



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 21 st day of April 2020 its annual audit report for the fiscal year or period ended 2019 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: 04/27/2020

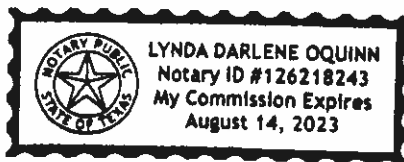
By: Debora L. DuBose
(Signature of District Representative)

Debora L. DuBose, Business Manager

(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this 27 day of April, 2020
(SEAL)

Lynda D. O'Quinn
(Signature of Notary) Medina Co



My Commission Expires On: August 14, 2023
Notary Public in the State of Texas.

East Medina County Special Utility District

**Financial Statements and Supplemental Schedules
(With Independent Auditor's Report Thereon)
December 31, 2019 and 2018**

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RSM US LLP

Independent Auditor's Report

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, 2019 and 2018, 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, 2019 and 2018, 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.

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AUDIT | TAX | CONSULTING

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 12, Schedule of Changes in Net Pension Liability (Asset) on page 46, Schedule of the District's Pension Contributions on page 47 and Notes to Required Supplementary Information on pages 48 through 50 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 financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

RSM US LLP

San Antonio, Texas
April 21, 2020

East Medina County Special Utility District

Management's Discussion and Analysis (Unaudited) December 31, 2019

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, 2019. 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 \$10,313,404 (\$10,258,149 in 2018). This amount represents net position of \$8,389,647 (\$8,142,554 in 2018) of net investment in capital assets, \$524,132 (\$524,132 in 2018) restricted for debt service and capital improvements and \$1,399,625 (\$1,591,463 in 2018) in unrestricted net position.
- The District's total assets totaled \$14,549,096 (\$13,840,913 in 2018); of this amount, \$12,466,598 (\$11,573,981 in 2018) represents net capital assets and \$1,759,518 (\$1,853,754 in 2018) represents cash and cash equivalents under both current and restricted assets.
- Deferred outflows of resources totaled \$69,840 (\$48,937 in 2018), which is the deferred charge on refunding and pension amounts.
- Liabilities for the District totaled \$4,269,222 (\$3,582,936 in 2018), of which \$2,672,000 (\$2,982,000 in 2018) accounts for obligations under long-term bonds payable.
- Deferred inflows of resources totaled \$36,310 (\$48,765 in 2018), which relate to pension amounts.
- Operating revenues for the District totaled \$2,140,366 (\$1,923,674 in 2018) and exceeded operating expenses by \$94,419 (\$711 in 2018). The major revenue source is water sales.
- Nonoperating expenses exceeded nonoperating revenues by \$39,164 in 2019. Nonoperating revenues exceeded nonoperating expenses by \$485,426 in 2018. This included interest expense that totaled \$133,914 (\$108,110 in 2018).

Overview of the financial statements: This discussion and analysis is 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 is 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, 2019

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 statements 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, 2019

Table A-1
The District's Net Position Information

| | 2019 | 2018 | 2017 | Total Percentage Change | |
|--|----------------------|----------------------|----------------------|-------------------------|--------------|
| | | | | 2019 to 2018 | 2018 to 2017 |
| Current assets | \$ 1,384,355 | \$ 1,446,350 | \$ 1,676,684 | (4.29%) | (13.74%) |
| Restricted assets | 698,143 | 694,926 | 683,158 | 0.46% | 1.72% |
| Noncurrent assets | - | 125,656 | - | 100.00% | 100.00% |
| Capital assets, net | <u>12,466,598</u> | <u>11,573,981</u> | <u>11,181,150</u> | 7.71% | 3.51% |
| Total assets | \$ 14,549,096 | \$ 13,840,913 | \$ 13,540,992 | 5.12% | 2.21% |
| Total deferred outflows of resources | <u>\$ 69,840</u> | <u>\$ 48,937</u> | <u>\$ 63,056</u> | 42.71% | (22.39%) |
| Current liabilities | \$ 404,435 | \$ 205,405 | \$ 214,715 | 96.90% | (4.34%) |
| Current liabilities payable from restricted assets | 329,009 | 322,294 | 309,556 | 2.08% | 4.11% |
| Noncurrent liabilities | <u>3,535,778</u> | <u>3,055,237</u> | <u>3,455,686</u> | 15.73% | (11.59%) |
| Total liabilities | \$ 4,269,222 | \$ 3,582,936 | \$ 3,979,957 | 19.15% | (9.98%) |
| Total deferred inflows of resources | <u>\$ 36,310</u> | <u>\$ 48,765</u> | <u>\$ 26,104</u> | (25.54%) | 86.81% |
| Net position: | | | | | |
| Net investment in capital assets | \$ 8,389,647 | \$ 8,142,554 | \$ 7,346,521 | 3.03% | 10.84% |
| Restricted for debt service | 424,132 | 424,132 | 418,802 | 0.00% | 1.27% |
| Restricted for capital improvements | 100,000 | 100,000 | 100,000 | - | - |
| Unrestricted | <u>1,399,625</u> | <u>1,591,463</u> | <u>1,732,664</u> | (12.05%) | (8.15%) |
| Total net position | \$ 10,313,404 | \$ 10,258,149 | \$ 9,597,987 | 0.54% | 6.88% |

- Current assets decreased by \$61,995, which represents a 4.29% decrease from 2018 to 2019. This is mainly due to a certificate of deposit (CD) being short-term during fiscal year-end 2018 and reaching maturity during fiscal year-end 2019. Current assets decreased by \$230,334, which represents a 13.74% decrease from 2017 to 2018. This is mainly due to a CD being long-term during fiscal year-end 2018 versus short-term in fiscal year-end 2017, as well as a receivable for construction outstanding at fiscal year-end 2017 that was paid during fiscal year 2018.
- Deferred outflows of resources increased by \$20,903, which represents a 42.71% increase from 2018 to 2019 due to pension investment gains incurred by the Texas County and District Retirement System. Deferred outflows of resources decreased by \$14,119, which represents a 22.39% decrease from 2017 to 2018 due to pension investment losses and accumulated amortization of pension investment losses incurred by the Texas County and District Retirement System.

East Medina County Special Utility District

Management's Discussion and Analysis (Unaudited) December 31, 2019

- Total liabilities increased by \$686,286, which is a 19.15% increase from 2018 to 2019. This is mainly due to a new note payable and capital lease obligation entered into during fiscal year 2019. Total liabilities decreased by \$397,021, which is a 9.98% decrease from 2017 to 2018. The decrease in 2018 and 2017 is attributable to payments on long-term bonds, note payable and the completion of construction projects.
- Deferred inflows of resources decreased by \$12,455, which represents a 25.54% decrease from 2018 to 2019. The decrease is due to the pension economic/demographic loss. Deferred inflows of resources increased by \$22,661, which represents an 86.81% increase from 2017 to 2018. The increase is due to the pension economic/demographic gain.

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).

East Medina County Special Utility District

Management's Discussion and Analysis (Unaudited)
December 31, 2019

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

| | 2019 | 2018 | 2017 | Total Percentage Change | |
|--|------------------|------------------|------------------|-------------------------|---------------|
| | | | | 2019 to 2018 | 2018 to 2017 |
| Revenues: | | | | | |
| Water sales, net of bad-debt expense | \$ 1,701,971 | \$ 1,613,625 | \$ 1,652,637 | 5.48% | (2.36%) |
| Late fees and reconnection charges | 116,351 | 133,535 | 123,820 | (12.87%) | 7.85% |
| Customer deposits | 18,686 | 14,961 | 13,423 | 24.90% | 11.46% |
| Connection fees, net of expense | 151,741 | 69,884 | 81,035 | 117.13% | (13.76%) |
| Water acquisition fees | 151,617 | 91,669 | 94,203 | 65.40% | (2.69%) |
| Interest income | 43,699 | 43,678 | 22,868 | 0.05% | 91.00% |
| Gain on sale of asset | - | - | 12,507 | 0.00% | (100.00%) |
| Other income | 26,448 | 477,633 | 151,986 | (94.46%) | 214.26% |
| Lease income | 26,325 | 72,225 | 72,225 | (0.6) | 0.00% |
| Capital contributions | - | 174,025 | - | 100.00% | - |
| Total revenues | 2,236,838 | 2,691,235 | 2,224,704 | (16.88%) | 20.97% |
| Expenses: | | | | | |
| Salaries | 611,558 | 538,175 | 475,866 | 13.64% | 13.09% |
| Utilities | 145,554 | 130,135 | 124,882 | 11.85% | 4.21% |
| Repairs and maintenance | 208,619 | 180,954 | 171,551 | 15.29% | 5.48% |
| Vehicle expense | 51,644 | 43,308 | 25,648 | 19.25% | 68.86% |
| Insurance | 103,621 | 90,151 | 97,605 | 14.94% | (7.64%) |
| Payroll taxes | 52,937 | 41,747 | 37,866 | 26.80% | 10.25% |
| Professional services | 98,932 | 108,842 | 64,625 | (9.10%) | 68.42% |
| Retirement plan expense | 21,958 | 21,803 | 21,220 | 0.71% | 2.75% |
| Edwards Aquifer Authority management fee | 101,789 | 99,154 | 85,711 | 2.66% | 15.68% |
| Other administrative expenses | 165,695 | 131,631 | 131,125 | 25.88% | 0.39% |
| Depreciation | 483,640 | 537,063 | 512,902 | (9.95%) | 4.71% |
| Loss on sale of asset | 1,722 | - | - | 100.00% | 0.00% |
| Interest expense | 133,914 | 108,110 | 125,860 | 23.87% | (14.10%) |
| Total expenses | 2,181,583 | 2,031,073 | 1,874,861 | 7.41% | 8.33% |
| Change in net position | 55,255 | 660,162 | 349,843 | (91.63%) | 88.70% |
| Net position at beginning of year | 10,258,149 | 9,597,987 | 9,248,144 | 6.88% | 3.78% |
| Net position at end of year | \$ 10,313,404 | \$ 10,258,149 | \$ 9,597,987 | 0.54% | 6.88% |

Financial Analysis

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

- Total revenues decreased by \$454,397, or 16.88%, from 2018 to 2019, and increased by \$466,531, or 20.97% from 2017 to 2018, due to a fluctuations in other income and capital contributions.
- Other income revenues decreased by \$451,185, or 94.46%, from 2018 to 2019 and increased by \$325,647, due to the Southwest Gulf Railroad Agreement, which was completed during fiscal year 2018.

East Medina County Special Utility District

**Management's Discussion and Analysis (Unaudited)
December 31, 2019**

- Capital contributions decreased by \$174,025 from 2018 to 2019 and increased by \$174,025 from 2017 to 2018, because of development agreements that were entered into during fiscal year 2018 that resulted in construction costs being reimbursed were completed in 2018.
- Total expenses increased by \$150,510, or 7.41%, from 2018 to 2019, primarily due to increased salaries, repairs and maintenance and other administrative expenses. Total expenses increased by \$156,212, or 8.33%, from 2017 to 2018, primarily due to increased salaries, professional services, vehicle expense and depreciation expense.

