

Palmer Plantation Municipal Utility District No. 1

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2019



Palmer Plantation Municipal Utility District No. 1
December 31, 2019

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Independent Auditor's Report

Board of Directors
Palmer Plantation Municipal Utility District No. 1
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Palmer Plantation Municipal Utility District No. 1 (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
June 29, 2020

Palmer Plantation Municipal Utility District No. 1

Management's Discussion and Analysis

December 31, 2019

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2019

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2019

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

| | 2019 | 2018 |
|----------------------------------|--------------|--------------|
| Current and other assets | \$ 4,086,944 | \$ 3,226,870 |
| Capital assets | 5,627,600 | 5,657,822 |
| Total assets | \$ 9,714,544 | \$ 8,884,692 |
| Other liabilities | \$ 349,775 | \$ 309,312 |
| Deferred inflows of resources | 1,023,363 | 1,023,762 |
| Net position: | | |
| Net investment in capital assets | 5,627,600 | 5,644,429 |
| Restricted | 41,497 | 45,939 |
| Unrestricted | 2,672,309 | 1,861,250 |
| Total net position | \$ 8,341,406 | \$ 7,551,618 |

The total net position of the District increased by \$789,788, or about 10 percent. The majority of the increase in net position is related to property tax and charges for services revenues in excess of services expenses.

Summary of Changes in Net Position

| | 2019 | 2018 |
|----------------------|--------------|--------------|
| Revenues: | | |
| Property taxes | \$ 1,023,104 | \$ 1,005,280 |
| Charges for services | 1,146,192 | 1,072,949 |
| Other revenues | 339,155 | 112,077 |
| Total revenues | 2,508,451 | 2,190,306 |

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2019

Summary of Changes in Net Position (Continued)

| | 2019 | 2018 |
|---------------------------------|--------------|--------------|
| Expenses: | | |
| Services | \$ 1,561,245 | \$ 1,306,683 |
| Depreciation | 157,418 | 148,680 |
| Total expenses | 1,718,663 | 1,455,363 |
| Change in net position | 789,788 | 734,943 |
| Net position, beginning of year | 7,551,618 | 6,816,675 |
| Net position, end of year | \$ 8,341,406 | \$ 7,551,618 |

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended December 31, 2019, were \$2,624,250, an increase of \$806,671 from the prior year.

The general fund's fund balance increased by \$811,113 due to property taxes and service revenues exceeding service operations expenditures, as well as the sale of a portion of the District's capacity in the wastewater treatment plant and water plant.

The wastewater treatment plant fund's fund balance decreased by \$3,719 and the water plant fund's fund balance decreased by \$723 due to decreases in the District's share of the operating reserve requirements.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major difference between budget and actual were due investment income and repairs and maintenance expenditures being greater than anticipated and capital outlay expenditures being less than anticipated. In addition, proceeds received from the sale of capacity were not included in the current year budget. The fund balance as of December 31, 2019, was expected to be \$2,480,102 and the actual end-of-year fund balance was \$2,582,753.

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below.

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2019

Capital Assets (Net of Accumulated Depreciation)

| | 2019 | 2018 |
|--------------------------|--------------|--------------|
| Land and improvements | \$ 3,122,491 | \$ 2,611,682 |
| Construction in progress | 7,826 | 659,965 |
| Water facilities | 408,011 | 409,797 |
| Wastewater facilities | 1,200,906 | 1,115,178 |
| Drainage facilities | 888,366 | 861,200 |
| Total capital assets | \$ 5,627,600 | \$ 5,657,822 |

During the current year, additions to capital assets were as follows:

| | |
|--|------------|
| Construction in progress related to the discharge pipe under Lake Olympia Parkway | \$ 7,826 |
| Outfall levee replacements | 13,483 |
| Fence at water plant | 29,277 |
| Sanitary sewer rehabilitation | 77,206 |
| Total additions to capital assets | \$ 127,792 |

Debt

At December 31, 2019, the District had \$5,125,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

Other Relevant Factors

Relationship to the City of Missouri City

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Missouri City (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City, subject to provisions of State Law, without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

Palmer Plantation Municipal Utility District No. 1
Statement of Net Position and Governmental Funds Balance Sheet
December 31, 2019

| | General | Wastewater | Water | Total | Adjustments | Statement |
|---|---------------------|--------------------|------------------|---------------------|---------------------|---------------------|
| | Fund | Treatment Plant | Plant | | | of Net Position |
| Assets | | | | | | |
| Cash | \$ 590,470 | \$ 36,569 | \$ 64,378 | \$ 691,417 | \$ - | \$ 691,417 |
| Certificates of deposit | 2,170,000 | - | - | 2,170,000 | - | 2,170,000 |
| Short-term investments | 531,567 | - | - | 531,567 | - | 531,567 |
| Receivables: | | | | | | |
| Property taxes | 491,118 | - | - | 491,118 | - | 491,118 |
| Service accounts | 55,213 | - | - | 55,213 | - | 55,213 |
| Accrued interest | 34,106 | - | - | 34,106 | - | 34,106 |
| Accrued penalty and interest | - | - | - | - | 31,337 | 31,337 |
| Interfund receivable | 549,061 | 16,491 | 12,381 | 577,933 | (577,933) | - |
| Due from participants | - | 36,413 | 21,386 | 57,799 | - | 57,799 |
| Operating deposit | 24,387 | - | - | 24,387 | - | 24,387 |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Land and improvements | - | - | - | - | 3,122,491 | 3,122,491 |
| Construction in progress | - | - | - | - | 7,826 | 7,826 |
| Infrastructure | - | - | - | - | 2,497,283 | 2,497,283 |
| Total assets | \$ 4,445,922 | \$ 89,473 | \$ 98,145 | \$ 4,633,540 | \$ 5,081,004 | \$ 9,714,544 |

