

SAN LEON MUNICIPAL UTILITY DISTRICT

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SAN LEON MUNICIPAL UTILITY DISTRICT

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Leon Municipal Utility District
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of San Leon Municipal Utility District (the "District"), as of and for the year ended June 30, 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 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 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 opinions.

Board of Directors
San Leon Municipal
Utility District

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 June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 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.

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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 18, 2018

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Management's discussion and analysis of San Leon Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes the District's assets, liabilities, and, if applicable, deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

FUND FINANCIAL STATEMENTS (Continued)

The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explains the differences between the two presentations and assists in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$5,609,529 as of June 30, 2018. A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities as well as vehicles and equipment less any debt used to acquire those assets that is still outstanding).

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A comparative analysis of government-wide changes in net position is presented below:

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 6,201,514	\$ 4,322,697	\$ 1,878,817
Capital Assets (Net of Accumulated Depreciation)	11,588,260	10,941,012	647,248
Total Assets	\$ 17,789,774	\$ 15,263,709	\$ 2,526,065
Bonds and Notes Payable	\$ 11,501,090	\$ 8,886,390	\$ (2,614,700)
Other Liabilities	679,155	733,222	54,067
Total Liabilities	\$ 12,180,245	\$ 9,619,612	\$ (2,560,633)
Net Position:			
Net Investment in Capital Assets	\$ 2,569,789	\$ 2,426,624	\$ 143,165
Restricted	1,803,217	1,483,055	320,162
Unrestricted	1,236,523	1,734,418	(497,895)
Total Net Position	\$ 5,609,529	\$ 5,644,097	\$ (34,568)

The following table provides a summary of the District's operations for the years ending June 30, 2018, and June 30, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,525,055	\$ 1,221,215	\$ 303,840
Charges for Services	3,296,214	3,021,125	275,089
Other Revenues	183,631	174,099	9,532
Total Revenues	\$ 5,004,900	\$ 4,416,439	\$ 588,461
Expenses for Services	5,039,468	4,174,883	(864,585)
Change in Net Position	\$ (34,568)	\$ 241,556	\$ (276,124)
Net Position, Beginning of Year	5,644,097	5,402,541	241,556
Net Position, End of Year	\$ 5,609,529	\$ 5,644,097	\$ (34,568)

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2018, were \$5,373,088, an increase of \$1,904,788 from the prior year.

The General Fund fund balance decreased by \$519,111, primarily due to inflow and infiltration costs paid by the General Fund.

The Debt Service Fund fund balance increased by \$313,282, primarily due to the structure of the District's debt service requirements and capitalized interest received from the sale of bonds.

The Capital Projects Fund fund balance increased by \$2,110,617, primarily due to bond proceeds received in the current year, a portion of which was still on hand at year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$90,860 lower than budgeted revenues, primarily due to lower than anticipated revenues in almost every category, offset by higher than anticipated miscellaneous revenues. Actual expenditures exceeded budgeted expenditures by \$690,827, primarily due to higher than anticipated contract labor and capital outlay expenditures.

CAPITAL ASSETS

Capital assets as of June 30, 2018, total \$11,588,260 (net of accumulated depreciation) and include land, buildings, vehicles and equipment as well as the water and wastewater systems. Significant capital asset activity during the year included manhole replacement costs and water and sewer line extensions.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 151,807	\$ 151,807	\$
Construction in Progress		77,321	(77,321)
Capital Assets, Net of Accumulated Depreciation:			
Buildings, Vehicles, and Equipment	341,355	338,325	3,030
Water System	5,561,816	5,192,789	369,027
Wastewater System	5,533,282	5,180,770	352,512
Total Net Capital Assets	\$ 11,588,260	\$ 10,941,012	\$ 647,248

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

LONG-TERM DEBT ACTIVITY

As of June 30, 2018, the District had total bond debt payable of \$11,530,000. The changes in the debt position of the District during the fiscal year ended June 30, 2018, are summarized as follows:

Bond Debt Payable, July 1, 2017	\$ 8,890,000
Add: Bond Sale - Series 2017	3,000,000
Less: Bond Principal Paid	<u>360,000</u>
Bond Debt Payable, June 30, 2018	<u>\$ 11,530,000</u>

The District's Series 2013 and 2017 bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation and Municipal Assurance Corp., respectively. The District's underlying rating is "BBB+" (S&P) and "A3" (Moody's).

The District's liabilities also include notes payable for the purchase of a Case CX31B Compact Excavator and a Case CX36B Compact Excavator.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to San Leon Municipal Utility District, 443 24th Street, San Leon, Texas 77539.

SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 504,168	\$ 50,604
Investments	971,792	1,537,383
Cash with Galveston County Tax Office		3,838
Receivables:		
Property Taxes	107,615	126,453
Penalty and Interest on Delinquent Taxes		
Service Accounts	376,905	
Other	634	
Due from Other Funds		169,736
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 1,961,114	\$ 1,888,014

The accompanying notes to the financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 271,758	\$ 826,530	\$	\$ 826,530
2,210,364	4,719,539		4,719,539
	3,838		3,838
	234,068		234,068
		40,000	40,000
	376,905		376,905
	634		634
497	170,233	(170,233)	
		151,807	151,807
		11,436,453	11,436,453
<u>\$ 2,482,619</u>	<u>\$ 6,331,747</u>	<u>\$ 11,458,027</u>	<u>\$ 17,789,774</u>

The accompanying notes to the financial statements are an integral part of this report.

SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 258,883	\$
Accrued Interest Payable		
Due to Other Funds	170,233	
Security Deposits	295,475	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
Notes Payable, Due Within One Year		
Notes Payable, Due After One Year		
TOTAL LIABILITIES	\$ 724,591	\$ - 0 -
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 107,615	\$ 126,453
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		1,761,561
Unassigned	1,128,908	
TOTAL FUND BALANCES	\$ 1,128,908	\$ 1,761,561
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,961,114	\$ 1,888,014
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

The accompanying notes to the financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 258,883	\$	\$ 258,883
		124,797	124,797
	170,233	(170,233)	
	295,475		295,475
		465,000	465,000
		11,006,612	11,006,612
		26,580	26,580
		2,898	2,898
<u>\$ - 0 -</u>	<u>\$ 724,591</u>	<u>\$ 11,455,654</u>	<u>\$ 12,180,245</u>
<u>\$ - 0 -</u>	<u>\$ 234,068</u>	<u>\$ (234,068)</u>	<u>\$ - 0 -</u>
\$ 2,482,619	\$ 2,482,619	\$ (2,482,619)	\$
	1,761,561	(1,761,561)	
	1,128,908	(1,128,908)	
<u>\$ 2,482,619</u>	<u>\$ 5,373,088</u>	<u>\$ (5,373,088)</u>	<u>\$ - 0 -</u>
<u>\$ 2,482,619</u>	<u>\$ 6,331,747</u>		
		\$ 2,569,789	\$ 2,569,789
		1,803,217	1,803,217
		1,236,523	1,236,523
		<u>\$ 5,609,529</u>	<u>\$ 5,609,529</u>

The accompanying notes to the financial statements are an integral part of this report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balances - Governmental Funds	\$	5,373,088
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		11,588,260
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.		274,068
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (124,797)	
Bonds Payable	(11,471,612)	
Notes Payable	<u>(29,478)</u>	<u>(11,625,887)</u>
Total Net Position - Governmental Activities		<u><u>\$ 5,609,529</u></u>

The accompanying notes to the financial statements are an integral part of this report.

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SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 628,487	\$ 843,259
Water Service	1,173,498	
Wastewater Service	920,195	
Street Lighting	127,059	
Fire Fighting Service	273,152	
Solid Waste Service	572,346	
Penalty and Interest	33,242	55,427
Tap Connection and Inspection Fees	141,295	
Miscellaneous Revenues	149,406	12,624
	<u>\$ 4,018,680</u>	<u>\$ 911,310</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Personnel	\$ 875,399	\$
Professional Fees	151,469	12,000
Contracted Services	875,615	300
Purchased Water	466,145	
Utilities	126,693	
Repairs and Maintenance	326,418	
Street Lighting	73,743	
Depreciation		
Other	1,080,906	3,610
Capital Outlay	787,160	
Debt Service:		
Bond Issuance Costs		
Bond Principal		360,000
Bond Interest		317,998
Note Principal	38,388	
Note Interest	1,978	
	<u>\$ 4,803,914</u>	<u>\$ 693,908</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (785,234)</u>	<u>\$ 217,402</u>
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ 266,123	\$
Bond Discount		
Long-Term Debt Issued		95,880
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 266,123</u>	<u>\$ 95,880</u>
NET CHANGE IN FUND BALANCES	\$ (519,111)	\$ 313,282
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JULY 1, 2017	<u>1,648,019</u>	<u>1,448,279</u>
FUND BALANCES/NET POSITION - JUNE 30, 2018	<u>\$ 1,128,908</u>	<u>\$ 1,761,561</u>