Capital Assets and Debt Administration

Capital assets: The District's investment in capital assets totaled \$12,466,598 (\$11,573,981 in 2018). This investment in capital assets includes land, land improvements, water allotments, construction in progress, buildings, building improvements, machinery and equipment and plants and distribution system. Capital assets of the District were 85.69% (83.62% in 2018) 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**

| | 2019 | 2018 | 2017 | Total Percentage Change | |
|-----------------------------------|----------------------|----------------------|----------------------|-------------------------|--------------|
| | | | | 2019 to 2018 | 2018 to 2017 |
| Land | \$ 61,599 | \$ 61,599 | \$ 61,599 | 0.00% | 0.00% |
| Land improvements | 8,376 | 8,376 | 8,376 | 0.00% | 100.00% |
| Water allotments | 2,790,543 | 1,958,350 | 1,958,350 | 42.49% | 0.00% |
| Water allotments—leased to others | 693,975 | 956,475 | 956,475 | (27.44%) | 0.00% |
| Construction in progress | 74,833 | 46,885 | 119,432 | 59.61% | (60.74%) |
| Buildings | 362,557 | 388,840 | 388,840 | (6.76%) | 0.00% |
| Building improvements | 35,863 | 31,080 | - | 15.39% | 0.00% |
| Machinery and equipment | 1,416,003 | 805,052 | 671,372 | 75.89% | 19.91% |
| Plants and distribution system | 15,597,991 | 15,466,126 | 14,628,445 | 0.85% | 5.73% |
| | <u>21,041,740</u> | <u>19,722,783</u> | <u>18,792,889</u> | 6.69% | 4.95% |
| Less accumulated depreciation | <u>(8,575,142)</u> | <u>(8,148,802)</u> | <u>(7,611,739)</u> | 5.23% | 7.06% |
| | <u>\$ 12,466,598</u> | <u>\$ 11,573,981</u> | <u>\$ 11,181,150</u> | 7.71% | 3.51% |

East Medina County Special Utility District

**Management’s Discussion and Analysis (Unaudited)
December 31, 2019**

Long-term debt: The District had \$2,982,000 (\$3,285,000 in 2018) 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**

| | 2019 | 2018 | 2017 | Total Percentage Change | |
|---|---------------------|---------------------|---------------------|-------------------------|--------------|
| | | | | 2019 to 2018 | 2018 to 2017 |
| Bonds payable | \$ 2,982,000 | \$ 3,285,000 | \$ 3,575,000 | (9.22%) | (8.11%) |
| Notes payable, net of unamortized discount | 528,477 | 151,987 | 227,981 | 247.71% | (33.33%) |
| Capital lease obligation | 570,180 | - | - | 100.00% | 0.00% |
| Total long-term debt—including current maturities | <u>\$ 4,080,657</u> | <u>\$ 3,436,987</u> | <u>\$ 3,802,981</u> | 18.73% | (9.62%) |

Economic Factors and Next Year’s Budget

District staff will present an updated Capital Improvement Plan (CIP) to the Operations Committee and Board of Directors for review and approval in early 2020. Following Board approval of the updated CIP, a package of projects will be submitted to the Texas Commission on Environmental Quality for construction and funding approval. The approval process is scheduled to be completed by the end of 2020. Following approval, the projects are anticipated to be funded through bonds issued in early 2021.

The District will retire bond debt originally issued in 2001 to fund elevated storage tanks and more than 20 miles of system improvements in 2021. The Board of Directors (the Board) will be asked to consider the issuance of up to \$5 million in new debt in late 2020 to support the CIP.

The District will continue to lease water rights for a payment of \$16,725 for 300-acre feet of water entered into the Edwards Aquifer Authority (EAA) Voluntary Irrigation Suspension Program Option (VISPO) component of the Edwards Aquifer Habitat Conservation Program (HCP) in 2020.

The District will receive a payment of \$9,600 from EAA in 2020 for the annual payment associated with the remainder of a seven-year lease for 60-acre feet of water in the Aquifer Storage and Recovery (ASR) Program.

The District will receive a payment of \$10,000 from EAA beginning in 2020 for 100-acre feet of water leased to EAA for the ASR Program.

The District will receive a payment of \$10,000 from Atascosa Rural Water Supply Corporation (ARWSC) for the lease of 100-acre feet of water in 2020.

The District will make the final payment for the purchase of 60-acre feet of unrestricted water rights on January 1, 2020. The District will make the second of five payments for the purchase of 118.071 acre-feet of unrestricted water rights in 2020. Each of these purchases were funded through the collection of water acquisition fees assessed to each new account.

The District increased the monthly service availability charge for each account and water usage rates to be effective on all services billed on January 1, 2020 for water usage in December 2019. This increase is designed to replace revenues from lost leases of water rights, the water tower lease for internet antennas and to support increases in the cost of providing service, maintaining regulatory compliance and to support new debt required to convert the District to radio-read meters.

East Medina County Special Utility District

Management's Discussion and Analysis (Unaudited) December 31, 2019

The District completed the District-wide conversion to radio-read meters in late 2019. The completion of this project was funded through a \$600,000 10-year installment loan approved by the Board in June 2019. The District fully converted to a new billing system in late 2019 that will permit customer online access to their accounts for review and payment of monthly service charges. Staff will begin using electronic work orders to better track customer service issues in early 2020.

The District will take action to change primary banks for daily business transactions (checking account) in early 2020. The move will be from Security Bank to Security State Bank, both with branch offices in Devine, Texas.

The District will enter into an agreement with the Medina County Elections Department to manage future elections for the District. The District will make required improvements to the auxiliary office building to ensure American Disability Act compliance for elections and classroom training programs for District staff.

The District will continue to work with the Medina County Emergency Services District (MCESD) to provide flush valves in the Natalia Volunteer Fire Department service area to improve fire protection in the rural areas of Natalia served by the District by upgrading locations where fire trucks can be filled for fighting fires. Funding for the required materials needed for designated truck fill locations has been requested through the MCESD. A new fire station has been established at FM 463 and CR 570 with water service provided by the District.

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. Construction of this interconnect is pending funding by the City of Natalia. The District has no financial obligation for the costs associated with the construction of this emergency interconnect.

District staff will work with the District Engineer and ARWSC to develop an Emergency Interconnect Agreement at the request of ARWSC.

District staff will continue to work in 2020 to resolve issues of concern with the Yancey Water Supply Corporation (YWSC) amendment request to establish certificate of convenience and necessity service boundaries with the District. The District is an intervening party to the application currently before the Public Utility Commission of Texas.

The District will continue to 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 has established a leadership succession plan for key staff members.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, customers 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.

Basic Financial Statements

East Medina County Special Utility District

Statements of Net Position
December 31, 2019 and 2018

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Assets and Deferred Outflows of Resources | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,061,375 | \$ 1,158,828 |
| Certificates of deposit | 109,556 | 101,194 |
| Accounts receivable, net of allowance of \$5,000 for 2019 and 2018 | 164,985 | 135,152 |
| Inventory | 48,439 | 51,176 |
| Total current assets | 1,384,355 | 1,446,350 |
| Noncurrent assets: | | |
| Restricted cash equivalents—revenue bond covenant accounts | 698,143 | 694,926 |
| Net pension asset | - | 18,039 |
| Certificate of deposit | - | 107,617 |
| | 698,143 | 820,582 |
| Capital assets: | | |
| Land | 61,599 | 61,599 |
| Land improvements | 8,376 | 8,376 |
| Water allotments | 2,790,543 | 1,958,350 |
| Water allotments—leased to others | 693,975 | 956,475 |
| Buildings | 362,557 | 388,840 |
| Building improvements | 35,863 | 31,080 |
| Machinery and equipment | 1,416,003 | 805,052 |
| Plants and distribution system | 15,597,991 | 15,466,126 |
| Less accumulated depreciation | (8,575,142) | (8,148,802) |
| | 12,391,765 | 11,527,096 |
| Construction in progress | 74,833 | 46,885 |
| Net capital assets | 12,466,598 | 11,573,981 |
| Total noncurrent assets | 13,164,741 | 12,394,563 |
| Total assets | 14,549,096 | 13,840,913 |
| Deferred outflows of resources: | | |
| Deferred charge on refunding | 3,706 | 5,560 |
| Pension amounts | 66,134 | 43,377 |
| Total deferred outflows of resources | 69,840 | 48,937 |
| Total assets and deferred outflows of resources | \$ 14,618,936 | \$ 13,889,850 |

See accompanying notes to financial statements.

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Liabilities, Deferred Inflows of Resources and Net Position | | |
| Current liabilities: | | |
| Accounts payable | \$ 49,883 | \$ 20,460 |
| Accrued liabilities | 61,486 | 44,655 |
| Due to customers | 46,668 | 61,540 |
| Current portion of capital lease obligation | 52,333 | - |
| Notes payable net of unamortized discount, current portion | 194,065 | 78,750 |
| Total current liabilities | 404,435 | 205,405 |
| Current liabilities payable from restricted assets: | | |
| Interest payable | 19,009 | 19,294 |
| Current maturities of long-term bond payable | 310,000 | 303,000 |
| Total current liabilities payable from restricted assets | 329,009 | 322,294 |
| Noncurrent liabilities: | | |
| Long-term bond payable, net of current maturities | 2,672,000 | 2,982,000 |
| Long-term portion of capital lease obligation | 517,847 | - |
| Notes payable net of unamortized discount, long-term portion | 334,412 | 73,237 |
| Net pension liability | 11,519 | - |
| Total noncurrent liabilities | 3,535,778 | 3,055,237 |
| Total liabilities | 4,269,222 | 3,582,936 |
| Deferred inflows of resources: | | |
| Pension amounts | 36,310 | 48,765 |
| Total deferred inflows of resources | 36,310 | 48,765 |
| Total liabilities and deferred inflows of resources | 4,305,532 | 3,631,701 |
| Net position: | | |
| Net investment in capital assets | 8,389,647 | 8,142,554 |
| Restricted for debt service | 424,132 | 424,132 |
| Restricted for capital improvements | 100,000 | 100,000 |
| Unrestricted | 1,399,625 | 1,591,463 |
| Total net position | 10,313,404 | 10,258,149 |
| Total liabilities, deferred inflows of resources and net position | \$ 14,618,936 | \$ 13,889,850 |

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East Medina County Special Utility District