Palmer Plantation Municipal Utility District No. 1
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
December 31, 2019

| | General Fund | Wastewater Treatment Plant | Water Plant | Total | Adjustments | Statement of Net Position |
|--|---------------------|----------------------------------|------------------|---------------------|---------------------|---------------------------------|
| Liabilities | | | | | | |
| Accounts payable | \$ 132,779 | \$ 47,249 | \$ 37,090 | \$ 217,118 | \$ - | \$ 217,118 |
| Customer deposits | 70,875 | - | - | 70,875 | - | 70,875 |
| Operating deposits | - | 26,157 | 35,625 | 61,782 | - | 61,782 |
| Interfund payable | 577,933 | - | - | 577,933 | (577,933) | - |
| Total liabilities | <u>781,587</u> | <u>73,406</u> | <u>72,715</u> | <u>927,708</u> | <u>(577,933)</u> | <u>349,775</u> |
| Deferred Inflows of Resources | | | | | | |
| Deferred property tax revenues | <u>1,081,582</u> | <u>0</u> | <u>0</u> | <u>1,081,582</u> | <u>(58,219)</u> | <u>1,023,363</u> |
| Fund Balances/Net Position | | | | | | |
| Fund balances: | | | | | | |
| Committed: | | | | | | |
| Water production and distribution | - | - | 25,430 | 25,430 | (25,430) | - |
| Wastewater collection and treatment | - | 16,067 | - | 16,067 | (16,067) | - |
| Assigned: | | | | | | |
| Operating deposit | 24,387 | - | - | 24,387 | (24,387) | - |
| Future expenditures | 183,843 | - | - | 183,843 | (183,843) | - |
| Unassigned | <u>2,374,523</u> | <u>-</u> | <u>-</u> | <u>2,374,523</u> | <u>(2,374,523)</u> | <u>-</u> |
| Total fund balances | <u>2,582,753</u> | <u>16,067</u> | <u>25,430</u> | <u>2,624,250</u> | <u>(2,624,250)</u> | <u>0</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 4,445,922</u> | <u>\$ 89,473</u> | <u>\$ 98,145</u> | <u>\$ 4,633,540</u> | | |
| Net position: | | | | | | |
| Net investment in capital assets | | | | | 5,627,600 | 5,627,600 |
| Restricted for plant operations | | | | | 41,497 | 41,497 |
| Unrestricted | | | | | <u>2,672,309</u> | <u>2,672,309</u> |
| Total net position | | | | | <u>\$ 8,341,406</u> | <u>\$ 8,341,406</u> |

Palmer Plantation Municipal Utility District No. 1
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended December 31, 2019

| | General Fund | Wastewater Treatment Plant | Water Plant | Total | Adjustments | Statement of Activities |
|---|---------------------|----------------------------------|------------------|---------------------|------------------|-------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 1,015,045 | \$ - | \$ - | \$ 1,015,045 | \$ 8,059 | \$ 1,023,104 |
| Water service | 254,442 | - | 381,887 | 636,329 | (182,635) | 453,694 |
| Sewer service | 167,076 | 368,154 | - | 535,230 | (137,816) | 397,414 |
| Surface water conversion | 171,614 | - | - | 171,614 | - | 171,614 |
| Garbage service | 123,470 | - | - | 123,470 | - | 123,470 |
| Penalty and interest | 28,159 | - | - | 28,159 | 5,280 | 33,439 |
| Investment income | 62,037 | 63 | 94 | 62,194 | - | 62,194 |
| Other income | - | 48,150 | - | 48,150 | - | 48,150 |
| Sale of capacity | 195,372 | - | - | 195,372 | - | 195,372 |
| Total revenues | <u>2,017,215</u> | <u>416,367</u> | <u>381,981</u> | <u>2,815,563</u> | <u>(307,112)</u> | <u>2,508,451</u> |
| Expenditures/Expenses | | | | | | |
| Service operations: | | | | | | |
| Purchased services | 428,371 | - | - | 428,371 | (301,201) | 127,170 |
| Surface water conversion | - | - | 221,278 | 221,278 | - | 221,278 |
| Professional fees | 116,219 | 2,100 | 2,100 | 120,419 | - | 120,419 |
| Contracted services | 101,899 | 7,188 | 6,688 | 115,775 | - | 115,775 |
| Solid waste | 122,961 | - | - | 122,961 | - | 122,961 |
| Utilities | 3,737 | 41,115 | 27,332 | 72,184 | - | 72,184 |
| Repairs and maintenance | 252,843 | 351,779 | 83,286 | 687,908 | - | 687,908 |
| Other expenditures | 70,468 | 14,185 | 6,797 | 91,450 | - | 91,450 |
| Tap connections | 2,100 | - | - | 2,100 | - | 2,100 |
| Capital outlay | 111,946 | - | 34,500 | 146,446 | (146,446) | - |
| Depreciation | - | - | - | - | 157,418 | 157,418 |
| Total expenditures/expenses | <u>1,210,544</u> | <u>416,367</u> | <u>381,981</u> | <u>2,008,892</u> | <u>(290,229)</u> | <u>1,718,663</u> |
| Excess of Revenues Over Expenditures | | | | | | |
| | 806,671 | - | - | 806,671 | (16,883) | |
| Other Financing Sources (Uses) | | | | | | |
| Interfund transfers in (out) | 4,442 | (3,719) | (723) | - | - | |
| Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out | | | | | | |
| | 811,113 | (3,719) | (723) | 806,671 | (806,671) | |
| Change in Net Position | | | | | | |
| | | | | | 789,788 | 789,788 |
| Fund Balances/Net Position | | | | | | |
| Beginning of year | 1,771,640 | 19,786 | 26,153 | 1,817,579 | - | 7,551,618 |
| End of year | <u>\$ 2,582,753</u> | <u>\$ 16,067</u> | <u>\$ 25,430</u> | <u>\$ 2,624,250</u> | <u>\$ 0</u> | <u>\$ 8,341,406</u> |

