan (Continued)**

**Changes in net pension liability:** The following represents a schedule of changes in the net pension liability based on the measurement date of December 31, 2016:

Changes in Net Pension Liability	Changes in Net Pension Liability		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at beginning of the year	\$ 223,966	\$ 195,908	\$ 28,058
Changes for the year:			
Service cost	43,928	-	43,928
Interest on total pension liability (1)	19,886	-	19,886
Effect of plan changes (2)	-	-	-
Effect of economic/demographic gains or losses	122	-	122
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	(161)	161
Member contributions	-	25,340	(25,340)
Net investment income	-	14,760	(14,760)
Employer contributions	-	26,353	(26,353)
Other (3)	-	4,247	(4,247)
Balances at end of the year	\$ 287,902	\$ 266,447	\$ 21,455

- (1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.
- (2) No plan changes valued.
- (3) Relates to allocation of system-wide items.

**East Medina County Special Utility District**

**Notes to Financial Statements**

**Note 8. Retirement Plan (Continued)**

**Changes in net pension liability:** The following represents a schedule of changes in the net pension liability based on the measurement date of December 31, 2015:

Changes in Net Pension Liability	Changes in Net Pension Liability		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at beginning of the year	\$ 211,533	\$ 149,332	\$ 62,201
Changes for the year:			
Service cost	34,349	-	34,349
Interest on total pension liability (1)	18,284	-	18,284
Effect of plan changes	(7,543)	-	(7,543)
Effect of economic/demographic gains or losses	(34,803)	-	(34,803)
Effect of assumptions changes or inputs	2,146	-	2,146
Refund of contributions	(29,131)	(29,131)	-
Benefit payments	29,131	29,131	-
Administrative expenses	-	(128)	128
Member contributions	-	23,299	(23,299)
Net investment income	-	(1,044)	1,044
Employer contributions	-	24,464	(24,464)
Other (2)	-	(15)	15
Balances at end of the year	\$ 223,966	\$ 195,908	\$ 28,058

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

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

**Pension expense and deferred outflows of resources related to pensions:** For the fiscal year December 31, 2017, the District recognized pension expense of \$21,220. At December 31, 2017, the deferred inflows and outflows of resources related to pensions are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 26,104	\$ 19,678
Changes of assumptions	-	1,609
Net difference between projected and actual earnings	-	12,862
Subtotal	26,104	34,149
Contributions made subsequent to measurement date	NA	21,493
Total	\$ 26,104	\$ 55,642

**East Medina County Special Utility District**

**Notes to Financial Statements**

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**Note 8. Retirement Plan (Continued)**

At December 31, 2016, the deferred inflows and outflows of resources related to pensions are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 30,454	\$ 23,487
Changes of assumptions	-	1,877
Net difference between projected and actual earnings	-	13,790
Subtotal	30,454	39,154
Contributions made subsequent to measurement date	NA	26,354
Total	\$ 30,454	\$ 65,508

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Years ended December 31:

2017	\$ 4,101
2018	4,101
2019	3,546
2020	515
2021	(150)
Thereafter	(4,068)
	\$ 8,045

**Note 9. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters and workers' compensation for which the District carries insurance. There have been no significant reductions in insurance coverage for these risks of loss since the prior year, and there have been no settlements in excess of the insurance coverage for any of the past three fiscal years.

The District utilizes TML Intergovernmental Risk Pool to provide for its workers' compensation, general and auto liability and property insurance coverage.