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Water sales, net of bad-debt expense of \$5,326 (\$3,218 in 2018) | \$ 1,701,971 | \$ 1,613,625 |
| Late fees and reconnection charges | 116,351 | 133,535 |
| Customer deposits | 18,686 | 14,961 |
| Connection fees, net of expense | 151,741 | 69,884 |
| Water acquisition fees | 151,617 | 91,669 |
| Total operating revenues | 2,140,366 | 1,923,674 |
| Operating expenses: | | |
| Salaries | 611,558 | 538,175 |
| Utilities | 145,554 | 130,135 |
| Repairs and maintenance | 208,619 | 180,954 |
| Vehicle expense | 51,644 | 43,308 |
| Insurance | 103,621 | 90,151 |
| Payroll taxes | 52,937 | 41,747 |
| Professional services | 98,932 | 108,842 |
| Retirement plan expense | 21,958 | 21,803 |
| Edwards Aquifer Authority management fee | 101,789 | 99,154 |
| Other administrative expenses | 165,695 | 131,631 |
| Depreciation | 483,640 | 537,063 |
| Total operating expenses | 2,045,947 | 1,922,963 |
| Net operating income | 94,419 | 711 |
| Nonoperating revenues (expenses): | | |
| Interest income | 43,699 | 43,678 |
| Loss on sale of asset | (1,722) | - |
| Other income | 26,448 | 477,633 |
| Lease income | 26,325 | 72,225 |
| Interest expense | (133,914) | (108,110) |
| Total nonoperating revenues (expenses), net | (39,164) | 485,426 |
| Increase in net position, before capital contributions | 55,255 | 486,137 |
| Capital contributions | - | 174,025 |
| Change in net position | 55,255 | 660,162 |
| Net position at beginning of year | 10,258,149 | 9,597,987 |
| Net position at end of year | \$ 10,313,404 | \$ 10,258,149 |

See accompanying notes to financial statements.

East Medina County Special Utility District

**Statements of Cash Flows
Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 2,095,661 | \$ 1,929,107 |
| Cash paid to employees | (764,601) | (664,385) |
| Cash paid to suppliers | (777,407) | (731,094) |
| Net cash provided by operating activities | 553,653 | 533,628 |
| Cash flows from capital and related financing activities: | | |
| Principal payments on bonds | (303,000) | (290,000) |
| Proceeds from equipment lease/purchase agreement | 600,000 | - |
| Notes payable payments | (196,821) | (78,750) |
| Payments on capital lease obligation | (29,820) | - |
| Purchase of capital assets | (631,915) | (164,760) |
| Upgrade to water distribution system | (119,750) | (305,507) |
| Construction of capital assets | (27,948) | (438,160) |
| Proceeds from sale of assets | 4,800 | - |
| Capital contributions | - | 187,000 |
| Proceeds from leases | 26,325 | 72,225 |
| Proceeds from water tower | - | 46,670 |
| Proceeds from other income | 15,872 | - |
| Reimbursement agreement—railroad | - | 499,337 |
| Interest paid | (132,345) | (127,985) |
| Net cash used in capital and related financing activities | (794,602) | (599,930) |
| Cash flows from investing activities: | | |
| Certificate of deposit maturities | 103,014 | 110,092 |
| Purchase of certificates of deposit | - | (100,000) |
| Interest received | 43,699 | 43,678 |
| Net cash provided by investing activities | 146,713 | 53,770 |
| Net decrease in cash and cash equivalents | (94,236) | (12,532) |
| Cash and cash equivalents at beginning of year | 1,853,754 | 1,866,286 |
| Cash and cash equivalents at end of year—including restricted cash equivalents of \$698,143 (\$694,926 in 2018) | \$ 1,759,518 | \$ 1,853,754 |

(Continued)

East Medina County Special Utility District

**Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Net operating income | \$ 94,419 | \$ 711 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Depreciation | 483,640 | 537,063 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (29,833) | 270 |
| (Increase) decrease in inventory | 2,737 | (16,625) |
| (Increase) decrease in deferred outflows—pension | (22,757) | 12,265 |
| Increase in payables | 29,423 | 12,363 |
| (Decrease) increase in accrued liabilities | 16,831 | (749) |
| (Decrease) increase in due to customers | (14,872) | 5,163 |
| Decrease (increase) in net pension asset/liability | 6,520 | (39,494) |
| Increase (decrease) in deferred inflows—pension | (12,455) | 22,661 |
| Net cash provided by operating activities | \$ 553,653 | \$ 533,628 |
| Supplemental disclosures of cash flow information: | | |
| Purchase of water rights with note payable | \$ 590,355 | \$ - |

See accompanying notes to financial statements.

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East Medina County Special Utility District

Notes to Financial Statements

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 (U.S. 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 statements 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 \$153,334 and \$118,476 for fiscal years 2019 and 2018, respectively. Effective December 1, 2019, all customers had an automatic meter reader (AMR) installed. AMR is the technology of automatically collecting water usage, diagnostic and status data from water meter and transferring that data to a central database for billing, troubleshooting and analyzing. The unbilled amounts for these customers is also included as part of the unbilled water sales total at year-end.

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.

East Medina County Special Utility District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital contributions: Capital contributions consist of reimbursements from developers for the construction and extension of the water system to provide potable water. Capital contributions are recognized in the statements of revenues, expenses and changes in net position, after total nonoperating revenues (expenses), when the related construction is incurred.

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 accordance with U.S. 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). Inventory includes 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 improvements—10 years; buildings—8 to 40 years; building improvements—25 years; machinery and equipment—3 to 20 years and plants and distribution system—5 to 50 years.

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

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, 2019 and 2018, totaled \$25,459 and \$22,446, respectively, and is included in accrued liabilities. Sick leave does not vest or 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 its 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 | |
|---|---------------------|---------------------|
| | 2019 | 2018 |
| Total capital assets, net of accumulated depreciation | \$ 12,466,598 | \$ 11,573,981 |
| Total long-term bonds payable | (2,982,000) | (3,285,000) |
| Deferred charge on refunding | 3,706 | 5,560 |
| Notes payable—water rights | (528,477) | (151,987) |
| Capital lease obligation | (570,180) | - |
| Net investment in capital assets | <u>\$ 8,389,647</u> | <u>\$ 8,142,554</u> |

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 asset/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 net 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

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 asset/liability that is not immediately recognized in pension expense.

Current Year GASB Implementations: GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*, issued March 2018. GASB Statement No. 88 clarifies which liabilities governments should include in their note disclosures related to debt. This statement defines debt that must be disclosed in the notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Governments must also disclose amounts of unused lines of credit, assets pledged as collateral for debt and the terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with finance-related consequences and subjective acceleration clauses. Within the notes, governments should separate information regarding direct borrowings and direct placements of debt from other debt. The District has implemented GASB Statement No. 88 for fiscal year ended December 31, 2019; however, other than enhanced disclosures in Note 5, there was no impact to the financial statements from the adoption of this pronouncement.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, issued June 2018, will be effective for the District beginning with its fiscal year ending December 31, 2020. However, the District elected to early adopt this statement with its fiscal year ended December 31, 2019. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

Future GASB Statement implementations: GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the District beginning with its fiscal year ending December 31, 2020, 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. The 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.

GASB Statement No. 92, *Omnibus 2020*, issued January 2020, will be effective for the District beginning with its fiscal year ending December 31, 2021. This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics and includes specific provision about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports

East Medina County Special Utility District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

Management is currently evaluating the impact, if any, on these pronouncements.

Note 2. Cash, Cash Equivalents and CDs

Cash and cash equivalents: The funds of the District must be deposited under the terms and contents of which are set out in the Texas Water Code No. 49.156. 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, 2019 and 2018, the carrying amount of the District's deposits was \$126,647 and \$107,420, respectively, and the bank balance was \$132,823 and \$139,548, respectively. The District also had \$700 in petty cash at December 31, 2019 and 2018. The District's cash deposits at December 31, 2019 and 2018, were entirely covered by FDIC insurance; except for one month during the fiscal year ended December 31, 2018, in which the District's deposit balance exceeded the FDIC insurance coverage by \$1,000. Subsequent to year-end 2018, the bank pledged one municipal security as collateral against the District's cash deposits.

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 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.

East Medina County Special Utility District

Notes to Financial Statements

Note 2. Cash, Cash Equivalents and CDs (Continued)

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) 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 PFIA. 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 & 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 fund seeks to maintain a net asset value (NAV) of \$1.00 per unit. The maximum final stated maturity is 397 days. Withdrawals from LOGIC 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, LOGIC 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 \$1,530,577 in 2019 and \$1,643,908 in 2018.

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 and totaled \$101,594 and \$101,726 as of December 31, 2019 and 2018, respectively.

Fair value measurements: The District categorizes its investments measured at fair value within the hierarchy established by U.S. GAAP. Investments valued at fair value are categorized based on inputs to valuation techniques as follows:

Level 1 input: Quoted prices for identical assets or liabilities in an active market that an entity has the ability to access.

Level 2 input: Quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 input: Inputs that are unobservable for the asset or liability which are typically based upon the District's own assumptions as there is little, if any, related market activity.

East Medina County Special Utility District

Notes to Financial Statements

Note 2. Cash, Cash Equivalents and CDs (Continued)

Hierarchy: The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Inputs: If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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 that have no stated maturity date; therefore, the funds are always available to meet operational needs.

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:

| Description | Maturity | Days of Maturity | NAV as of December 31 | |
|-------------------------|----------|------------------|-----------------------|------------|
| | | | 2019 | 2018 |
| TexSTAR investment fund | N/A | Daily | \$ 101,594 | \$ 101,726 |
| Total investments | | | \$ 101,594 | \$ 101,726 |

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 investments or collateral securities that are in the possession of an outside party. The District's investments held at TexSTAR and LOGIC are not exposed to custodial credit risk as of December 31, 2019 and 2018.

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 | 2019 | | 2018 | |
|-------------------------|----------------------|-------------------|---------------------|------------|------------------|------------|------------------|
| | | | | NAV | Percent Invested | NAV | Percent Invested |
| TexSTAR investment fund | AAA | AAAm | Standard & Poor's | \$ 101,594 | 100.00% | \$ 101,726 | 100.00% |
| Total investments | | | | \$ 101,594 | 100.00% | \$ 101,726 | 100.00% |

CDs: The District also invests in CDs. As of December 31, 2019, the District had one CD, which is participating and earning an interest rate of 1.79%. The CD is measured at fair value and classified as a Level 1 investment and matures on March 21, 2020, with a balance of \$109,556 and \$107,617 as of December 31, 2019 and 2018. The District also invested in a second CD, which was nonparticipating and earned an interest rate of 2.37%. The CD was carried at amortized cost and matured on September 22, 2019. The balance as of the CD as of December 31, 2018 was \$101,194.

East Medina County Special Utility District

Notes to Financial Statements

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, 2019 and 2018, the balance of the fund totaled \$174,011 and \$170,794, respectively.

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, 2019 and 2018, the balance of the fund totaled \$424,132.