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Palmer Plantation Municipal Utility District No. 1 (the District) was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective December 21, 1982, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

The District is a participant in regional water and wastewater treatment facilities, which were formed to provide water and maintain and operate wastewater treatment facilities on behalf of all participants, as further described in Note 6. Operations of the plants are accounted for in the special revenue funds. The Board of the District has the responsibility of approving budgets, setting rates and determining the day-to-day operations. The District also participates in regional water facilities, which were formed to provide water facilities on behalf of all participants, as further described in Note 6. The Board of Directors of Palmer Plantation Municipal Utility District No. 2 (District No. 2) has the responsibility of determining day-to-day operations. The District retains an ongoing financial interest and responsibility. Additional information relating to the facilities may be obtained from Paul A. Philbin & Assoc., P.C., 6363 Woodway, Suite 725, Houston, Texas 77057-1792.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2019

financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

The District has two special revenue funds as follows:

Wastewater Treatment Plant – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is sewer service revenues.

Water Plant – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is water service revenues.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

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Notes to Financial Statements

December 31, 2019

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Interfund Transactions

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

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of Estimates

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

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2018 on the 2018 levy.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended December 31, 2019, the tax levied in October 2019 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ending December 31, 2020. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

| | <u>Years</u> |
|--|--------------|
| Water production and distribution facilities | 10-45 |
| Wastewater collection and treatment facilities | 10-45 |
| Drainage facilities | 10-45 |

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

| | |
|--|----------------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | \$ 5,627,600 |
| Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements. | 58,219 |
| Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds. | <u>31,337</u> |
| Adjustment to fund balances to arrive at net position. | <u><u>\$ 5,717,156</u></u> |

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because of the following.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

| | | |
|---|----|-----------------------|
| Change in fund balances. | \$ | 806,671 |
| Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and noncapitalized costs exceeded capital outlay expenditures in the current period. | | (30,222) |
| Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities. | | <u>13,339</u> |
| Change in net position of governmental activities. | \$ | <u><u>789,788</u></u> |

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At December 31, 2019, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States,

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations.

At December 31, 2019, the District had the following investments and maturities:

| Type | Maturities in Years | | | | |
|-------------|---------------------|-------------------|-------------|-------------|-----------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Texas CLASS | <u>\$ 531,567</u> | <u>\$ 531,567</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2019, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet at December 31, 2019, as follows:

| | |
|-----------------|----------------------------|
| Carrying value: | |
| Deposits | \$ 2,861,417 |
| Investments | <u>531,567</u> |
| Total | <u><u>\$ 3,392,984</u></u> |

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

Included in the following statement of net position captions:

| | | |
|-------------------------|----|-------------------------|
| Cash | \$ | 691,417 |
| Certificates of deposit | | 2,170,000 |
| Investments | | <u>531,567</u> |
| Total | \$ | <u><u>3,392,984</u></u> |

Investment Income

Investment income of \$62,194 for the year ended December 31, 2019, consisted of interest income.

Fair Value Measurements

The District has the following recurring fair value measurements as of December 31, 2019:

- Pooled investments of \$531,567 are valued at fair value per share of the pool's underlying portfolio.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2019, is presented below:

| Governmental Activities | Balances, Beginning of Year | Additions | Reclassi- fications/ Retirements | Balances, End of Year |
|--|--|--------------------|---|--------------------------------------|
| Capital assets, non-depreciable: | | | | |
| Land and improvements | \$ 2,611,682 | \$ 13,483 | \$ 497,326 | \$ 3,122,491 |
| Construction in progress | 659,965 | 7,826 | (659,965) | 7,826 |
| Total capital assets, non-depreciable | <u>3,271,647</u> | <u>21,309</u> | <u>(162,639)</u> | <u>3,130,317</u> |
| Capital assets, depreciable: | | | | |
| Water production and distribution facilities | 1,348,673 | 29,277 | - | 1,377,950 |
| Wastewater collection and treatment facilities | 3,187,020 | 77,206 | 85,196 | 3,349,422 |
| Drainage facilities | 2,150,355 | - | 76,847 | 2,227,202 |
| Total capital assets, depreciable | <u>6,686,048</u> | <u>106,483</u> | <u>162,043</u> | <u>6,954,574</u> |
| Less accumulated depreciation: | | | | |
| Water production and distribution facilities | (938,876) | (31,063) | - | (969,939) |
| Wastewater collection and treatment facilities | (2,071,842) | (76,674) | - | (2,148,516) |
| Drainage facilities | (1,289,155) | (49,681) | - | (1,338,836) |
| Total accumulated depreciation | <u>(4,299,873)</u> | <u>(157,418)</u> | <u>0</u> | <u>(4,457,291)</u> |
| Total governmental activities, net | <u>\$ 5,657,822</u> | <u>\$ (29,626)</u> | <u>\$ (596)</u> | <u>\$ 5,627,600</u> |

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

Note 4: Long-term Liabilities

| | |
|-----------------------------------|---------------|
| Bonds voted | \$ 19,420,000 |
| Bonds sold | 14,295,000 |
| Refunding bonds voted | 19,420,000 |
| Refunding bond authorization used | 14,295,000 |

Note 5: Maintenance Taxes

At an election held May 7, 2016, voters authorized a maintenance tax not to exceed \$0.50 per \$100 valuation on all property within the District subject to taxation in lieu of the \$0.20 per \$100 valuation authorized by voters at an election held in 1984. During the year ended December 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.4700 per \$100 of assessed valuation, which resulted in a tax levy of \$1,023,363 on the taxable valuation of \$217,736,878 for the 2019 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 6: Contracts With Other Districts

Regional Wastewater Treatment Facility

On December 10, 1984, the District, Fort Bend County Municipal Utility District No. 49 (District No. 49) and District No. 2 entered into a 40-year agreement to share construction and operation costs of a regional wastewater treatment plant. The District is the operator of the plant and until the current year, held title for the benefit of the districts. The agreement was amended on May 15, 2019, at which time the District granted, sold and conveyed ownership of the wastewater treatment plant to District No. 2. The District will continue to operate the wastewater treatment plant until the District is dissolved by the City of Missouri City.