The accompanying notes to the financial statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,471,746	\$ 53,309	\$ 1,525,055
	1,173,498		1,173,498
	920,195		920,195
	127,059		127,059
	273,152		273,152
	572,346		572,346
	88,669		88,669
	141,295		141,295
21,601	183,631		183,631
<u>\$ 21,601</u>	<u>\$ 4,951,591</u>	<u>\$ 53,309</u>	<u>\$ 5,004,900</u>
\$	\$ 875,399	\$	\$ 875,399
	163,469		163,469
	875,915		875,915
	466,145		466,145
	126,693		126,693
	326,418		326,418
	73,743		73,743
		442,882	442,882
7	1,084,523		1,084,523
302,970	1,090,130	(1,090,130)	
261,157	261,157		261,157
	360,000	(360,000)	
	317,998	23,148	341,146
	38,388	(38,388)	
	1,978		1,978
<u>\$ 564,134</u>	<u>\$ 6,061,956</u>	<u>\$ (1,022,488)</u>	<u>\$ 5,039,468</u>
<u>\$ (542,533)</u>	<u>\$ (1,110,365)</u>	<u>\$ 1,075,797</u>	<u>\$ (34,568)</u>
\$ (266,123)	\$	\$	\$
15,153	15,153	(15,153)	
<u>2,904,120</u>	<u>3,000,000</u>	<u>(3,000,000)</u>	
<u>\$ 2,653,150</u>	<u>\$ 3,015,153</u>	<u>\$ (3,015,153)</u>	<u>\$ - 0 -</u>
\$ 2,110,617	\$ 1,904,788	\$ (1,904,788)	\$
		(34,568)	(34,568)
<u>372,002</u>	<u>3,468,300</u>	<u>2,175,797</u>	<u>5,644,097</u>
<u>\$ 2,482,619</u>	<u>\$ 5,373,088</u>	<u>\$ 236,441</u>	<u>\$ 5,609,529</u>

The accompanying notes to the financial statements are an integral part of this report.

SAN LEON MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Governmental Funds	\$ 1,904,788
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	53,309
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(442,882)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	1,090,130
Governmental funds report the bond discount as an other financing use in the year paid. However, in the Statement of Net Position, the bond discount is amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	(15,153)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	360,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(23,148)
Governmental funds report note principal payments as expenditures. However, in the Statement of Net Position, note principal payments are reported as decreases in long-term liabilities.	38,388
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	<u>(3,000,000)</u>
Change in Net Position - Governmental Activities	<u>\$ (34,568)</u>

The accompanying notes to the financial statements are an integral part of this report.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1. CREATION OF DISTRICT

San Leon Municipal Utility District, located in Galveston County, Texas, (the “District”), was created May 26, 1965, by House Bill 1082 Chapter 520, Acts of the 59th Legislature of the State of Texas. Pursuant to the provisions of Chapter 49 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collections and disposal including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on March 28, 1973, and the first bonds were sold on July 10, 1975.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the “Commission”).

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification set forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
All Other Equipment	3-20

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

Payments are made into the Social Security system for employees of the District. In addition, other retirement plan arrangements have been made as further described in Note 10. The Internal Revenue Service has determined that the directors are considered employees for federal payroll tax purposes only. Directors do not participate in the retirement plan.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. LONG-TERM DEBT

	Refunding Series 2012	Series 2013	Series 2017
Amounts Outstanding – June 30, 2018	\$ 1,995,000	\$ 6,535,000	\$ 3,000,000
Interest Rates	3.40%	3.00% - 4.25%	2.25% - 3.35%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2025	September 1, 2018/2033	September 1, 2018/2037
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	N/A	September 1, 2020*	September 1, 2024*

* On any date thereafter, at a price equal to the par value plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Series 2017 term bonds maturing September 1, 2029, September 1, 2031, September 1, 2033, September 1, 2035 and September 1, 2037 are subject to mandatory redemption beginning September 1, 2028, September 1, 2030, September 1, 2032, September 1, 2034 and September 1, 2036, respectively.

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2018:

	July 1, 2017	Additions	Retirements	June 30, 2018
Bonds Payable	\$ 8,890,000	\$ 3,000,000	\$ 360,000	\$ 11,530,000
Unamortized Discounts	(163,312)		(10,329)	(152,983)
Unamortized Premiums	91,836	15,153	12,394	94,595
Bonds Payable, Net	<u>\$ 8,818,524</u>	<u>\$ 3,015,153</u>	<u>\$ 362,065</u>	<u>\$ 11,471,612</u>
		Amount Due Within One Year		\$ 465,000
		Amount Due After One Year		<u>11,006,612</u>
		Bonds Payable, Net		<u>\$ 11,471,612</u>