**Required Supplementary Information (Unaudited)**

**East Medina County Special Utility District**

**Schedule of Changes in Net Pension Liability  
December 31, 2017**

	2017	2016	2015
Total pension liability:			
Service cost	\$ 43,928	\$ 34,349	\$ 31,137
Interest on total pension liability	19,886	18,284	11,917
Effect of plan changes	-	(7,543)	14,605
Effect of assumption changes or inputs	-	2,146	-
Effect of economic/demographic (gains) or losses	122	(34,803)	31,317
Benefit payments/refunds of contributions	-	-	(4,208)
<b>Net change in total pension liability</b>	<b>63,936</b>	<b>12,433</b>	<b>84,768</b>
Total pension liability at beginning of year	<b>223,966</b>	<b>211,533</b>	<b>126,765</b>
<b>Total pension liability at end of year (a)</b>	<b>287,902</b>	<b>223,966</b>	<b>211,533</b>
Plan fiduciary net position:			
Employer contributions	26,353	24,464	16,558
Member contributions	25,340	23,299	21,902
Investment income net of investment expense	14,760	(1,044)	7,414
Refunds of contributions	-	-	(4,208)
Administrative expenses	(161)	(128)	(100)
Other	4,247	(15)	(9)
<b>Net change in fiduciary net position</b>	<b>70,539</b>	<b>46,576</b>	<b>41,557</b>
Fiduciary net position at beginning of year	<b>195,908</b>	<b>149,332</b>	<b>107,775</b>
Fiduciary net position at end of year (b)	<b>266,447</b>	<b>195,908</b>	<b>149,332</b>
<b>Net pension liability at end of year = (a)-(b)</b>	<b>\$ 21,455</b>	<b>\$ 28,058</b>	<b>\$ 62,201</b>
Fiduciary net position as a percentage of total pension liability	<b>92.55%</b>	<b>87.47%</b>	<b>70.60%</b>
Pensionable covered payroll	\$ 506,794	\$ 465,974	\$ 438,030
Net pension liability as a percentage of covered payroll	<b>4.23%</b>	<b>6.02%</b>	<b>14.20%</b>

Per GASB Statement No. 68, the required supplementary information should include 10-year fiscal history built prospectively; historical information prior to implementation of GASB Statement No. 68 is not available.

**East Medina County Special Utility District**

**Schedule of the District's Pension Contributions**

**East Medina County Special Utility District  
Required Supplemental Information—Pension Plan  
For the Year Ended December 31, 2017**

Schedule of Employer Contributions

Year Ending December 31,	Actuarially Determined Contribution (1)	Actual Employer Contribution (1)	Contribution Deficiency (Excess)	Pensionable Covered Payroll (2)	Actual Contribution as a Percentage of Covered Payroll
2011	\$ 11,218	\$ 11,265	\$ (47)	\$ 306,492	3.7%
2012	14,605	14,634	(29)	399,046	3.7%
2013	14,168	14,168	-	381,656	3.7%
2014	16,558	16,558	-	438,030	3.8%
2015	24,464	24,464	-	465,974	5.3%
2016	26,353	26,353	-	506,794	5.2%

(1) TCDRS calculates actuarially determined contributions on a calendar-year basis. GASB Statement No.68 indicates the employer should report employer contribution amount on a fiscal year basis.

(2) Payroll is calculated based on contributions as reported to TCDRS.

The District did not participate in TCDRS prior to fiscal year 2011; therefore, a 10-year fiscal history will be included prospectively.

**East Medina County Special Utility District**

**Notes to Required Supplementary Information**

Following are the key assumptions and methods used in the required supplementary information schedules.

<p><b>Valuation Timing</b></p>	<p>Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.</p>
<p><b>Actuarial Cost Method</b></p>	<p>Individual entry age normal cost method, as required by GASB Statement No. 68, used for GASB calculations. A slightly different version of the entry age normal cost method is used for the funding actuarial valuation.</p>
<p><b>Asset Valuation Method</b> Smoothing period Recognition method Corridor</p>	<p>5 years Non-asymptotic None</p>
<p><b>Economic Assumptions</b> Inflation Salary increases  Investment rate of return  COLAs</p>	<p>3.0% 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee  8.1%  COLAs for the District are not considered to be substantively automatic under GASB Statement No. 68. Therefore, no assumption for future COLAs is included in the GASB calculations. No assumption for future COLAs is included in the funding valuation.</p>

**East Medina County Special Utility District**

**Notes to Required Supplementary Information (Continued)**

**Demographic Assumptions**

*Retirement Age*

Annual Rates of Service Retirement*					
Age	% Male	% Female	Age	% Male	% Female
40-44	4.5	4.5	62	25	25
45-49	9	9	63	16	16
50	10	10	64	16	16
51	10	10	65	30	30
52	10.5	10.5	66	25	25
53	10.5	10.5	67	24	24
54	10.5	10.5	68	22	22
55	11	11	69	22	22
56	11	11	70	22	22
57	11	11	71	22	22
58	12	12	72	22	22
59	12	12	73	22	22
60	14	14	74**	22	22
61	12	12			

\* Deferred members are assumed to retire (100% probability) at the later of: (a) age 60 (b) earliest retirement eligibility

\*\*For all eligible members ages 75 and later, retirement is assumed to occur immediately.