Construction costs are to be shared based on a pro rata share of costs relative to capacity acquired in the plant. In accordance with the contract, District No. 2 did not participate in the acquisition or construction of the initial phase of the interim or permanent 600,000 gallon-per-day plant construction. However, District No. 2 purchased capacity in the plant during a prior year. The District was reimbursed \$145,696 in a prior year by District No. 2 for certain construction, engineering and interest costs of the plant. During the current year, the District sold 67 equivalent single-family connections of its capacity to District No. 49 for \$152,626.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

The participating districts and their respective current percentage of ownership in the regional wastewater treatment plant are:

| | |
|-----------------|---------|
| The District | 34.6 % |
| District No. 2 | 41.7 |
| District No. 49 | 23.7 |
| Total | 100.0 % |

A summary of the transactions in the wastewater treatment plant fund for the year ended December 31, 2019, is as follows:

| | The District | District No. 2 | District No. 49 | Totals |
|-------------------------------|-------------------------|---------------------------|----------------------------|---------------|
| Receivable, beginning of year | \$ 9,494 | \$ 10,477 | \$ 15,415 | \$ 35,386 |
| Billings to the districts | 137,816 | 157,914 | 72,424 | 368,154 |
| Collections | (130,819) | (148,346) | (71,471) | (350,636) |
| Receivable, end of year | \$ 16,491 | \$ 20,045 | \$ 16,368 | \$ 52,904 |
| Operating reserve | \$ 16,067 | \$ 17,785 | \$ 8,372 | \$ 42,224 |

Joint Water Facility

On December 10, 1984, the District and District No. 49 entered into a 40-year agreement to share the construction costs and operation costs of a joint water plant, referred to as water plant No. 1. The District is the operator of water plant No. 1 and holds title for the benefit of the districts. Construction costs are to be shared based on a pro rata share of costs relative to capacity acquired in water plant No. 1.

During a prior year, each district paid or caused to be paid its pro rata share of construction costs and recorded its pro rata share in its respective financial statements. In a prior year, the District was reimbursed \$102,490 by District No. 2 for certain construction, engineering and interest costs of water plant No. 1. On April 1, 2019, the joint water facilities agreement was amended, at which time the District sold 29 equivalent connections of its capacity to District No. 49 for \$42,746.

The participating districts and their respective current percentage share of ownership in water plant No. 1 are as follows.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

| | |
|-----------------|---------|
| The District | 42.8 % |
| District No. 2 | 29.1 |
| District No. 49 | 28.2 |
| Total | 100.0 % |

A summary of the transactions in the water plant fund for the year ended December 31, 2019, is as shown below:

| | The District | District No. 2 | District No. 49 | Totals |
|-------------------------------|-----------------|-------------------|--------------------|-----------|
| Receivable, beginning of year | \$ 9,427 | \$ 7,228 | \$ 18,721 | \$ 35,376 |
| Billings to the districts | 163,385 | 141,391 | 77,111 | 381,887 |
| Collections | (160,431) | (138,366) | (84,699) | (383,496) |
| Receivable, end of year | \$ 12,381 | \$ 10,253 | \$ 11,133 | \$ 33,767 |
| Operating reserve | \$ 25,430 | \$ 21,914 | \$ 13,711 | \$ 61,055 |

Operational Cost Sharing

In accordance with both agreements, the districts share fixed operating costs of the wastewater treatment plant and water plant No. 1 based on their pro rata share of capacity acquired. Variable costs are allocated based on actual capacity used.

Joint Water Facility

On July 1, 2000, the districts entered into a restated joint water facilities agreement, which includes water plant No. 2, which was constructed by and is owned 100 percent by District No. 2. District No. 2 is the operator of water plant No. 2. All operating costs are shared based on actual capacity used.

During the current year, the District incurred charges of \$127,170 as its share of operating costs.

The condensed audited financial information of District No. 2's joint venture as of and for the year ended December 31, 2019, is as follows.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

| | General Fund |
|------------------------------------|-------------------------|
| Total assets | \$ 86,291 |
| Total liabilities | \$ 29,768 |
| Total fund balance | 56,523 |
| Total liabilities and fund balance | \$ 86,291 |
| Total revenues | \$ 334,431 |
| Total expenditures | 334,431 |
| Excess revenues | \$ 0 |
| Other financing uses | \$ (578) |

The District has deposited \$24,387 with the joint facilities as its share of an operating reserve.

Note 7: Groundwater Reduction Plan Agreement

The District is within the boundaries of the Fort Bend Subsidence District (the Subsidence District), which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to an annual permit issued by the Subsidence District. In 1999, the Subsidence District adopted a district regulatory plan to reduce groundwater withdrawal through the conversion to surface water. The District has entered into a Groundwater Reduction Plan Agreement (GRPA) with the City of Missouri City (the City) in order to meet the Subsidence District's requirements. As a participant in the GRPA, the District has complied with all Subsidence District requirements for surface water conversion, but is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City in the future. As of December 31, 2019, the District has incurred fees totaling \$221,278 for groundwater withdrawal, which was billed to each participant for their share.