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

As of June 30, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 465,000	\$ 366,009	\$ 831,009
2020	490,000	348,762	838,762
2021	510,000	330,707	840,707
2022	530,000	313,075	843,075
2023	555,000	295,800	850,800
2024-2028	3,150,000	1,199,572	4,349,572
2029-2033	4,030,000	644,975	4,674,975
2034-2038	1,800,000	100,422	1,900,422
	<u>\$ 11,530,000</u>	<u>\$ 3,599,322</u>	<u>\$ 15,129,322</u>

As of June 30, 2018, the District had authorized but unissued bonds in the amount of \$5,000,000. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

During the year ended June 30, 2018, the District levied an ad valorem debt service tax rate of \$0.2582 per \$100 of assessed valuation, which resulted in a tax levy of \$878,214 on the adjusted taxable valuation of \$301,697,520 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 8 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date - October 1 or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Upon receipt but not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required to provide continuing disclosure of certain general financial information included in an annual audit to certain information repositories. The audit, which includes audited annual financial statements, is to be provided at the end of each fiscal year and shall continue to be provided through the life of the bonds.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS
(Continued)

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

In accordance with the Series 2017 bond order, a portion of the bond proceeds was deposited into the Debt Service Fund and restricted for the payment of bond interest during the construction period. Transactions for the current year are summarized as follows:

Restricted for Bond Interest - July 1, 2017	\$	- 0 -
Add: Interest Received - Series 2017		95,880
Less: Interest Paid		26,004
Restricted for Bond Interest - June 30, 2018		<u>69,876</u>

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,243,012 and the bank balance was \$1,309,298. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 504,168	\$ 416,482	\$ 920,650
DEBT SERVICE FUND	50,604		50,604
CAPITAL PROJECTS FUND	271,758		271,758
TOTAL DEPOSITS	<u>\$ 826,530</u>	<u>\$ 416,482</u>	<u>\$ 1,243,012</u>

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

The District invests in the Texas Short Term Asset Reserve Program ("TexSTAR"), an external public funds investment pool that is not SEC-registered. J. P. Morgan Investment Management Inc. provides investment management and FirstSouthwest, a Division of Hilltop Securities Inc., provides participant services and marketing under an agreement with the TexSTAR Board of Directors. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investors Services Co. Investments held by TexSTAR are marked to market daily. The investments are considered Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from TexSTAR.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Certificates of deposit are recorded at amortized cost. As of June 30, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 555,310	\$ 555,310	\$	\$	\$
Certificates of Deposit	416,482	211,027	205,455		
<u>DEBT SERVICE FUND</u>					
TexPool	1,287,813	1,287,813			
TexSTAR	249,570	249,570			
<u>CAPITAL PROJECTS FUND</u>					
TexSTAR	2,210,364	2,210,364			
TOTAL INVESTMENTS	<u>\$4,719,539</u>	<u>\$ 4,514,084</u>	<u>\$ 205,455</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2018, the District's investments in TexPool and TexSTAR were rated AAAM by Standard and Poor's. The District also manages credit risk by typically investing in certificates of deposit with balances below FDIC and NCUA coverages.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexSTAR to have maturities of less than one year due to the fact the share positions can be redeemed each day at the discretion of the District. The District also manages interest rate risk by investing in certificates of deposit with maturities less than eighteen months.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. 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 from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 is as follows:

	July 1, 2017	Increases	Decreases	June 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 151,807	\$	\$	\$ 151,807
Construction in Progress	77,321	1,090,130	1,167,451	
Total Capital Assets Not Being Depreciated	<u>\$ 229,128</u>	<u>\$ 1,090,130</u>	<u>\$ 1,167,451</u>	<u>\$ 151,807</u>
Capital Assets Subject to Depreciation				
Buildings, Vehicles, and Equipment	\$ 887,486	\$ 77,321	\$	\$ 964,807
Water System	7,160,376	521,770		7,682,146
Wastewater System	9,759,589	568,360		10,327,949
Total Capital Assets Subject to Depreciation	<u>\$ 17,807,451</u>	<u>\$ 1,167,451</u>	<u>\$ - 0 -</u>	<u>\$ 18,974,902</u>
Less Accumulated Depreciation				
Buildings, Vehicles, and Equipment	\$ 549,161	\$ 74,291	\$	\$ 623,452
Water System	1,967,587	152,743		2,120,330
Wastewater System	4,578,819	215,848		4,794,667
Total Accumulated Depreciation	<u>\$ 7,095,567</u>	<u>\$ 442,882</u>	<u>\$ - 0 -</u>	<u>\$ 7,538,449</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,711,884</u>	<u>\$ 724,569</u>	<u>\$ - 0 -</u>	<u>\$ 11,436,453</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,941,012</u>	<u>\$ 1,814,699</u>	<u>\$ 1,167,451</u>	<u>\$ 11,588,260</u>

NOTE 8. MAINTENANCE TAX

On August 14, 1999, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.30 per \$100 of assessed valuation of taxable property within the District. During the year ended June 30, 2018, the District levied an ad valorem maintenance tax rate of \$0.1918 per \$100 of assessed valuation, which resulted in a tax levy of \$652,309 on the adjusted taxable valuation of \$301,697,520 for the 2017 tax year. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's water and sewer system.