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, 2019 and 2018, totaled \$100,000.

Components of restricted cash equivalents are as follows:

| | December 31 | |
|--------------------------------------|-------------------|-------------------|
| | 2019 | 2018 |
| Restricted for debt service: | | |
| Bond Interest and Sinking Fund | \$ 174,011 | \$ 170,794 |
| Reserve Fund | 424,132 | 424,132 |
| | <u>598,143</u> | <u>594,926</u> |
| Restricted for capital improvements: | | |
| Capital Improvements Fund—2009 Bonds | 100,000 | 100,000 |
| Total restricted cash equivalents | <u>\$ 698,143</u> | <u>\$ 694,926</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, 2019:

| | Balance at January 1, 2019 | Additions | Deletions | Transfers | Balance at December 31, 2019 |
|---|----------------------------------|-------------------|-------------------|-------------|------------------------------------|
| Capital assets not depreciated: | | | | | |
| Land | \$ 61,599 | \$ - | \$ - | \$ - | \$ 61,599 |
| Water allotments | 1,958,350 | 569,693 | - | 262,500 | 2,790,543 |
| Water allotments—leased to others | 956,475 | - | - | (262,500) | 693,975 |
| Construction in progress | 46,885 | 27,948 | - | - | 74,833 |
| Total capital assets not depreciated | 3,023,309 | 597,641 | - | - | 3,620,950 |
| Capital assets being depreciated | | | | | |
| Land improvements | 8,376 | - | - | - | 8,376 |
| Buildings | 388,840 | - | - | (26,283) | 362,557 |
| Building improvements | 31,080 | 4,783 | - | - | 35,863 |
| Machinery and equipment | 805,052 | 660,606 | (63,823) | 14,168 | 1,416,003 |
| Plants and distribution system | 15,466,126 | 119,750 | - | 12,115 | 15,597,991 |
| Total capital assets being depreciated | 16,699,474 | 785,139 | (63,823) | - | 17,420,790 |
| Accumulated depreciation: | | | | | |
| Land improvements | (1,910) | (838) | - | - | (2,748) |
| Buildings | (185,139) | (8,637) | - | - | (193,776) |
| Building improvements | (287) | (2,910) | - | - | (3,197) |
| Machinery and equipment | (408,737) | (88,261) | 57,300 | - | (439,698) |
| Plants and distribution system | (7,552,729) | (382,994) | - | - | (7,935,723) |
| Total accumulated depreciation | (8,148,802) | (483,640) | 57,300 | - | (8,575,142) |
| Total depreciable assets, net | 8,550,672 | 301,499 | (6,523) | - | 8,845,648 |
| Total capital assets, net | \$ 11,573,981 | \$ 899,140 | \$ (6,523) | \$ - | \$ 12,466,598 |

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, 2018:

| | Balance at January 1, 2018 | Additions | Deletions | Transfers | Balance at December 31, 2018 |
|---|----------------------------------|-------------------|-------------|------------------|------------------------------------|
| Capital assets not depreciated: | | | | | |
| Land | \$ 61,599 | \$ - | \$ - | \$ - | \$ 61,599 |
| Water allotments | 1,958,350 | - | - | - | 1,958,350 |
| Water allotments—leased to others | 956,475 | - | - | - | 956,475 |
| Construction in progress | 119,432 | 438,160 | - | (510,707) | 46,885 |
| Total capital assets not depreciated | 3,095,856 | 438,160 | - | (510,707) | 3,023,309 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 8,376 | - | - | - | 8,376 |
| Buildings | 388,840 | - | - | - | 388,840 |
| Building improvements | - | 31,080 | - | - | 31,080 |
| Machinery and equipment | 671,372 | 133,680 | - | - | 805,052 |
| Plants and distribution system | 14,628,445 | 326,974 | - | 510,707 | 15,466,126 |
| Total capital assets being depreciated | 15,697,033 | 491,734 | - | 510,707 | 16,699,474 |
| Accumulated depreciation: | | | | | |
| Land improvements | (698) | (1,212) | - | - | (1,910) |
| Buildings | (176,407) | (8,732) | - | - | (185,139) |
| Building improvements | - | (287) | - | - | (287) |
| Machinery and equipment | (342,799) | (65,938) | - | - | (408,737) |
| Plants and distribution system | (7,091,835) | (460,894) | - | - | (7,552,729) |
| Total accumulated depreciation | (7,611,739) | (537,063) | - | - | (8,148,802) |
| Total depreciable assets, net | 8,085,294 | (45,329) | - | 510,707 | 8,550,672 |
| Total capital assets, net | \$ 11,181,150 | \$ 392,831 | \$ - | \$ - | \$ 11,573,981 |

Depreciation expense for the years ended December 31, 2019 and 2018, totaled \$483,640 and \$537,063, respectively.

Note 5. Long-Term Bonds Payable

The following is a summary of bond transactions for fiscal year 2019:

| Bonds | Interest Rates | Original Issue | Balance at January 1, 2019 | Additions | Deductions | Balance at December 31, 2019 | Payable Within One Year |
|---------------|----------------|----------------|----------------------------|-------------|-------------------|------------------------------|-------------------------|
| Series 2009-R | 4.375% | \$ 975,000 | \$ 882,000 | \$ - | \$ 13,000 | \$ 869,000 | \$ 14,000 |
| Series 2013 | 1.720% | 1,566,000 | 608,000 | - | 200,000 | 408,000 | 201,000 |
| Series 2014 | 3.250%-4.500% | 2,250,000 | 1,795,000 | - | 90,000 | 1,705,000 | 95,000 |
| | | | \$ 3,285,000 | \$ - | \$ 303,000 | \$ 2,982,000 | \$ 310,000 |

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 2018:

| Bonds | Interest Rates | Original Issue | Balance at January 1, 2018 | Additions | Deductions | Balance at December 31, 2018 | Payable Within One Year |
|---------------|----------------|----------------|----------------------------|-------------|-------------------|------------------------------|-------------------------|
| Series 2009-R | 4.375% | \$ 975,000 | \$ 894,000 | \$ - | \$ 12,000 | \$ 882,000 | \$ 13,000 |
| Series 2013 | 1.720% | 1,566,000 | 801,000 | - | 193,000 | 608,000 | 200,000 |
| Series 2014 | 3.250%-4.500% | 2,250,000 | 1,880,000 | - | 85,000 | 1,795,000 | 90,000 |
| | | | <u>\$ 3,575,000</u> | <u>\$ -</u> | <u>\$ 290,000</u> | <u>\$ 3,285,000</u> | <u>\$ 303,000</u> |

Long-term bonds payable is as follows:

| | December 31 | |
|---|---------------------|---------------------|
| | 2019 | 2018 |
| \$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% | \$ 869,000 | \$ 882,000 |
| \$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% | 408,000 | 608,000 |
| \$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% | 1,705,000 | 1,795,000 |
| | <u>2,982,000</u> | <u>3,285,000</u> |
| Less current maturities | 310,000 | 303,000 |
| | <u>\$ 2,672,000</u> | <u>\$ 2,982,000</u> |

In 2009, the District was approved for a Rural Development loan from the United States Department of Agriculture (USDA) Rural Development Office. The USDA Rural Development Office funded the loan through the issuance of a direct borrowing 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 at December 31, 2019 and 2018, totaled \$869,000 and \$882,000, respectively.

On April 9, 2013, the District issued a direct borrowing in the amount of \$1,566,000 in Waterworks System Revenue Refunding Bonds, Series 2013 with an interest rate of 1.72%. The bonds were issued to refund \$1,685,000 in Waterworks System Revenue Bonds, Series 2001, which had interest rates of 3.20% to 3.70%. 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, 2019 and 2018, totaled \$408,000 and \$608,000, respectively.

On January 7, 2014, the District issued a public sale of \$2,250,000 in Waterworks System Revenue Refunding Bonds, Series 2014 with interest rates of 3.25% to 4.50%, with an overall average rate of 4.04%. The balance at December 31, 2019 and 2018, totaled \$1,705,000 and \$1,795,000, 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 collateral for the bonds are the pledged revenues of the system. 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. Additionally, the bonds do not include accelerated payment clauses.

Aggregate maturities of the bonds outstanding at December 31, 2019, are as follows:

| Years ending December 31: | Principal | Interest | Total |
|---------------------------|---------------------|---------------------|---------------------|
| 2020 | \$ 310,000 | \$ 113,074 | \$ 423,074 |
| 2021 | 316,000 | 104,729 | 420,729 |
| 2022 | 115,000 | 96,281 | 211,281 |
| 2023 | 121,000 | 91,125 | 212,125 |
| 2024 | 126,000 | 87,013 | 213,013 |
| 2025-2029 | 700,000 | 365,306 | 1,065,306 |
| 2030-2034 | 715,000 | 208,819 | 923,819 |
| 2035-2039 | 150,000 | 114,144 | 264,144 |
| 2040-2044 | 190,000 | 78,094 | 268,094 |
| 2045-2049 | 239,000 | 32,331 | 271,331 |
| | <u>\$ 2,982,000</u> | <u>\$ 1,290,916</u> | <u>\$ 4,272,916</u> |

Note 6. Notes Payable

The following is a summary of notes payable transactions for fiscal year 2019:

| Notes Payable | Interest Rates | Original Issue | Balance at January 1, 2019 | Additions | Deductions | Balance at December 31, 2019 | Payable Within One Year |
|--------------------------|----------------|----------------|----------------------------|-------------------|-------------------|------------------------------|-------------------------|
| Water Rights-60 acre ft | 3.500% | \$ 315,000 | \$ 157,500 | \$ - | \$ 78,750 | \$ 78,750 | \$ 78,750 |
| Water Rights-118 acre ft | 3.500% | 590,355 | - | 590,355 | 118,071 | 472,284 | 118,071 |
| | | | <u>\$ 157,500</u> | <u>\$ 590,355</u> | <u>\$ 196,821</u> | <u>\$ 551,034</u> | <u>\$ 196,821</u> |

The following is a summary of a note payable transaction for fiscal year 2018:

| Note Payable | Interest Rates | Original Issue | Balance at January 1, 2018 | Additions | Deductions | Balance at December 31, 2018 | Payable Within One Year |
|-------------------------|----------------|----------------|----------------------------|-------------|------------------|------------------------------|-------------------------|
| Water Rights-60 acre ft | 3.500% | \$ 315,000 | \$ 236,250 | \$ - | \$ 78,750 | \$ 157,500 | \$ 78,750 |
| | | | <u>\$ 236,250</u> | <u>\$ -</u> | <u>\$ 78,750</u> | <u>\$ 157,500</u> | <u>\$ 78,750</u> |

East Medina County Special Utility District

Notes to Financial Statements

Note 6. Notes Payable (Continued)

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 8. 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 discount of \$11,025, imputed at a rate of 3.5%. At December 31, 2019 and 2018, the carrying value of this note payable, net of the unamortized discount of \$2,756 and \$5,513, is \$75,994 and \$151,987, respectively.