Note 8: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2019

Note 9: Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position and result of operations of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Required Supplementary Information

Palmer Plantation Municipal Utility District No. 1
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2019

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|---------------------|---|
| Revenues | | | |
| Property taxes | \$ 999,184 | \$ 1,015,045 | \$ 15,861 |
| Water service | 261,100 | 254,442 | (6,658) |
| Sewer service | 179,000 | 167,076 | (11,924) |
| Surface water conversion | 183,000 | 171,614 | (11,386) |
| Garbage service | 121,000 | 123,470 | 2,470 |
| Penalty and interest | 10,500 | 28,159 | 17,659 |
| Tap connection and inspection fees | 5,000 | - | (5,000) |
| Investment income | 29,025 | 62,037 | 33,012 |
| Sale of capacity | - | 195,372 | 195,372 |
| | <u>1,787,809</u> | <u>2,017,215</u> | <u>229,406</u> |
| Expenditures | | | |
| Service operations: | | | |
| Purchased services | 403,628 | 428,371 | (24,743) |
| Professional fees | 107,500 | 116,219 | (8,719) |
| Contracted services | 87,600 | 101,899 | (14,299) |
| Solid waste | 120,000 | 122,961 | (2,961) |
| Utilities | 4,200 | 3,737 | 463 |
| Repairs and maintenance | 125,000 | 252,843 | (127,843) |
| Other expenditures | 61,019 | 70,468 | (9,449) |
| Tap connections | 5,000 | 2,100 | 2,900 |
| Capital outlay | 165,400 | 111,946 | 53,454 |
| | <u>1,079,347</u> | <u>1,210,544</u> | <u>(131,197)</u> |
| Excess of Revenues Over Expenditures | 708,462 | 806,671 | 98,209 |
| Other Financing Sources | | | |
| Interfund transfers in | - | 4,442 | 4,442 |
| Excess of Revenues and Transfers In Over Expenditures and Transfers Out | 708,462 | 811,113 | 102,651 |
| Fund Balance, Beginning of Year | <u>1,771,640</u> | <u>1,771,640</u> | <u>-</u> |
| Fund Balance, End of Year | <u>\$ 2,480,102</u> | <u>\$ 2,582,753</u> | <u>\$ 102,651</u> |

Palmer Plantation Municipal Utility District No. 1
Budgetary Comparison Schedule – Wastewater Treatment Plant
Year Ended December 31, 2019

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|------------------|---|
| Revenues | | | |
| Sewer service | \$ 268,200 | \$ 368,154 | \$ 99,954 |
| Investment income | 60 | 63 | 3 |
| Other income | 64,200 | 48,150 | (16,050) |
| | <u>332,460</u> | <u>416,367</u> | <u>83,907</u> |
| Expenditures | | | |
| Service operations: | | | |
| Professional fees | 2,300 | 2,100 | 200 |
| Contracted services | 6,800 | 7,188 | (388) |
| Utilities | 50,200 | 41,115 | 9,085 |
| Repairs and maintenance | 260,100 | 351,779 | (91,679) |
| Other expenditures | 13,060 | 14,185 | (1,125) |
| | <u>332,460</u> | <u>416,367</u> | <u>(83,907)</u> |
| Excess of Revenues Over Expenditures | - | - | - |
| Other Financing Uses | | | |
| Interfund transfers out | - | (3,719) | (3,719) |
| Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out | - | (3,719) | (3,719) |
| Fund Balance, Beginning of Year | <u>19,786</u> | <u>19,786</u> | <u>-</u> |
| Fund Balance, End of Year | <u>\$ 19,786</u> | <u>\$ 16,067</u> | <u>\$ (3,719)</u> |

Palmer Plantation Municipal Utility District No. 1
Budgetary Comparison Schedule – Water Plant
Year Ended December 31, 2019

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|-------------------------|---|
| Revenues | | | |
| Water service | \$ 352,250 | \$ 381,887 | \$ 29,637 |
| Other income | 70 | 94 | 24 |
| | <u>352,320</u> | <u>381,981</u> | <u>29,661</u> |
| Expenditures | | | |
| Service operations: | | | |
| Surface water conversion | 220,000 | 221,278 | (1,278) |
| Professional fees | 2,300 | 2,100 | 200 |
| Contracted services | 6,500 | 6,688 | (188) |
| Utilities | 31,000 | 27,332 | 3,668 |
| Repairs and maintenance | 80,600 | 83,286 | (2,686) |
| Other expenditures | 6,920 | 6,797 | 123 |
| Capital outlay | 5,000 | 34,500 | (29,500) |
| | <u>352,320</u> | <u>381,981</u> | <u>(29,661)</u> |
| Excess of Revenues Over Expenditures | - | - | - |
| Other Financing Uses | | | |
| Interfund transfers out | - | (723) | (723) |
| Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out | - | (723) | (723) |
| Fund Balance, Beginning of Year | <u>26,153</u> | <u>26,153</u> | - |
| Fund Balance, End of Year | <u><u>\$ 26,153</u></u> | <u><u>\$ 25,430</u></u> | <u><u>\$ (723)</u></u> |

Palmer Plantation Municipal Utility District No. 1
Notes to Required Supplementary Information
December 31, 2019

Budgets and Budgetary Accounting

Annual operating budgets are prepared for the general, wastewater treatment plant and water plant funds by the District's consultants. The budgets reflect resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets of the general fund, wastewater treatment plant and water plant funds were not amended during 2019.