**Other terminations of employment:** The rate of assumed future termination from active participation in the plan for reasons other than death, disability or retirement are all set at 0 percent and the rates do not vary by length of service, entry-age group (age at hire) and sex. No termination after eligibility for retirement is assumed.

**East Medina County Special Utility District**

**Notes to Required Supplementary Information (Continued)**

**Withdrawals:** Members who terminate may either elect to leave their account with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting schedule. Rates applied to your plan are shown in the table below. For nondepositing members who are not vested, 100 percent are assumed to elect a withdrawal.

Probability of Withdrawal			
Years of Service	% Probability	Years of Service	% Probability
0	100	15	40
1	100	16	38
2	100	17	36
3	100	18	34
4	100	19	32
5	100	20	30
6	100	21	28
7	100	22	26
8	100	23	24
9	100	24	22
10	48	25	20
11	47	26	15
12	46	27	10
13	44	28*	5
14	42		

\*Members with more than 28 years of service are not assumed to refund.

**Mortality Rates**

**Depositing members:** The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.

**Service retirees, beneficiaries and nondepositing members:** The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.

**Disabled retirees:** RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

**Supplementary Schedules and Other Information (Unaudited)**

**East Medina County Special Utility District**

**Budgetary Comparison Schedule—Enterprise Fund (Unaudited)  
Year Ended December 31, 2017**

	Budgeted Amounts		Actual	Variance
	Original	Final		
Operating revenues:				
Water sales, net of bad-debt expense	\$ 1,580,000	\$ 1,580,000	\$ 1,652,637	\$ 72,637
Late fees and reconnection charges	105,000	105,000	123,820	18,820
Customer deposits	18,000	18,000	13,423	(4,577)
Connection fees, net of expense	42,000	42,000	81,035	39,035
Water acquisition fees	98,000	98,000	94,203	(3,797)
Lease income	72,225	72,225	72,225	-
<b>Total operating revenues</b>	<b>1,915,225</b>	<b>1,915,225</b>	<b>2,037,343</b>	<b>122,118</b>
Operating expenses:				
Salaries	530,000	530,000	475,866	54,134
Utilities	129,500	129,500	124,882	4,618
Repairs and maintenance	160,000	160,000	171,551	(11,551)
Vehicle expense	58,000	58,000	25,648	32,352
Insurance	124,700	124,700	97,605	27,095
Payroll taxes	55,000	55,000	37,866	17,134
Professional services	143,000	143,000	64,625	78,375
Retirement plan expense	29,933	29,933	21,220	8,713
Edwards Aquifer Authority management fee	86,000	86,000	85,711	289
Other administrative expenses	172,000	172,000	131,125	40,875
Depreciation	431,193	481,963	512,902	(30,939)
<b>Total operating expenses</b>	<b>1,919,326</b>	<b>1,970,096</b>	<b>1,749,001</b>	<b>221,095</b>
<b>Net operating income (loss)</b>	<b>(4,101)</b>	<b>(54,871)</b>	<b>288,342</b>	<b>343,213</b>
Nonoperating revenues (expenses):				
Interest income	13,000	13,000	22,868	9,868
Gain on sale of asset	-	-	12,507	12,507
Other income	100,200	100,200	151,986	51,786
Interest expense	(146,854)	(146,854)	(125,860)	20,994
<b>Total nonoperating revenues (expenses), net</b>	<b>(33,654)</b>	<b>(33,654)</b>	<b>61,501</b>	<b>95,155</b>
<b>Change in net position</b>	<b>(37,755)</b>	<b>(88,525)</b>	<b>349,843</b>	<b>438,368</b>
Net position at beginning of year	9,248,144	9,248,144	9,248,144	-
Net position at end of year	<b>\$ 9,210,389</b>	<b>\$ 9,159,619</b>	<b>\$ 9,597,987</b>	<b>\$ 438,368</b>

**East Medina County Special Utility District**

**Schedule of Services and Rates (Unaudited)  
Year Ended December 31, 2017**

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**1. Services provided by the District: Retail Water**

**2a. Retail rates based on 5/8 meter:**

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 100 Gallons Over Minimum	Usage Levels
Water	\$ 25.55	N/A	Y	\$ 0.19	100 to 2,000
				0.44	2,100 to 10,000
				0.49	10,100 to 20,000
				0.54	20,100 to 30,000
				0.64	30,100 to 40,000
				0.69	40,100 to 50,000
				0.74	50,100 and above

Commercial, industrial and agricultural accounts: \$5.00 extra per month

All customers will be assessed the Texas Commission on Environmental Quality 0.5 of 1.0 percent customer assessment fee. This fee is calculated on the water usage charge and is included in the rate charts.