The District issued a note payable on November 1, 2019, with a face amount of \$590,355 for the acquisition of water rights. The balance of this note payable is due in annual installments of \$118,071 over a five-year period beginning November 1, 2019. This note is noninterest-bearing and has been recorded, net of discount of \$20,662, imputed at a rate of 3.5%. At December 31, 2019, the carrying value of this note payable, net of the unamortized discount of \$19,801, is \$452,483.

Aggregate maturities required on long-term debt at December 31, 2019, were as follows:

| | <u>Principal</u> |
|--|--------------------------|
| Years ending December 31: | |
| 2020 | \$ 196,821 |
| 2021 | 118,071 |
| 2022 | 118,071 |
| 2023 | <u>118,071</u> |
| | 551,034 |
| Less amount of unamortized discount on notes payable | <u>(22,557)</u> |
| Total notes payable, net of unamortized discount | <u><u>\$ 528,477</u></u> |

Note 7. Leases

Capital lease: The District entered into a Municipal Equipment Lease/Purchase Agreement with a bank on June 20, 2019, with a face amount of \$600,000 for the acquisition of water systems equipment. This agreement is recorded as a capitalized lease obligation in the accompanying financial statements. The balance of this capitalized lease obligation is due in monthly installments over a 10-year period beginning July 10, 2019. This obligation is interest-bearing at a rate of 3.31%. At December 31, 2019, the carrying value of this obligation, is \$570,180.

The following is a summary of leased property under capital lease, by major class, included in capital assets in the accompanying statements of net position:

| | <u>December 31</u> | |
|--|--------------------|-------------|
| | <u>2019</u> | <u>2018</u> |
| Equipment—automatic meter reading (AMRs) | \$ 498,753 | \$ - |
| Less accumulated depreciation | (10,526) | - |
| Net equipment | <u>\$ 488,227</u> | <u>\$ -</u> |

Depreciation on leased equipment under the capital lease is included in depreciation expense in the accompanying statement of revenues, expenses and changes in net position.

East Medina County Special Utility District

Notes to Financial Statements

Note 7. Leases (Continued)

Operating lease: The District leases copier equipment pursuant to noncancelable operating lease agreement expiring through 2022.

Future minimum lease payments under noncancelable operating lease and future minimum lease payments under a capital lease together as of December 31, 2019, are as follows:

| | <u>Capital Lease</u> | <u>Operating Lease</u> |
|--|----------------------|------------------------|
| Years ending December 31: | | |
| 2020 | \$ 52,333 | \$ 4,188 |
| 2021 | 54,092 | 4,188 |
| 2022 | 55,909 | 3,839 |
| 2023 | 57,788 | - |
| 2024 | 59,730 | - |
| Thereafter | 290,328 | - |
| Future minimum lease payments | <u>570,180</u> | <u>\$ 12,215</u> |
| Less current portion of capitalized lease obligation | <u>(52,333)</u> | |
| Long-term portion of capitalized lease obligation | <u>\$ 517,847</u> | |

Note 8. Water Allotments Held for Lease to Others

Water allotments leased to others under both long-term and short-term agreements consist of the following at December 31, 2019 and 2018:

| | Balance at January 1, 2019 | Additions | Deletions | Balance at December 31, 2019 |
|-------------------------|----------------------------------|-------------|-------------------|------------------------------------|
| Water allotments leased | <u>\$ 956,475</u> | <u>\$ -</u> | <u>\$ 262,500</u> | <u>\$ 693,975</u> |
| | Balance at January 1, 2018 | Additions | Deletions | Balance at December 31, 2018 |
| Water allotments leased | <u>\$ 956,475</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 956,475</u> |

The District is the lessor of water rights under agreements expiring in various years through 2026 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 years ended December 31, 2019 and 2018, totaled \$9,600.

East Medina County Special Utility District

Notes to Financial Statements

Note 8. Water Allotments Held for Lease to Others (Continued)

- 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, 2026. Lease payments received for each of the years ended December 31, 2019 and 2018, totaled \$8,625. An additional VISPO agreement was initiated on January 1, 2019, and ends on January 1, 2024, with annual lease payments of \$8,100.
- A VISPO to forbear withdrawing 150 a/f per annum of unrestricted irrigation groundwater—The VISPO agreement was initiated in 2003 and ended December 31, 2018. Lease payment received for the year ended December 31, 2018, totaled \$18,000. The one-year HCP Aquifer Storage and Recovery (ASR) Program was renewed for 2018; however, it will not be available for renewal beyond 2018.
- In 2016, 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. This one-year lease program was renewed for 2018; however, it will not be available for renewal beyond 2018.

At December 31, 2019, future minimum lease payments under leases to others are as follows:

| | |
|---------------------------|-------------------|
| Years ending December 31: | |
| 2020 | \$ 26,325 |
| 2021 | 26,325 |
| 2022 | 28,230 |
| 2023 | 28,230 |
| 2024 | 10,530 |
| Thereafter | 21,060 |
| | <u>\$ 140,700</u> |

Note 9. 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>.

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.

East Medina County Special Utility District

Notes to Financial Statements

Note 9. Retirement Plan (Continued)

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, 2019 and 2018, the following employees were covered by the benefit terms:

| | 2019 | 2018 |
|--|------|------|
| Inactive employees or beneficiaries currently receiving benefits | 1 | 1 |
| Inactive employees entitled to, but not yet receiving benefits | 6 | 4 |
| Active employees | 13 | 13 |
| Total | 20 | 18 |

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 2019 and 2018, the contribution rate for the plan members was 5.00% of gross pay. The District pays a matching portion to the pension plan totaling 4.08% of gross pay for 2019 and 4.70% of gross pay for 2018, which totaled \$26,449 and \$25,296, respectively.

Net pension asset/liability: The District's net pension asset/liability was measured as of December 31, 2018 and 2017, and the total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The actuarial assumptions that determined the total pension liability as of December 31, 2018 and 2017, were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB Statement No. 68.

The total pension liability in the December 31, 2018 and 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.75% as of December 31, 2018 and 2017 |
| Salary increase | 3.25% (including inflation plus average merit of 1.6% and productivity of 0.5% for December 31, 2018 and 2017) |
| Investment rate of return | 8.10% as of December 31, 2018 and 2017 |

East Medina County Special Utility District

Notes to Financial Statements

Note 9. Retirement Plan (Continued)

Mortality rates were based on the following:

- Depositing members—90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014 for December 31, 2018 and 2017.
- Service retirees, beneficiaries and nondepositing members—130% of the RP-2014 Health Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014 for December 31, 2018 and 2017.
- Disabled retirees—130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014 for December 31, 2018 and 2017.

Long-term expected rate of return on assets for December 31, 2018: 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 2019 information for a 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 2017.

| Asset Class | Benchmark | Target Allocation (1) | Geometric Real Rate of Return (2) |
|--|---|-----------------------|-----------------------------------|
| United States Equities | Dow Jones U.S. Total Stock Market Index | 10.50% | 5.40% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index (3) | 18.00% | 8.40% |
| Global Equities | MSCI World (net) Index | 2.50% | 5.70% |
| International Equities—Developed Markets | MSCI World Ex USA (net) | 10.00% | 5.40% |
| International Equities—Emerging Markets | MSCI Emerging Markets (net) Index | 7.00% | 5.90% |
| Investment—Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | 1.60% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 12.00% | 4.39% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 11.00% | 7.95% |
| Distressed Debt | Cambridge Associates Distressed Securities Index (4) | 2.00% | 7.20% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index plus 33% S&P Global REIT (net) Index | 2.00% | 4.15% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.00% | 5.35% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index (5) | 6.00% | 6.30% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 13.00% | 3.90% |

(1) Target asset allocation adopted at the April 2019 TCDRS' board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70%, per investment consultant's 2019 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

East Medina County Special Utility District

Notes to Financial Statements

Note 9. Retirement Plan (Continued)

Long-term expected rate of return on assets for December 31, 2017: 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 2018 information for a 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 2017.

| Asset Class | Benchmark | Target Allocation (1) | Geometric Real Rate of Return (2) |
|--|---|-----------------------|-----------------------------------|
| United States Equities | Dow Jones U.S. Total Stock Market Index | 11.50% | 4.55% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index (3) | 16.00% | 7.55% |
| Global Equities | MSCI World (net) Index | 1.50% | 4.85% |
| International Equities—Developed Markets | MSCI World Ex USA (net) | 11.00% | 4.55% |
| International Equities—Emerging Markets | MSCI Emerging Markets (net) Index | 8.00% | 5.55% |
| Investment—Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | 0.75% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 8.00% | 4.12% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 10.00% | 8.06% |
| Distressed Debt | Cambridge Associates Distressed Securities Index (4) | 2.00% | 6.30% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index plus 33% S&P Global REIT (net) Index | 2.00% | 4.05% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.00% | 6.00% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index (5) | 6.00% | 6.25% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 18.00% | 4.10% |

(1) Target asset allocation adopted at the April 2018 TCDRS' board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per investment consultant's 2018 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%. 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, for December 31, 2018 and 2017.

East Medina County Special Utility District

Notes to Financial Statements

Note 9. Retirement Plan (Continued)

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 asset/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 asset/liability of the District, calculated using the discount rate of 8.1%, 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%) or 1.0 percentage point higher (9.1%) than the current rate:

| | <u>Discount Rate Sensitivity at December 31, 2019</u> | | |
|-------------------------------|---|---------------|---------------|
| | Current | | |
| | 1.0% Decrease | Discount Rate | 1.0% Increase |
| | 7.1% | 8.1% | 9.1% |
| Net pension liability (asset) | \$ 65,811 | \$ 11,519 | \$ (34,288) |

| | <u>Discount Rate Sensitivity at December 31, 2018</u> | | |
|-------------------------------|---|---------------|---------------|
| | Current | | |
| | 1.0% Decrease | Discount Rate | 1.0% Increase |
| | 7.1% | 8.1% | 9.1% |
| Net pension liability (asset) | \$ 25,765 | \$ (18,039) | \$ (54,986) |

East Medina County Special Utility District

Notes to Financial Statements

Note 9. Retirement Plan (Continued)