The District prepares its annual operating budgets on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedules – General Fund, Wastewater Treatment Plant and Water Plant funds present the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Palmer Plantation Municipal Utility District No. 1
Other Schedules Included Within This Report
December 31, 2019

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 11-24
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [] Schedule of Long-term Debt Service Requirements by Years – Not Applicable
- [] Changes in Long-term Bonded Debt – Not Applicable
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Palmer Plantation Municipal Utility District No. 1

Schedule of Services and Rates

Year Ended December 31, 2019

1. Services provided by the District:

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

2. Retail service providers

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

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate Per 1,000 Gallons Over Minimum</u> | <u>Usage Levels</u> |
|-------------------------|-----------------------|----------------------|----------------------|--|---------------------|
| Water: | \$ 15.00 | 6,000 | N | \$ 2.25 | 6,001 to No limit |
| Wastewater: | \$ 16.00 | 5,000 | N | \$ 2.25 | 5,001 to No limit |
| Regional water fee: | \$ 1.89 | 1,000 | N | \$ 1.89 | 1,001 to No limit |
| Garbage collection fee: | \$ 21.22 | 0 | Y | | |

Does the District employ winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage (including fees): Water \$ 42.90 Wastewater \$ 48.47

b. Water and wastewater retail connections:

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC Factor</u> | <u>Active ESFC*</u> |
|-------------------|--------------------------|---------------------------|--------------------|---------------------|
| Unmetered | - | - | x1.0 | - |
| ≤ 3/4" | 427 | 422 | x1.0 | 422 |
| 1" | 228 | 222 | x2.5 | 555 |
| 1 1/2" | 1 | 1 | x5.0 | 5 |
| 2" | 13 | 12 | x8.0 | 96 |
| 3" | 1 | 1 | x15.0 | 15 |
| 4" | 1 | 1 | x25.0 | 25 |
| 6" | - | - | x50.0 | - |
| 8" | - | - | x80.0 | - |
| 10" | - | - | x115.0 | - |
| Total water | 671 | 659 | | 1,118 |
| Total wastewater | 651 | 635 | x1.0 | 635 |

3. Total water consumption (in thousands) during the fiscal year:

| | |
|---|---------|
| Gallons pumped into the system: | 131,090 |
| Gallons billed to customers: | 114,834 |
| Water accountability ratio (gallons billed/gallons pumped): | 87.60% |

*"ESFC" means equivalent single-family connections

Palmer Plantation Municipal Utility District No. 1
Schedule of General Fund Expenditures
Year Ended December 31, 2019

| | | | |
|---|-----------|----|---------------------|
| Personnel (including benefits) | | \$ | - |
| Professional Fees | | | |
| Auditing | \$ 17,600 | | |
| Legal | 64,219 | | |
| Engineering | 34,400 | | |
| Financial advisor | - | | 116,219 |
| | | | |
| Purchased Services for Resale | | | |
| Bulk water and wastewater service purchases | | | 428,371 |
| Regional Water Fee | | | - |
| Contracted Services | | | |
| Bookkeeping | 24,619 | | |
| General manager | - | | |
| Appraisal district | 6,042 | | |
| Tax collector | 10,269 | | |
| Security | - | | |
| Other contracted services | 60,969 | | 101,899 |
| | | | |
| Utilities | | | 3,737 |
| Repairs and Maintenance | | | 252,843 |
| Administrative Expenditures | | | |
| Directors' fees | 12,600 | | |
| Office supplies | 5,683 | | |
| Insurance | 6,783 | | |
| Other administrative expenditures | 45,402 | | 70,468 |
| | | | |
| Capital Outlay | | | |
| Capitalized assets | 111,946 | | |
| Expenditures not capitalized | - | | 111,946 |
| | | | |
| Tap Connection Expenditures | | | 2,100 |
| Solid Waste Disposal | | | 122,961 |
| Fire Fighting | | | - |
| Parks and Recreation | | | - |
| Other Expenditures | | | - |
| | | | |
| Total expenditures | | | <u>\$ 1,210,544</u> |

Palmer Plantation Municipal Utility District No. 1
Schedule of Temporary Investments
December 31, 2019

| | Interest Rate | Maturity Date | Face Amount | Accrued Interest Receivable |
|-------------------------|--------------------------|--------------------------|------------------------|--|
| General Fund | | | | |
| Certificates of Deposit | | | | |
| No. 5030523 | 2.60% | 03/13/20 | \$ 240,000 | \$ 5,009 |
| No. 91300011886861 | 2.75% | 05/12/20 | 240,000 | 4,231 |
| No. 12419 | 2.22% | 09/22/20 | 240,000 | 1,474 |
| No. 440005343 | 2.70% | 02/11/20 | 240,000 | 5,734 |
| No. 315838 | 2.71% | 03/12/20 | 190,000 | 4,133 |
| No. 2000000065 | 2.65% | 03/13/20 | 240,000 | 5,106 |
| No. 36000640 | 2.45% | 08/21/20 | 240,000 | 2,110 |
| No. 3216000443 | 2.60% | 07/17/20 | 200,000 | 2,365 |
| No. 6000021631 | 2.60% | 01/11/20 | 100,000 | 2,515 |
| No. 9009010211 | 2.05% | 09/15/20 | 240,000 | 1,429 |
| Texas CLASS | 1.94% | Demand | 531,567 | - |
| Totals | | | <u>\$ 2,701,567</u> | <u>\$ 34,106</u> |

Palmer Plantation Municipal Utility District No. 1
Analysis of Taxes Levied and Receivable
Year Ended December 31, 2019

| | Maintenance Taxes | Debt Service Taxes |
|---|------------------------------|-----------------------------------|
| Receivable, Beginning of Year | \$ 529,149 | \$ 21,057 |
| Additions and corrections to prior years' taxes | (658) | - |
| Adjusted receivable, beginning of year | 528,491 | 21,057 |
| 2019 Original Tax Levy | 1,014,155 | - |
| Additions and corrections | 9,208 | - |
| Adjusted tax levy | 1,023,363 | 0 |
| Total to be accounted for | 1,551,854 | 21,057 |
| Tax collections: Current year | (590,464) | - |
| Prior years | (490,029) | (1,300) |
| Receivable, end of year | \$ 471,361 | \$ 19,757 |
| Receivable, by Years | | |
| 2019 | \$ 432,899 | \$ - |
| 2018 | 21,203 | - |
| 2017 | 7,098 | - |
| 2016 | 6,263 | - |
| 2015 | 1,402 | 2,523 |
| 2014 | 1,057 | 5,591 |
| 2013 | 499 | 2,642 |
| 2012 | 280 | 2,143 |
| 2011 | 239 | 2,164 |
| 2010 | 223 | 2,021 |
| 2009 | 157 | 2,015 |
| 2008 | 41 | 658 |
| Receivable, end of year | \$ 471,361 | \$ 19,757 |