District employs winter averaging for wastewater usage: N/A

Total water charges per 10,000 gallons usage (including surcharges): N/A

**East Medina County Special Utility District**

**Schedule of Services and Rates (Unaudited) (Continued)**  
**Year Ended December 31, 2017**

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**2b. Retail service providers:** Number of retail water connections within the District as of year-end. Provide actual numbers as noted:

	Active Connections
Single family	2,743
Multi-family	-
Commercial, agricultural, and industrial	99
Other—recreational centers, government and Volunteer Fire Department	-
Total	2,842

**3. Total water consumption during the fiscal year:**

Gallons pumped into system: 330,436,000  
 Gallons billed to customers: 197,166,800  
 Gallons used for flushing and unmetered water: 1,833,690  
 Water loss: 91,193,410  
 Percent of loss: 27.60%  
 Water accountability ratio: 59.67%

**4. Standby fees:** Does the District assess standby fees? No

Debt Service	Total levy	N/A
	Total collected	N/A
	Percentage collected	N/A
Operation and Maintenance	Total levy	N/A
	Total collected	N/A
	Percentage collected	N/A

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? N/A

**East Medina County Special Utility District**

**Schedule of Services and Rates (Unaudited) (Continued)**  
**Year Ended December 31, 2017**

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**5. Location of District:**

County in which District is located: Medina County

Is the District located entirely within one county? Yes

Is the District located within a city? No

Is the District located within a city's extraterritorial jurisdiction (ETJ)? Partially

ETJs in which the District is located: Castroville, Devine, La Coste, Lytle and Natalia

Are board members appointed by an office outside the District? No

If Yes, by whom? N/A

Number of persons employed by the District: 10 full-time; 2 part-time.

**East Medina County Special Utility District**

**Schedule of Enterprise Fund Expenses (Unaudited)  
Year Ended December 31, 2017**

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Operating expenses:	
Personnel	\$ 534,952
Utilities	124,882
Repairs and maintenance	171,551
Vehicle expense	25,648
Insurance	97,605
Professional services:	
Auditing	43,600
Engineering	8,840
Legal	9,685
Financial advisor	2,500
Edwards Aquifer Authority management fee	85,711
Other administrative expenses	131,125
Depreciation	<u>512,902</u>
<b>Total operating expenses</b>	<b><u><u>\$ 1,749,001</u></u></b>

**East Medina County Special Utility District**

**Schedule of Temporary Investments (Unaudited)  
Year Ended December 31, 2017**

Type	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
Certificate of deposit	Community National Bank	0.90%	May 28, 2018	\$ 105,943
Certificate of deposit	Community National Bank	0.90%	March 21, 2018	<u>109,578</u>
				<u><u>\$ 215,521</u></u>

**East Medina County Special Utility District**

**Schedule of Long-Term Debt Service Requirements—By Years (Unaudited)**

**Series 2009-R**

**December 31, 2017**

Due During the Fiscal Years Ending	Series 2009-R		
	Principal Due July 1	Interest Due January 1 and July 1	Total
2018	\$ 12,000	\$ 39,112	\$ 51,112
2019	13,000	38,588	51,588
2020	14,000	38,018	52,018
2021	14,000	37,405	51,405
2022	15,000	36,794	51,794
2023	16,000	36,138	52,138
2024	16,000	35,438	51,438
2025	17,000	34,738	51,738
2026	18,000	33,994	51,994
2027	19,000	33,206	52,206
2028	20,000	32,375	52,375
2029	21,000	31,500	52,500
2030	22,000	30,580	52,580
2031	23,000	29,619	52,619
2032	24,000	28,613	52,613
2033	25,000	27,563	52,563
2034	26,000	26,469	52,469
2035	27,000	25,331	52,331
2036	29,000	24,150	53,150
2037	30,000	22,881	52,881
2038	31,000	21,569	52,569
2039	33,000	20,213	53,213
2040	34,000	18,769	52,769
2041	36,000	17,281	53,281
2042	38,000	15,706	53,706
2043	40,000	14,044	54,044
2044	42,000	12,294	54,294
2045	43,000	10,456	53,456
2046	46,000	8,575	54,575
2047	48,000	6,562	54,562
2048	50,000	4,462	54,462
2049	52,000	2,276	54,276
	<u>\$ 894,000</u>	<u>\$ 794,719</u>	<u>\$ 1,688,719</u>