Changes in net pension liability (asset): The following represents a schedule of changes in the net pension liability (asset) based on the measurement date of December 31, 2018:

| Changes in Net Pension Liability (Asset) | Changes in Net Pension Liability (Asset) | | |
|--|--|----------------------------|---------------------------------------|
| | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability (Asset) (a)-(b) |
| Balances at beginning of the year | \$ 302,472 | \$ 320,511 | \$ (18,039) |
| Changes for the year: | | | |
| Service cost | 43,776 | - | 43,776 |
| Interest on total pension liability (1) | 28,000 | - | 28,000 |
| Effect of plan changes (2) | - | - | - |
| Effect of economic/demographic (gains) or losses | 5,846 | - | 5,846 |
| Effect of assumptions changes or inputs | - | - | - |
| Refund of contributions | - | - | - |
| Benefit payments | (1,172) | (1,172) | - |
| Administrative expenses | - | (295) | 295 |
| Member contributions | - | 26,911 | (26,911) |
| Net investment income | - | (5,401) | 5,401 |
| Employer contributions | - | 25,296 | (25,296) |
| Other (3) | - | 1,553 | (1,553) |
| Balances at end of the year | \$ 378,922 | \$ 367,403 | \$ 11,519 |

(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 9. 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, 2017:

| Changes in Net Pension Liability | Changes in Net Pension Liability | | |
|--|----------------------------------|----------------------------|-------------------------------|
| | Total Pension Liability (a) | Increase (Decrease) | |
| | | Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balances at beginning of the year | \$ 287,902 | \$ 266,447 | \$ 21,455 |
| Changes for the year: | | | |
| Service cost | 43,338 | - | 43,338 |
| Interest on total pension liability (1) | 25,626 | - | 25,626 |
| Effect of plan changes (2) | - | - | - |
| Effect of economic/demographic (gains) or losses | (25,210) | - | (25,210) |
| Effect of assumptions changes or inputs | 1,136 | - | 1,136 |
| Refund of contributions | (29,539) | (29,539) | - |
| Benefit payments | (781) | (781) | - |
| Administrative expenses | - | (213) | 213 |
| Member contributions | - | 23,775 | (23,775) |
| Net investment income | - | 39,132 | (39,132) |
| Employer contributions | - | 21,492 | (21,492) |
| Other (3) | - | 198 | (198) |
| Balances at end of the year | \$ 302,472 | \$ 320,511 | \$ (18,039) |

(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.

Pension expense and deferred inflows and outflows of resources related to pensions: For the fiscal year December 31, 2019, the District recognized pension expense of \$20,793. At December 31, 2019, 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 | \$ 36,310 | \$ 16,824 |
| Changes of assumptions | - | 1,925 |
| Net difference between projected and actual earnings | - | 20,936 |
| Subtotal | 36,310 | 39,685 |
| Contributions made subsequent to measurement date | N/A | 26,449 |
| Total | \$ 36,310 | \$ 66,134 |

East Medina County Special Utility District

Notes to Financial Statements

Note 9. Retirement Plan (Continued)

For the fiscal year December 31, 2018, the District recognized pension expense of \$20,730. At December 31, 2018, 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 | \$ 43,811 | \$ 15,746 |
| Changes of assumptions | - | 2,335 |
| Net difference between projected and actual earnings | 4,954 | - |
| Subtotal | 48,765 | 18,081 |
| Contributions made subsequent to measurement date | N/A | 25,296 |
| Total | <u>\$ 48,765</u> | <u>\$ 43,377</u> |

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:

| | |
|------------|-----------------|
| 2019 | \$ 4,669 |
| 2020 | 1,637 |
| 2021 | 969 |
| 2022 | 449 |
| 2023 | (2,174) |
| Thereafter | (2,175) |
| | <u>\$ 3,375</u> |

Note 10. 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.

Note 11. Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District operates.

East Medina County Special Utility District

Notes to Financial Statements

Note 11. Subsequent Event (Continued)

In light of the uncertain and rapidly evolving coronavirus situation, the District has taken precautionary measures intended to minimize the risk of the virus to its employees, customers and the communities in which the District operates. At the current time, the District is unable to quantify the potential effects of this pandemic on its future financial statements.

The District has evaluated subsequent events through April 21, 2020, the date the financial statements were available to be issued.

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Required Supplementary Information (Unaudited)

East Medina County Special Utility District

**Schedule of Changes in Net Pension Liability (Asset)
Years Ended December 31,**

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------------------|--------------------|------------------|------------------|------------------|
| Total pension liability: | | | | | |
| Service cost | \$ 43,776 | \$ 43,338 | \$ 43,928 | \$ 34,349 | \$ 31,137 |
| Interest on total pension liability | 28,000 | 25,626 | 19,886 | 18,284 | 11,917 |
| Effect of plan changes | - | - | - | (7,543) | 14,605 |
| Effect of assumption changes or inputs | - | 1,136 | - | 2,146 | - |
| Effect of economic/demographic (gains) or losses | 5,846 | (25,210) | 122 | (34,803) | 31,317 |
| Benefit payments | (1,172) | (30,320) | - | - | (4,208) |
| Net change in total pension liability | 76,450 | 14,570 | 63,936 | 12,433 | 84,768 |
| Total pension liability at beginning of year | 302,472 | 287,902 | 223,966 | 211,533 | 126,765 |
| Total pension liability at end of year (a) | 378,922 | 302,472 | 287,902 | 223,966 | 211,533 |
| Plan fiduciary net position: | | | | | |
| Employer contributions | 25,296 | 21,492 | 26,353 | 24,464 | 16,558 |
| Member contributions | 26,911 | 23,775 | 25,340 | 23,299 | 21,902 |
| Investment income (loss) net of investment expense | (5,401) | 39,132 | 14,760 | (1,044) | 7,414 |
| Refunds of contributions | (1,172) | (30,320) | - | - | (4,208) |
| Administrative expenses | (295) | (213) | (161) | (128) | (100) |
| Other | 1,553 | 198 | 4,247 | (15) | (9) |
| Net change in fiduciary net position | 46,892 | 54,064 | 70,539 | 46,576 | 41,557 |
| Fiduciary net position at beginning of year | 320,511 | 266,447 | 195,908 | 149,332 | 107,775 |
| Fiduciary net position at end of year (b) | 367,403 | 320,511 | 266,447 | 195,908 | 149,332 |
| Net pension liability (asset) at end of year = (a)-(b) | \$ 11,519 | \$ (18,039) | \$ 21,455 | \$ 28,058 | \$ 62,201 |
| Fiduciary net position as a percentage of total pension liability | 96.96% | 105.96% | 92.55% | 87.47% | 70.60% |
| Pensionable covered payroll | \$ 538,225 | \$ 475,492 | \$ 506,794 | \$ 465,974 | \$ 438,030 |
| Net pension (asset) liability as a percentage of covered payroll | 2.14% | (3.79%) | 4.23% | 6.02% | 14.20% |

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 in 2015 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, 2019**

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 | 5.2% |
| 2016 | 26,353 | 26,353 | - | 506,794 | 5.2% |
| 2017 | 21,492 | 21,492 | - | 475,492 | 4.5% |
| 2018 | 25,296 | 25,296 | - | 538,225 | 4.7% |

(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

Valuation date: Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|---|--|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 10.8 years (based on contribution rate calculated in 12/31/2018 valuation) |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | Varies by age and service; 4.90% average over career including inflation |
| Investment rate of return | 8.00%, net of administrative and investment expenses, including inflation |
| Retirement age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | 130% of the RP-2014 Health Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Changes in assumptions and methods reflected in the schedule of employer contributions* | 2015: New inflation, mortality and other assumptions were reflected |
| | 2017: New mortality assumptions were reflected |
| Changes in plan provisions reflected in the schedule of employer contributions* | 2015: Employer contributions reflect that the current service matching rate was increased to 150% for future benefits |
| | 2016: No changes in plan provisions were reflected in the schedule |
| | 2017: New annuity purchase rates were reflected for benefits earned after 2017 |
| | 2018: No changes in plan provisions were reflected in the schedule |

*Only changes that affect the benefit amount and are effective 2015 and later are shown in the notes to schedule.

East Medina County Special Utility District

Notes to Required Supplementary Information

Demographic Assumptions

Retirement Age

| Annual Rates of Service Retirement* | | | | | |
|-------------------------------------|--------|----------|------|--------|----------|
| Age | % Male | % Female | Age | % Male | % Female |
| 40-44 | 4.5 | 4.5 | 62 | 20 | 20 |
| 45-49 | 9 | 9 | 63 | 15 | 15 |
| 50 | 10 | 10 | 64 | 15 | 15 |
| 51 | 9 | 9 | 65 | 25 | 25 |
| 52 | 9 | 9 | 66 | 25 | 25 |
| 53 | 9 | 9 | 67 | 22 | 22 |
| 54 | 10 | 10 | 68 | 20 | 20 |
| 55 | 10 | 10 | 69 | 20 | 20 |
| 56 | 10 | 10 | 70 | 22 | 22 |
| 57 | 10 | 10 | 71 | 22 | 22 |
| 58 | 12 | 12 | 72 | 22 | 22 |
| 59 | 12 | 12 | 73 | 22 | 22 |
| 60 | 12 | 12 | 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% and the rates do not vary by length of service, entry-age group (age at hire) and gender. 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 the plan are shown in the table below. For nondepositing members who are not vested, 100% 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 | 33 |
| 4 | 100 | 19 | 30 |
| 5 | 100 | 20 | 28 |
| 6 | 100 | 21 | 26 |
| 7 | 100 | 22 | 24 |
| 8 | 100 | 23 | 22 |
| 9 | 100 | 24 | 20 |
| 10 | 45 | 25 | 18 |
| 11 | 44 | 26 | 16 |
| 12 | 43 | 27 | 14 |
| 13 | 42 | 28 | 12 |
| 14 | 41 | 29* | 10 |

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

Mortality rates:

- Depositing members—90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
- Service retirees, beneficiaries and nondepositing members—130% of the RP-2014 Health Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
- Disabled retirees—130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Supplementary Schedules and Other Information (Unaudited)

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East Medina County Special Utility District