Palmer Plantation Municipal Utility District No. 1
Analysis of Taxes Levied and Receivable (Continued)
Year Ended December 31, 2019

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Property Valuations | | | | |
| Land | \$ 49,562,253 | \$ 48,582,081 | \$ 47,306,810 | \$ 47,169,597 |
| Improvements | 178,355,518 | 170,727,234 | 168,969,286 | 164,620,667 |
| Personal property | 1,854,600 | 1,660,450 | 1,667,560 | 1,612,720 |
| Exemptions | <u>(12,035,493)</u> | <u>(7,686,259)</u> | <u>(7,853,088)</u> | <u>(7,964,431)</u> |
| Total property valuations | <u>\$ 217,736,878</u> | <u>\$ 213,283,506</u> | <u>\$ 210,090,568</u> | <u>\$ 205,438,553</u> |
| Tax Rates per \$100 Valuation | | | | |
| Maintenance tax rates* | <u>\$ 0.4700</u> | <u>\$ 0.4800</u> | <u>\$ 0.4800</u> | <u>\$ 0.4800</u> |
| Tax Levy | <u>\$ 1,023,363</u> | <u>\$ 1,023,762</u> | <u>\$ 1,008,434</u> | <u>\$ 986,105</u> |
| Percent of Taxes Collected to Taxes Levied** | <u>58%</u> | <u>98%</u> | <u>99%</u> | <u>99%</u> |

*Maximum tax rate approved by voters: \$0.50 approved on May 7, 2016

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Palmer Plantation Municipal Utility District No. 1
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended December 31,

| | Amounts | | | | |
|--|---------------------|---------------------|---------------------|-------------------|-------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| General Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ 1,015,045 | \$ 992,641 | \$ 974,644 | \$ 385,964 | \$ 196,827 |
| Water service | 254,442 | 262,092 | 248,686 | 244,140 | 268,031 |
| Sewer service | 167,076 | 184,775 | 180,703 | 175,154 | 170,660 |
| Surface water conversion | 171,614 | 170,500 | 166,651 | 160,900 | 177,356 |
| Garbage service | 123,470 | 117,669 | 116,471 | 115,056 | 177,504 |
| Penalty and interest | 28,159 | 26,361 | 17,499 | 10,546 | 12,242 |
| Tap connection and inspection fees | - | - | 2,400 | 5,800 | 6,500 |
| Investment income | 62,037 | 29,826 | 14,012 | 3,626 | 1,543 |
| Sale of capacity | 195,372 | - | - | - | - |
| Total revenues | <u>2,017,215</u> | <u>1,783,864</u> | <u>1,721,066</u> | <u>1,101,186</u> | <u>1,010,663</u> |
| Expenditures | | | | | |
| Service operations: | | | | | |
| Purchased services | 428,371 | 364,371 | 417,244 | 359,438 | 395,096 |
| Professional fees | 116,219 | 104,005 | 94,435 | 75,919 | 66,361 |
| Contracted services | 101,899 | 102,985 | 103,205 | 82,526 | 80,769 |
| Solid waste | 122,961 | 117,258 | 124,516 | 115,691 | 182,923 |
| Utilities | 3,737 | 4,125 | 4,345 | 4,081 | 4,621 |
| Repairs and maintenance | 252,843 | 123,569 | 246,896 | 120,973 | 122,118 |
| Other expenditures | 70,468 | 101,587 | 58,936 | 53,263 | 66,910 |
| Tap connections | 2,100 | 2,599 | 950 | 2,550 | 950 |
| Capital outlay | 111,946 | 554,824 | 67,442 | - | 7,385 |
| Total expenditures | <u>1,210,544</u> | <u>1,475,323</u> | <u>1,117,969</u> | <u>814,441</u> | <u>927,133</u> |
| Excess of Revenues Over Expenditures | 806,671 | 308,541 | 603,097 | 286,745 | 83,530 |
| Other Financing Sources (Uses) | | | | | |
| Interfund transfers in (out) | 4,442 | 1,041 | (10,318) | 72,480 | - |
| Excess of Revenues and Transfers In Over Expenditures and Transfers Out | 811,113 | 309,582 | 592,779 | 359,225 | 83,530 |
| Fund Balance, Beginning of Year | <u>1,771,640</u> | <u>1,462,058</u> | <u>869,279</u> | <u>510,054</u> | <u>426,524</u> |
| Fund Balance, End of Year | <u>\$ 2,582,753</u> | <u>\$ 1,771,640</u> | <u>\$ 1,462,058</u> | <u>\$ 869,279</u> | <u>\$ 510,054</u> |
| Total Active Retail Water Connections | <u>659</u> | <u>661</u> | <u>659</u> | <u>656</u> | <u>654</u> |
| Total Active Retail Wastewater Connections | <u>635</u> | <u>641</u> | <u>643</u> | <u>639</u> | <u>629</u> |