**East Medina County Special Utility District**

**Schedule of Long-Term Debt Service Requirements—By Years (Unaudited)**

**Series 2013**

**December 31, 2017**

Due During the Fiscal Years Ending	Series 2013		
	Principal Due July 1	Interest Due January 1 and July 1	Total
2018	\$ 193,000	\$ 13,777	\$ 206,777
2019	200,000	10,457	210,457
2020	201,000	7,017	208,017
2021	207,000	3,560	210,560
	<u>\$ 801,000</u>	<u>\$ 34,811</u>	<u>\$ 835,811</u>

**East Medina County Special Utility District**

**Schedule of Long-Term Debt Service Requirements—By Years (Unaudited)**

**Series 2014**

**December 31, 2017**

Due During the Fiscal Years Ending	Series 2014		
	Principal Due July 1	Interest Due January 1 and July 1	Total
2018	\$ 85,000	\$ 75,913	\$ 160,913
2019	90,000	72,088	162,088
2020	95,000	68,038	163,038
2021	95,000	63,763	158,763
2022	100,000	59,488	159,488
2023	105,000	54,988	159,988
2024	110,000	51,575	161,575
2025	110,000	48,000	158,000
2026	115,000	44,425	159,425
2027	120,000	40,256	160,256
2028	125,000	35,906	160,906
2029	135,000	30,906	165,906
2030	140,000	25,506	165,506
2031	145,000	19,906	164,906
2032	150,000	13,563	163,563
2033	160,000	7,000	167,000
	<u>\$ 1,880,000</u>	<u>\$ 711,321</u>	<u>\$ 2,591,321</u>

**East Medina County Special Utility District**

**Schedule of Long-Term Debt Service Requirements—By Years (Unaudited)  
All Bonded Debt  
December 31, 2017**

Due During the Fiscal Years Ending	Principal Due July 1	Interest Due January 1 and July 1	Total
2018	\$ 290,000	\$ 128,802	\$ 418,802
2019	303,000	121,133	424,133
2020	310,000	113,073	423,073
2021	316,000	104,728	420,728
2022	115,000	96,282	211,282
2023	121,000	91,126	212,126
2024	126,000	87,013	213,013
2025	127,000	82,738	209,738
2026	133,000	78,419	211,419
2027	139,000	73,462	212,462
2028	145,000	68,281	213,281
2029	156,000	62,406	218,406
2030	162,000	56,086	218,086
2031	168,000	49,525	217,525
2032	174,000	42,176	216,176
2033	185,000	34,563	219,563
2034	26,000	26,469	52,469
2035	27,000	25,331	52,331
2036	29,000	24,150	53,150
2037	30,000	22,881	52,881
2038	31,000	21,569	52,569
2039	33,000	20,213	53,213
2040	34,000	18,769	52,769
2041	36,000	17,281	53,281
2042	38,000	15,706	53,706
2043	40,000	14,044	54,044
2044	42,000	12,294	54,294
2045	43,000	10,456	53,456
2046	46,000	8,575	54,575
2047	48,000	6,562	54,562
2048	50,000	4,462	54,462
2049	52,000	2,276	54,276
	<u>\$ 3,575,000</u>	<u>\$ 1,540,851</u>	<u>\$ 5,115,851</u>

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**East Medina County Special Utility District**

**Schedule of Changes in Long-Term Bonded Debt (Unaudited)  
Year Ended December 31, 2017**

	Series 2009-R	Series 2013	Series 2014	Total
Interest rate	4.375%	1.720%	3.250%-4.500%	N/A
Dates interest payable	1/1;7/1	1/1;7/1	1/1;7/1	N/A
Maturity dates	7/01/2049	7/01/2021	7/01/2033	N/A
Beginning bonds outstanding	\$ 906,000	\$ 992,000	\$ 1,965,000	\$ 3,863,000
Bonds sold during the fiscal year	-	-	-	-
Bonds retired during the fiscal year	12,000	191,000	85,000	288,000
Ending bonds outstanding	<u>\$ 894,000</u>	<u>\$ 801,000</u>	<u>\$ 1,880,000</u>	<u>\$ 3,575,000</u>
Interest paid during the fiscal year	\$ 39,638	\$ 17,062	\$ 79,738	\$ 136,437

Paying agent's name and city:

Series 2009-R

Wells Fargo Bank Texas, N.A.