**Budgetary Comparison Schedule—Enterprise Fund (Unaudited)
Year Ended December 31, 2019**

| | Budgeted Amounts | | Actual | Variance |
|--|---------------------|---------------------|----------------------|-------------------|
| | Original | Final | | |
| Operating revenues: | | | | |
| Water sales, net of bad-debt expense | \$ 1,670,000 | \$ 1,670,000 | \$ 1,701,971 | \$ 31,971 |
| Late fees and reconnection charges | 105,000 | 105,000 | 116,351 | 11,351 |
| Customer deposits | 18,000 | 18,000 | 18,686 | 686 |
| Connection fees, net of expense | 51,000 | 51,000 | 151,741 | 100,741 |
| Water acquisition fees | 98,000 | 98,000 | 151,617 | 53,617 |
| Total operating revenues | 1,942,000 | 1,942,000 | 2,140,366 | 198,366 |
| Operating expenses: | | | | |
| Salaries | 630,000 | 630,000 | 611,558 | 18,442 |
| Utilities | 138,000 | 138,000 | 145,554 | (7,554) |
| Repairs and maintenance | 242,000 | 242,000 | 208,619 | 33,381 |
| Vehicle expense | 58,000 | 58,000 | 51,644 | 6,356 |
| Insurance | 115,400 | 115,400 | 103,621 | 11,779 |
| Payroll taxes | 60,000 | 60,000 | 52,937 | 7,063 |
| Professional services | 200,000 | 200,000 | 98,932 | 101,068 |
| Retirement plan expense | 30,067 | 30,067 | 21,958 | 8,109 |
| Edwards Aquifer Authority management fee | 86,000 | 86,000 | 101,789 | (15,789) |
| Other administrative expenses | 193,100 | 193,100 | 165,695 | 27,405 |
| Depreciation | 512,902 | 512,902 | 483,640 | 29,262 |
| Total operating expenses | 2,265,469 | 2,265,469 | 2,045,947 | 219,522 |
| Net operating income (loss) | (323,469) | (323,469) | 94,419 | 417,888 |
| Nonoperating revenues (expenses): | | | | |
| Interest income | 50,000 | 50,000 | 43,699 | 6,301 |
| Loss on sale of asset | - | - | (1,722) | 1,722 |
| Other income | 66,300 | 66,300 | 26,448 | 39,852 |
| Lease income | 18,225 | 18,225 | 26,325 | (8,100) |
| Interest expense | (126,854) | (126,854) | (133,914) | 7,060 |
| Total nonoperating revenues (expenses), net | 7,671 | 7,671 | (39,164) | (46,835) |
| Change in net position | (315,798) | (315,798) | 55,255 | 371,053 |
| Net position at beginning of year | 10,258,149 | 10,258,149 | 10,258,149 | - |
| Net position at end of year | \$ 9,942,351 | \$ 9,942,351 | \$ 10,313,404 | \$ 371,053 |

East Medina County Special Utility District

**Schedule of Services and Rates (Unaudited)
Year Ended December 31, 2019**

1. Services provided by the District: Retail Water

2a. Retail rates based on 5/8 meter from January 1, 2019 through November 30, 2019:

| | 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 |

*Includes the Texas Commission on Environment Quality 0.5% of 1.0% regulatory fee.

Retail rates based on 5/8 meter beginning December 1, 2019:

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate Per 100 Gallons Over Minimum | Usage Levels |
|-------|----------------|---------------|---------------|-----------------------------------|------------------|
| Water | \$ 28.42 | N/A | Y | \$ 0.19 | 100 to 2,000 |
| | | | | 0.50 | 2,001 to 10,000 |
| | | | | 0.55 | 10,001 to 20,000 |
| | | | | 0.60 | 20,001 to 30,000 |
| | | | | 0.70 | 30,001 to 40,000 |
| | | | | 0.75 | 40,001 to 50,000 |
| | | | | 0.80 | 50,001 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% 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, 2019

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 | 2,843 |
| Multi-family | - |
| Commercial, agricultural, and industrial | 101 |
| Other—recreational centers, government and Volunteer Fire Department | - |
| Total | 2,944 |

3. Total water consumption during the fiscal year:

Gallons pumped into system: 384,412,000
 Gallons billed to customers: 200,225,400
 Gallons used for flushing and unmetered water: 2,898,450
 Water loss: 151,116,710
 Percent of loss: 39.31%
 Water accountability ratio: 52.09%

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, 2019

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: 12 full-time; 1 part-time.

East Medina County Special Utility District

**Schedule of Enterprise Fund Expenses (Unaudited)
Year Ended December 31, 2019**

| | |
|--|---------------------|
| Operating expenses: | |
| Personnel | \$ 686,453 |
| Utilities | 145,554 |
| Repairs and maintenance | 208,619 |
| Vehicle expense | 51,644 |
| Insurance | 103,621 |
| Professional services: | |
| Auditing | 43,500 |
| Engineering | 37,427 |
| Legal | 16,505 |
| Financial advisor | 1,500 |
| Edwards Aquifer Authority management fee | 101,789 |
| Other administrative expenses | 165,695 |
| Depreciation | 483,640 |
| | <hr/> |
| Total operating expenses | \$ 2,045,947 |

East Medina County Special Utility District

**Schedule of Temporary Investments (Unaudited)
Year Ended December 31, 2019**

| Type | Identification or Certificate Number | Interest Rate | Maturity Date | Balance at End of Year |
|------------------------|---|---------------|----------------|---------------------------|
| Certificate of deposit | Community National Bank | 1.79% | March 21, 2020 | \$ 109,556 |

East Medina County Special Utility District

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

Series 2009-R

December 31, 2019

| Due During the Fiscal Years Ending | Series 2009-R | | |
|------------------------------------|-------------------------|--------------------------------------|---------------------|
| | Principal Due July 1 | Interest Due January 1 and July 1 | Total |
| 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>\$ 869,000</u> | <u>\$ 717,019</u> | <u>\$ 1,586,019</u> |

East Medina County Special Utility District

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

Series 2013

December 31, 2019

| Due During the Fiscal Years Ending | Series 2013 | | |
|------------------------------------|-------------------------|--------------------------------------|-------------------|
| | Principal Due July 1 | Interest Due January 1 and July 1 | Total |
| 2020 | \$ 201,000 | \$ 7,018 | \$ 208,018 |
| 2021 | 207,000 | 3,560 | 210,560 |
| | <u>\$ 408,000</u> | <u>\$ 10,578</u> | <u>\$ 418,578</u> |

East Medina County Special Utility District

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

Series 2014

December 31, 2019

| Due During the Fiscal Years Ending | Series 2014 | | |
|------------------------------------|-------------------------|--------------------------------------|---------------------|
| | Principal Due July 1 | Interest Due January 1 and July 1 | Total |
| 2020 | \$ 95,000 | \$ 68,038 | \$ 163,038 |
| 2021 | 95,000 | 63,763 | 158,763 |
| 2022 | 100,000 | 59,488 | 159,488 |
| 2023 | 105,000 | 54,987 | 159,987 |
| 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>\$ 1,705,000</u> | <u>\$ 563,319</u> | <u>\$ 2,268,319</u> |

East Medina County Special Utility District

Schedule of Long-Term Debt Service Requirements—By Years (Unaudited)
All Bonded Debt
December 31, 2019

| Due During the Fiscal Years Ending | Principal Due July 1 | Interest Due January 1 and July 1 | Total |
|------------------------------------|-------------------------|--------------------------------------|---------------------|
| 2020 | \$ 310,000 | \$ 113,074 | \$ 423,074 |
| 2021 | 316,000 | 104,728 | 420,728 |
| 2022 | 115,000 | 96,282 | 211,282 |
| 2023 | 121,000 | 91,125 | 212,125 |
| 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>\$ 2,982,000</u> | <u>\$ 1,290,916</u> | <u>\$ 4,272,916</u> |

East Medina County Special Utility District

**Schedule of Changes in Long-Term Bonded Debt (Unaudited)
Year Ended December 31, 2019**

| | 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 | \$ 882,000 | \$ 608,000 | \$ 1,795,000 | \$ 3,285,000 |
| Bonds sold during the fiscal year | - | - | - | - |
| Bonds retired during the fiscal year | 13,000 | 200,000 | 90,000 | 303,000 |
| Ending bonds outstanding | \$ 869,000 | \$ 408,000 | \$ 1,705,000 | \$ 2,982,000 |
| Interest paid during the fiscal year | \$ 38,587 | \$ 10,458 | \$ 72,087 | \$ 121,132 |

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 | 3,225,000 | 1,566,000 |
| Remaining to be issued | \$ - | \$ - |

Restricted cash and cash equivalent balances as of December 31, 2019, are as follows: \$698,143

Average annual debt service payment (principal and interest) for remaining term of all debt: \$141,393

East Medina County Special Utility District

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

| | Amounts | | | | |
|---|------------------|-------------------|-------------------|-------------------|-------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Operating revenues: | | | | | |
| Water sales, net of bad-debt expense | \$ 1,701,971 | \$ 1,613,625 | \$ 1,652,637 | \$ 1,558,576 | \$ 1,550,419 |
| Late fees and reconnection charges | 116,351 | 133,535 | 123,820 | 113,976 | 114,216 |
| Customer deposits | 18,686 | 14,961 | 13,423 | 12,924 | 14,397 |
| Connection fees | 236,639 | 121,074 | 126,685 | 99,474 | 146,418 |
| Connection cost | (84,898) | (51,190) | (45,650) | (23,530) | (109,116) |
| Water acquisition fees | 151,617 | 91,669 | 94,203 | 76,697 | 90,874 |
| Total operating revenues | 2,140,366 | 1,923,674 | 1,965,118 | 1,838,117 | 1,807,208 |
| Operating expenses: | | | | | |
| Salaries | 611,558 | 538,175 | 475,866 | 501,732 | 468,464 |
| Utilities | 145,554 | 130,135 | 124,882 | 112,108 | 111,674 |
| Repairs and maintenance | 208,619 | 180,954 | 171,551 | 179,793 | 134,593 |
| Vehicle expense | 51,644 | 43,308 | 25,648 | 30,898 | 39,844 |
| Insurance | 103,621 | 90,151 | 97,605 | 106,930 | 105,892 |
| Payroll taxes | 52,937 | 41,747 | 37,866 | 34,428 | 42,191 |
| Professional services | 98,932 | 108,842 | 64,625 | 57,936 | 72,731 |
| Retirement plan expense | 21,958 | 21,803 | 21,220 | 12,082 | 30,938 |
| Edwards Aquifer Authority management fee | 101,789 | 99,154 | 85,711 | 94,410 | 123,099 |
| Other administrative expenses | 165,695 | 131,631 | 131,125 | 121,379 | 103,994 |
| Depreciation | 483,640 | 537,063 | 512,902 | 481,963 | 431,193 |
| Total operating expenses | 2,045,947 | 1,922,963 | 1,749,001 | 1,733,659 | 1,664,613 |
| Net operating income | 94,419 | 711 | 216,117 | 104,458 | 142,595 |
| Nonoperating revenues (expenses): | | | | | |
| Interest income | 43,699 | 43,678 | 22,868 | 15,368 | 5,556 |
| Gain (loss) on sale of asset | (1,722) | - | 12,507 | 11,955 | - |
| Other income | 26,448 | 477,633 | 151,986 | 123,693 | 37,041 |
| Lease income | 26,325 | 72,225 | 72,225 | 61,727 | 66,475 |
| Bond issuance cost | - | - | - | - | - |
| Interest expense | (133,914) | (108,110) | (125,860) | (118,430) | (11,604) |
| Total nonoperating revenues (expenses), net | (39,164) | 485,426 | 133,726 | 94,313 | 97,468 |
| Increase in net position, before capital contributions | 55,255 | 486,137 | 349,843 | 198,771 | 240,063 |
| Capital contributions | - | 174,025 | - | - | - |
| Change in net position | \$ 55,255 | \$ 660,162 | \$ 349,843 | \$ 198,771 | \$ 240,063 |