Percent of Fund Total Revenues

| 2019 | 2018 | 2017 | 2016 | 2015 |
|---------------|---------------|---------------|---------------|--------------|
| 50.3 % | 55.7 % | 56.6 % | 35.1 % | 19.5 % |
| 12.6 | 14.7 | 14.4 | 22.2 | 26.5 |
| 8.3 | 10.4 | 10.5 | 15.9 | 16.9 |
| 8.5 | 9.6 | 9.7 | 14.6 | 17.6 |
| 6.1 | 6.6 | 6.8 | 10.5 | 17.6 |
| 1.4 | 1.3 | 1.0 | 0.9 | 1.2 |
| - | - | 0.2 | 0.5 | 0.6 |
| 3.1 | 1.7 | 0.8 | 0.3 | 0.1 |
| 9.7 | - | - | - | - |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 21.2 | 20.5 | 24.2 | 32.7 | 39.1 |
| 5.8 | 5.8 | 5.5 | 6.9 | 6.6 |
| 5.1 | 5.8 | 6.0 | 7.5 | 8.0 |
| 6.1 | 6.6 | 7.2 | 10.5 | 18.1 |
| 0.2 | 0.2 | 0.3 | 0.4 | 0.5 |
| 12.5 | 6.9 | 14.4 | 11.0 | 12.0 |
| 3.5 | 5.7 | 3.4 | 4.8 | 6.6 |
| 0.1 | 0.2 | 0.1 | 0.2 | 0.1 |
| 5.5 | 31.2 | 3.9 | - | 0.7 |
| <u>60.0</u> | <u>82.9</u> | <u>65.0</u> | <u>74.0</u> | <u>91.7</u> |
| <u>40.0 %</u> | <u>17.1 %</u> | <u>35.0 %</u> | <u>26.0 %</u> | <u>8.3 %</u> |

Palmer Plantation Municipal Utility District No. 1
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended December 31,

| | Amounts | | | | |
|--|-------------|-------------|-------------|------------------|-------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Debt Service Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ 705,132 | \$ 1,041,985 |
| Penalty and interest | - | - | - | 22,264 | 11,151 |
| Investment income | - | - | - | 2,794 | 2,625 |
| Other income | - | - | - | 3 | 3 |
| Total revenues | <u>0</u> | <u>0</u> | <u>0</u> | <u>730,193</u> | <u>1,055,764</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Professional fees | - | - | - | 7,031 | 2,954 |
| Contracted services | - | - | - | 16,657 | 18,415 |
| Other expenditures | - | - | - | 2,176 | 5,456 |
| Debt service: | | | | | |
| Principal retirement | - | - | - | 995,000 | 960,000 |
| Interest and fees | - | - | - | 39,225 | 78,225 |
| Total expenditures | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,060,089</u> | <u>1,065,050</u> |
| Deficiency of Revenues Over Expenditures | - | - | - | (329,896) | (9,286) |
| Other Financing Uses | | | | | |
| Interfund transfers out | - | - | - | (72,480) | - |
| Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out | - | - | - | (402,376) | (9,286) |
| Fund Balance, Beginning of Year | <u>-</u> | <u>-</u> | <u>-</u> | <u>402,376</u> | <u>411,662</u> |
| Fund Balance, End of Year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 402,376</u> |

Percent of Fund Total Revenues

| 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------|--------------|--------------|-----------------|----------------|
| - | - | - | 96.6 | 98.7 |
| - | - | - | 3.1 | 1.1 |
| - | - | - | 0.3 | 0.2 |
| - | - | - | 0.0 | 0.0 |
| <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>100.0</u> | <u>100.0</u> |
| - | - | - | 1.0 | 0.3 |
| - | - | - | 2.3 | 1.8 |
| - | - | - | 0.3 | 0.5 |
| - | - | - | 136.2 | 90.9 |
| - | - | - | 5.4 | 7.4 |
| <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>145.2</u> | <u>100.9</u> |
| <u>0.0</u> % | <u>0.0</u> % | <u>0.0</u> % | <u>(45.2)</u> % | <u>(0.9)</u> % |

Palmer Plantation Municipal Utility District No. 1
Board Members, Key Personnel and Consultants
Year Ended December 31, 2019

| | |
|--|--|
| Complete District mailing address: | Palmer Plantation Municipal Utility District No. 1 c/o Paul A. Philbin & Assoc., P.C. 6363 Woodway, Suite 725 Houston, Texas 77057-1792 |
| District business telephone number: | 713.783.4120 |
| Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): | June 14, 2018 |
| Limit on fees of office that a director may receive during a fiscal year: | \$ 7,200 |

| Board Members | Term of Office Elected & Expires | Fees* | Expense Reimbursements | Title at Year-end |
|--------------------|---|----------|---------------------------|----------------------|
| Tara Wagner | Elected 05/18- 05/22 | \$ 2,700 | \$ 2,670 | President |
| Mike Ware | Elected 05/18- 05/22 | 3,000 | 2,491 | Vice President |
| Lynn Macko | Elected 05/16- 05/20 | 2,850 | 2,731 | Secretary |
| Susan Bassett | Elected 05/18- 05/22 | 2,250 | 1,258 | Deputy Secretary |
| Alexandria Roberts | Appointed 11/17- 05/20 | 1,800 | 274 | Director |

*Fees are the amounts actually paid to a director during the District's fiscal year.

Palmer Plantation Municipal Utility District No. 1
Board Members, Key Personnel and Consultants (Continued)
Year Ended December 31, 2019

| Consultants | Date Hired | Fees and Expense Reimbursements | Title |
|--|-----------------------|--|----------------------------|
| Assessments of the Southwest, Inc. | 07/01/01 | \$ 12,142 | Tax Assessor/ Collector |
| BKD, LLP | 01/01/88 | 21,800 | Auditor |
| Fort Bend Central Appraisal District | Legislative Action | 6,042 | Appraiser |
| LJA Engineering & Surveying, Inc. | 01/14/83 | 73,443 | Engineer |
| Municipal Accounts & Consulting, L.P. | 11/16/05 | 42,107 | Bookkeeper |
| Paul A. Philbin & Assoc., P.C. | 01/14/83 | 68,198 | Attorney |
| Quail Valley Utility District | 06/13/83 | 912,576 | Operator |
| Rathmann & Associates, L.P. | 04/11/03 | 0 | Financial Advisor |
| <hr/> Investment Officers <hr/> | | | |
| Mark M. Burton and Ghia Lewis | 11/16/05 | N/A | Bookkeepers |