Austin, Texas

Series 2013

BB&T Governmental Finance

Charlotte, North Carolina

Series 2014

Bank of Texas Corporate Trust

Austin, Texas

Bond authority:	Revenue Bonds	Refunding Bonds
Amount authorized	\$ 3,225,000	\$ 1,566,000
Amount issued	<u>3,225,000</u>	<u>1,566,000</u>
Remaining to be issued	<u>\$ -</u>	<u>\$ -</u>

Restricted cash and cash equivalent balances as of December 31, 2017, are as follows: \$683,158

Average annual debt service payment (principal and interest) for remaining term of all debt: \$159,870

**East Medina County Special Utility District**

**Comparative Schedules of Revenues and Expenses—Enterprise Fund—Five Years (Unaudited)  
Years Ended December 31,**

	Amounts				
	2017	2016	2015	2014	2013
Operating revenues:					
Water sales-net of bad debt expense	\$ 1,652,637	\$ 1,558,576	\$ 1,550,419	\$ 1,530,643	\$ 1,505,311
Late fees and reconnection charges	123,820	113,976	114,216	111,100	107,971
Customer deposits	13,423	12,924	14,397	16,253	9,484
Connection fees	126,685	99,474	146,418	161,297	80,232
Connection cost	(45,650)	(23,530)	(109,116)	(57,896)	(47,364)
Water acquisition fees	94,203	76,697	90,874	115,154	73,113
Lease income	72,225	61,727	66,475	61,500	-
<b>Total operating revenues</b>	<b>2,037,343</b>	<b>1,899,844</b>	<b>1,873,683</b>	<b>1,938,051</b>	<b>1,728,747</b>
Operating expenses:					
Salaries	475,866	501,732	468,464	445,426	380,202
Utilities	124,882	112,108	111,674	115,404	119,537
Repairs and maintenance	171,551	179,793	134,593	108,676	115,094
Vehicle expense	25,648	30,898	39,844	56,345	46,036
Insurance	97,605	106,930	105,892	95,727	84,390
Payroll taxes	37,866	34,428	42,191	34,439	31,197
Professional services	64,625	57,936	72,731	58,510	78,694
Retirement plan expense	21,220	12,082	30,938	19,867	14,845
Edwards Aquifer Authority management fee	85,711	94,410	123,099	126,499	79,985
Other administrative expenses	131,125	121,379	103,994	103,119	94,090
Depreciation	512,902	481,963	431,193	427,637	465,713
<b>Total operating expenses</b>	<b>1,749,001</b>	<b>1,733,659</b>	<b>1,664,613</b>	<b>1,591,649</b>	<b>1,509,783</b>
<b>Net operating income</b>	<b>288,342</b>	<b>166,185</b>	<b>209,070</b>	<b>346,402</b>	<b>218,964</b>
Nonoperating revenues (expenses):					
Interest income	22,868	15,368	5,556	5,672	4,779
Interest expense	(125,860)	(118,430)	(11,604)	(81,387)	(67,081)
Other income	151,986	123,693	37,041	36,287	19,816
Bond issuance cost	-	-	-	(54,785)	(27,258)
Gain (loss) on disposal of assets	12,507	11,955	-	-	(286)
<b>Total nonoperating revenues (expenses), net</b>	<b>61,501</b>	<b>32,586</b>	<b>30,993</b>	<b>(94,213)</b>	<b>(70,030)</b>
<b>Change in net position</b>	<b>\$ 349,843</b>	<b>\$ 198,771</b>	<b>\$ 240,063</b>	<b>\$ 252,189</b>	<b>\$ 148,934</b>