Percent of Total Revenues

| 2019 | 2018 | 2017 | 2016 | 2015 |
|--------|--------|--------|--------|--------|
| 79.52 | 83.88 | 84.10 | 84.79 | 85.79 |
| 5.44 | 6.94 | 6.30 | 6.20 | 6.32 |
| 0.87 | 0.78 | 0.68 | 0.70 | 0.80 |
| 11.06 | 6.29 | 6.45 | 5.41 | 8.10 |
| (3.97) | (2.66) | (2.32) | (1.28) | (6.04) |
| 7.08 | 4.77 | 4.79 | 4.17 | 5.03 |
| 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 28.57 | 27.98 | 24.22 | 27.30 | 25.92 |
| 6.80 | 6.76 | 6.35 | 6.10 | 6.18 |
| 9.75 | 9.41 | 8.73 | 9.78 | 7.45 |
| 2.41 | 2.25 | 1.31 | 1.68 | 2.20 |
| 4.84 | 4.69 | 4.97 | 5.82 | 5.86 |
| 2.47 | 2.17 | 1.93 | 1.87 | 2.33 |
| 4.62 | 5.66 | 3.29 | 3.15 | 4.02 |
| 1.03 | 1.13 | 1.08 | 0.66 | 1.71 |
| | - | | | |
| 4.76 | 5.15 | 4.36 | 5.14 | 6.81 |
| 7.74 | 6.84 | 6.67 | 6.60 | 5.75 |
| 22.60 | 27.92 | 26.10 | 26.22 | 23.86 |
| 95.59 | 99.96 | 89.00 | 94.32 | 92.11 |
| 4.41 | 0.04 | 11.00 | 5.68 | 7.89 |
| 2.04 | 2.27 | 1.16 | 0.84 | 0.31 |
| (0.08) | - | 0.64 | 0.65 | - |
| 1.24 | 24.83 | 7.73 | 6.73 | 2.05 |
| 1.23 | 3.75 | 3.68 | 3.36 | 3.68 |
| - | - | - | - | - |
| (6.26) | (5.62) | (6.40) | (6.44) | (0.64) |
| (1.83) | 25.23 | 6.80 | 5.13 | 5.39 |
| 2.58 | 25.27 | 17.80 | 10.81 | 13.28 |
| - | 9.05 | - | - | - |
| 2.58 | 34.32 | 17.80 | 10.81 | 13.28 |

East Medina County Special Utility District

**Schedule of Board Members, Key Administrative Personnel and Consultants (Unaudited)
Year Ended December 31, 2019**

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 27, 2019

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 12/31/2019 | Expense Reimbursements Fiscal Year Ended 12/31/2019 | Title at Year-End |
|--|--|---|---|-------------------------|
| Board Members | | | | |
| Roy J. Tschirhart, Jr. 2710 FM 1343 Devine, Texas 78016 | (Elected) 08/18-08/21 | \$ - | \$ - | Member |
| Timothy L. Hildenbrand P.O. Box 508 Castroville, Texas 78009 | (Elected) 08/17-08/22 | - | - | President |
| Hector De La Fuente 165 CR 5705 Devine, Texas 78016 | (Elected) 08/17-08/20 | - | - | Member |
| 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) 08/18-08/21 | - | - | Vice President |
| Richard A. Sultenfuss P.O. Box 425 Devine, Texas 78016 | (Elected) 08/16-08/22 | - | - | 2nd Vice President |
| Gina Mangold P.O. Box 735 Castroville, Texas 78009 | (Appointed) 08/18-08/20 | - | - | Member |

(Continued)

East Medina County Special Utility District

**Schedule of Board Members, Key Administrative Personnel and Consultants (Unaudited) (Continued)
Year Ended December 31, 2019**

| Name and Address | Term of Office (Elected or Appointed) or Date Hired | Fees Fiscal Year Ended 12/31/2019 | Expense Reimbursements Fiscal Year Ended 12/31/2019 | Title at Year-End |
|--|--|---|---|---|
| Key Administrative Personnel | | | | |
| Bruce Alexander 516 Vienna Castroville, Texas 78009 | 04/08 | \$ - | \$ 202 | Superintendent |
| Debora DuBose 607 West Coker Devine, Texas 78016 | 09/03 | - | 627 | Business Manager |
| Ronald Lemmons 100 Sunnyland Dr Castroville, Texas 78009 | 10/18 | - | - | Field Manager/ Operator D License |
| Consultants | | | | |
| RSM US LLP 19026 Ridgewood Pkwy., Suite 400 San Antonio, Texas 78259 | 1998 | 43,500 | - | Auditors |
| Patrick Lindner Davidson Troilo Ream & Garza, P.C. 601 N.W. Loop 410, Suite 100 San Antonio, Texas 78216 | 1999 | 15,124 | - | Legal Issues General Counsel |
| Frost Capital Market Duncan Morrow Senior Vice President/Capital Markets 111 West Houston Street, 8th Floor San Antonio, Texas 78205 | 2014 | 1,500 | - | Financial Advisors |
| Gostomski & Hecker, PC Ed Hecker 607 Urban Loop San Antonio, Texas 78204 | 2019 | 480 | - | Legal Counsel |
| Bickerstaff, Heath, Delgado, Acosta, LLP Bill Dugat 3711 S. Mopac Expressway Building One, Suite 300 Austin, Texas 78746 | 2014 | 2,301 | - | CCN Attorney |
| RESPEC Russel Persyn P.O. Box 725 Rapid City, South Dakota 57709 | 2018 | 74,499 | - | Engineer |

East Medina County Special Utility District

**U.S. Department of Agriculture (USDA) Non-Discrimination Statement (Unaudited)
Year Ended December 31, 2019**

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, audiotope, 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 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.

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, 2019**

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 reprimendas 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, 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.

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

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East Medina County Special Utility District

Report to the Board of Directors
April 21, 2020





RSM US LLP

19026 Ridgewood Pkwy
Suite 400
San Antonio, TX 78259

T +1 210 828 6281

www.rsmus.com

April 21, 2020

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, 2019. 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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AUDIT | TAX | CONSULTING

Contents

Required communications

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Exhibit A—Significant written communication between management and our firm

Representation letter



RSM US LLP

19026 Ridgewood Pkwy
Suite 400
San Antonio, TX 78259

T +1 210 828 6281

www.rsmus.com

April 21, 2020

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, 2019, 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 25, 2019. 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 12, 2019, regarding the planned scope and timing of our audit. In addition, in our letter, dated November 12, 2019, we communicated to you our identification of significant risks of material misstatement as follows: Our audit of the financial statements includes the performance of risk assessment procedures in order to identify risks of material misstatement, whether due to fraud or error. As part of these risk assessment procedures, we determine whether any risks identified are a significant risk. A significant risk is an identified and assessed risk of material misstatement that, in our professional judgment, requires special audit consideration. As part of our risk assessment procedures, we identified management override of controls, fraudulent revenue recognition and water sales as significant risks. Additional significant risks may be identified as we perform additional audit procedures.

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:

- Significant accounting estimates include estimated useful lives of capital assets, unbilled revenue and net pension liability and related disclosures.

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To the Board of Directors
East Medina County Special Utility District
April 21, 2020
Page 2

- The District has implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*, in the financial statements; however, other than enhanced disclosures on Note 5, there was no impact to the financial statements and no significant effect on ending net position.
- The District has early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, in the financial statements; however, it had no significant impact on the financial statements and no effect on ending net position.

Uncorrected Misstatements

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

Consultation With Other Accountants

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

Management Representations

Attached as Exhibit A is a copy of the management representation letter.

Closing

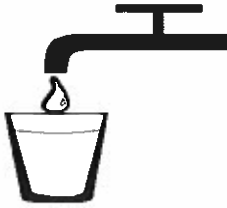
We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to East Medina County Special Utility District.

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—Significant Written Communication Between Management and Our Firm

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



**EAST MEDINA COUNTY
SPECIAL UTILITY DISTRICT**
P. O. BOX 628
DEVINE, TEXAS 78016
(830) 709-3879 FAX (830) 772-4082
www.emcsud.dst.tx.us

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

April 21, 2020

RSM US LLP
19026 Ridgewood Pkwy, Suite 400
San Antonio, TX 78259

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, 2019 and 2018, 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 of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of April 21, 2020:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter, dated November 25, 2019, 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, including advances receivable and payable, sale and purchase transactions, long-term loans, leasing arrangements and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP, if any.
6. All subsequent events to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We have substantially omitted the compensated absence rollforward disclosure from the financial statements, as the liability at year-end is not material.

East Medina County SUD is an equal opportunity provider.
East Medina County SUD es un proveedor de servicios con igualdad de oportunidades.

9. 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.
10. Capital assets, including infrastructure assets, are properly capitalized, reported and depreciated.
11. With respect to accounting assistance and financial statement preparation services performed in the course of the audit:
 - a. We have made all management decisions and performed all management functions;
 - b. We assigned an appropriate individual to oversee the services;
 - c. We evaluated the adequacy and results of the services performed, and made an informed judgment on the results of the services performed;
 - d. We have accepted responsibility for the results of the services; and
 - e. We have accepted responsibility for all significant judgments and decisions that were made.
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. In connection with our implementation of Governmental Accounting Standards Board Statement No. 88, certain disclosures related to debt, including direct borrowings and direct placements, we affirm the following:
 - a. Bond Series 2014 was a public sale and Bond Series 2009-R and 2013 were private placements.
 - b. No assets are pledged on the bonds, except for pledged revenues of the system.
 - c. The bonds do not include accelerated payment clauses.
15. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

16. 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.
17. All transactions have been recorded in the accounting records and are reflected in the financial statements.
18. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
19. 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.
20. 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.
21. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.
22. We are not aware of any pending or threatened litigation and claims whose effects were considered when preparing the financial statements.
23. 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, if any.
24. We are aware of no 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.
25. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
26. 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

27. With respect to supplementary information presented in relation to the financial statements as a whole:
- d. We acknowledge our responsibility for the presentation of such information.
 - e. 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.
 - f. The methods of measurement or presentation have not changed from those used in the prior period.
 - g. The underlying significant assumptions or interpretations regarding the measurement or presentation of such information are the actuarial assumptions for the pension plan.
 - h. 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.
28. With respect to Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability (Asset), Schedule of the District's Pension Contributions and Notes to the Required Supplementary Information—presented as required by the Governmental Accounting Standards Board 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 are the actuarial assumptions for the pension plan.

East Medina County Special Utility District

DocuSigned by:

Jo Nell M. Tarvin

Jo Nell M. Tarvin

Secretary/Treasurer, Board of Directors

DocuSigned by:

Bruce A. Alexander

Bruce A. Alexander

Superintendent

DocuSigned by:

Debora L. DuBose

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Debora L. DuBose
Business Manager