Percent of Total Revenues				
2017	2016	2015	2014	2013
<b>81.12</b>	82.04	82.75	78.98	87.08
<b>6.08</b>	6.00	6.10	5.73	6.25
<b>0.66</b>	0.68	0.77	0.84	0.55
<b>6.22</b>	5.24	7.81	8.32	4.64
<b>(2.24)</b>	(1.24)	(5.82)	(2.99)	(2.74)
<b>4.62</b>	4.04	4.85	5.94	4.23
<b>3.55</b>	3.25	3.55	3.17	-
<b>100.00</b>	100.00	100.00	100.00	100.00
<b>23.36</b>	26.41	25.00	22.98	21.99
<b>6.13</b>	5.90	5.96	5.95	6.91
<b>8.42</b>	9.46	7.18	5.61	6.66
<b>1.26</b>	1.63	2.13	2.91	2.66
<b>4.79</b>	5.63	5.65	4.94	4.88
<b>1.86</b>	1.81	2.25	1.78	1.80
<b>3.17</b>	3.05	3.88	3.02	4.55
<b>1.04</b>	0.64	1.65	1.03	0.86
<b>4.21</b>	4.97	6.57	6.53	4.63
<b>6.44</b>	6.39	5.55	5.32	5.44
<b>25.18</b>	25.37	23.01	22.07	26.94
<b>85.85</b>	91.25	88.84	82.13	87.33
<b>14.15</b>	8.75	11.16	17.87	12.67
<b>1.12</b>	0.81	0.30	0.29	0.28
<b>(6.18)</b>	(6.23)	(0.62)	(4.20)	(3.88)
<b>7.46</b>	6.51	1.98	1.87	1.15
<b>-</b>	-	-	(2.83)	(1.58)
<b>0.61</b>	0.63	-	-	(0.02)
<b>3.02</b>	1.72	1.65	(4.86)	(4.05)
<b>17.17</b>	10.46	12.81	13.01	8.62

**East Medina County Special Utility District**

**Schedule of Board Members, Key Administrative Personnel and Consultants (Unaudited)  
Year Ended December 31, 2017**

Complete district mailing address: East Medina County Special Utility District  
P.O. Box 628  
Devine, Texas 78016

District business telephone number: (830) 709-3879

Submission date of the most recent district registration form (TWC Sections 36.054 and 49.954): August 23, 2017

Limit on fees of office that a director may receive during a fiscal year: Zero  
(Set by board resolution—TWC Section 49.060)

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees Fiscal Year Ended 12/31/2017	Expense Reimbursements Fiscal Year Ended 12/31/2017	Title at Year-End
<b>Board Members</b>				
Roy J. Tschirhart, Jr. 2710 FM 1343 Devine, Texas 78016	(Elected) 08/15-08/18	\$ -	\$ -	Member
Timothy L. Hildenbrand P.O. Box 508 Castroville, Texas 78009	(Elected) 08/16-08/19	-	-	President
Hector De La Fuente 165 CR 5705 Devine, Texas 78016	(Elected) 08/17-08/20	-	-	Member
Barbara L. Gilliam P.O. Box 777 Castroville, Texas 78009	(Elected) 08/17-08/20	-	-	2nd Vice President
JoNell M. Tarvin 530 CR 366 Hondo, Texas 78861	(Elected) 08/17-08/20	-	-	Secretary/ Treasurer
Caroline A. Nentwich 930 CR 651 Devine, Texas 78016	(Elected) 08/15-08/18	-	-	Vice President
Richard A. Sultenfuss P.O. Box 425 Devine, Texas 78016	(Elected) 08/16-08/19	-	-	Member

(Continued)

**East Medina County Special Utility District**

**Schedule of Board Members, Key Administrative Personnel and Consultants (Unaudited) (Continued)  
Year Ended December 31, 2017**

Name and Address	Term of Office (Elected or Appointed) or Date Hired	Fees Fiscal Year Ended 12/31/2017	Expense Reimbursements Fiscal Year Ended 12/31/2017	Title at Year-End
<b>Key Administrative Personnel</b>				
Bruce Alexander 516 Vienna Castroville, Texas 78009	04/08	\$ -	\$ 294	Superintendent
Debora DuBose 607 West Coker Devine, Texas 78016	09/03	-	486	Business Manager
Christopher Fowler 3973 CR 467 Devine, Texas 78016	10/08	-	-	Field Manager/ Operator C License
<b>Consultants</b>				
Brian Cope Klein & Cope Engineering 8611 Botts Lane, Suite 101 San Antonio, Texas 78217	2014	8,840	-	Engineer
RSM US LLP 19026 Ridgewood Pkwy., Suite 400 San Antonio, Texas 78259	1998	43,600	-	Auditors
Patrick Lindner Davidson Troilo Ream & Garza, P.C. 601 N.W. Loop 410, Suite 100 San Antonio, Texas 78216	1999	9,685	-	General Counsel
Frost Capital Market Victor Quiroga, Jr. Senior Vice President 100 West Houston Street, Suite 100 San Antonio, Texas 78205	2014	2,500	-	Financial Advisors
McCall, Parkhurst & Horton, LLP Thomas K. Spurgeon 700 North St. Mary's, Suite 1525 San Antonio, Texas 78205	1988	-	-	Bond Counsel
Bickerstaff, Health, Delgado, Acosta, LLP Bill Dugat 3711 S. Mopac Expressway Building One, Suite 300 Austin, Texas 78746	2014	-	-	CCN Attorney

## East Medina County Special Utility District

### U.S. Department of Agriculture (USDA) Non-Discrimination Statement (Unaudited) Year Ended December 31, 2017

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USDA requires the District to include the following non-discrimination statement on all materials produced for public information.

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found on line at [http://www.ascr.usda.gov/complaintfiling\\_cust.html](http://www.ascr.usda.gov/complaintfiling_cust.html) and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by:

- (1) mail: U.S. Department of Agriculture  
Office of the Assistant Secretary for Civil Rights  
1400 Independence Avenue, SW  
Washington, D.C. 20250-9410;
- (2) fax: (202) 690-7442; or
- (3) email: [program.intake@usda.gov](mailto:program.intake@usda.gov).

USDA is an equal opportunity provider, employer, and lender.

## East Medina County Special Utility District

### U.S. Department of Agriculture (USDA) Non-Discrimination Statement (Unaudited) (Continued) Year Ended December 31, 2017

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#### Spanish Translation

De acuerdo con la ley federal de derechos civiles y las reglamentaciones y políticas de derechos civiles del Departamento de Agricultura de Estados Unidos (U.S. Department of Agriculture, USDA), se prohíbe al USDA, sus agencias, oficinas y empleados, e instituciones que participan o administran los programas del USDA, discriminar por motivos de raza, color, origen nacional, religión, género, identidad de género (incluidas las expresiones de género), orientación sexual, discapacidad, edad, estado civil, estado familiar/parental, ingresos derivados de un programa de asistencia pública, creencias políticas, o represalias por actividades previas sobre derechos civiles, en cualquier programa o actividad llevados a cabo o financiados por el USDA (no todas las bases se aplican a todos los programas). Las fechas límite para la presentación de remedios y denuncias varían según el programa o el incidente.

Las personas con discapacidades que requieran medios alternativos de comunicación para obtener información sobre el programa (por ej., Braille, letra grande, cinta de audio, lenguaje americano de señas, etc.) deberán comunicarse con la Agencia responsable o con el Centro TARGET del USDA al (202) 720-2600 (voz y TTY) o comunicarse con el USDA a través del Servicio Federal de Transmisiones al (800) 877-8339. Asimismo, se puede disponer de información del programa en otros idiomas además de inglés.

Para presentar una denuncia por discriminación en el programa, complete el Formulario de denuncias por discriminación en el programa del USDA, AD-3027, que se encuentra en línea en [http://www.ascr.usda.gov/complaint\\_filing\\_cust.html](http://www.ascr.usda.gov/complaint_filing_cust.html), o en cualquier oficina del USDA, o escriba una carta dirigida al USDA e incluya en la carta toda la información solicitada en el formulario. Para solicitar una copia del formulario de denuncias, llame al (866) 632-9992. Envíe su formulario completado o su carta al USDA por los siguientes medios:

- (1) correo: U.S. Department of Agriculture,  
Office of the Assistant Secretary for Civil Rights,  
1400 Independence Avenue, SW  
Washington, D.C. 20250-9410;
- (2) fax: (202) 690-7442; o
- (3) correo electrónico: [program.intake@usda.gov](mailto:program.intake@usda.gov).

El Departamento de Agricultura de Estados Unidos (USDA) es un proveedor, empleador y prestador que ofrece igualdad de oportunidades.

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