NOTE 9. SURFACE WATER SUPPLY CONTRACT

On May 13, 1985, the District executed an agreement with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"). This agreement has been subsequently amended. The contract allows the Authority to acquire, construct and operate a water treatment plant and related water supply system in order to provide potable water to its customers. Charges to the District include its allocation of raw water charges, capital charges and operating and maintenance charges. During the current fiscal year, the District recorded \$466,145 in water costs attributable to this contract. The term of this agreement was extended through December 31, 2027.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10. RETIREMENT PLAN

On March 1, 1997, the District implemented a Simple Individual Retirement Account (IRA) to benefit the employees of the District. This retirement plan calls for the District to match up to 3% of each employee's contribution based on employee gross wages. The accounts are set up in each participating employee's name and are the property of the named employee. During the current year, the District's share of cost associated with this plan was \$16,741.

NOTE 11. STREET LIGHTING

On April 23, 1997, the Texas Legislature passed a bill which allows the District, with voter approval, to install, operate and maintain street lighting. The District can assess the cost of installation, operating and maintaining the street lighting as an additional charge on the monthly billings of the District's customers. In November 1999, the voters of the District approved street lighting for the District. The current street lighting charge is \$3.95 per month per customer. During the current year, the District recorded \$127,059 in revenues and \$73,743 in costs related to street lighting.

NOTE 12. FIRE PREVENTION SERVICES

On August 10, 1982 the District entered into a Fire Prevention Service Agreement with San Leon Volunteer Fire Department. This agreement was amended in 1998, 2006, 2009 and 2011. Effective March 22, 2011, the District began billing a mandatory fee of \$8.00 per month per customer for fire prevention services. During the current fiscal year, the District received \$273,152 in fire prevention service revenues.

NOTE 13. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2018, the General Fund recorded a payable in the amount of \$169,736 to the Debt Service Fund for debt service tax collections and a payable in the amount of \$497 to the Capital Projects Fund for expenditures related to a previous bond issue. During the current fiscal year, the Capital Project Fund also transferred \$266,123 to reimburse the General Fund for inflow and infiltration expenditures paid in a prior year.

NOTE 14. BOND SALE

On November 16, 2017 the District closed on the sale of its Series 2017 Unlimited Tax Bonds in the amount of \$3,000,000. A portion of the proceeds were used for (1) water plant no. 1 emergency generator replacement; (2) wastewater treatment plant emergency generator replacement; (3) wastewater manhole L24N replacement; (4) wastewater flow monitoring evaluation; (5) plugging and capping waterfront manholes; and (6) wastewater system rehabilitation, phase 2. Additional proceeds were used for capitalized interest and costs of issuing the bonds.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15. NOTES PAYABLE

In a prior year, the District entered into a 60-month Equipment Financing Agreement with Welch State Bank to finance a Case 580N 2WD Loader/Extendahoe. The monthly payments are \$1,009 with interest accruing at 3.05% annually on the unpaid balance. This note was paid in full in the current fiscal year.

In a prior year, the District entered into a 36-month Equipment Financing Agreement with CNH Industrial Capital America LLC to finance a Case CX31B Compact Excavator. The monthly payments are \$1,723 with interest accruing at 5.85% annually on the unpaid balance. The following is a schedule of future note payments regarding the note payable as of June 30, 2018.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	<u>\$ 15,134</u>	<u>\$ 371</u>	<u>\$ 15,505</u>

On October 4, 2016, the District entered into a 36-month Equipment Financing Agreement with CNH Industrial Capital America LLC to finance a Case CX36B Compact Excavator. The monthly payments are \$968 with interest accruing at 1.90% annually on the unpaid balance. The following is a schedule of future note payments regarding the note payable as of June 30, 2018.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 11,446	\$ 173	\$ 11,619
2020	<u>2,898</u>	<u>9</u>	<u>2,907</u>
	<u>\$ 14,344</u>	<u>\$ 182</u>	<u>\$ 14,526</u>

The following is a summary of transactions regarding the notes payable as of June 30, 2018:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Total Notes Payable	<u>\$ 67,866</u>	<u>\$ - 0 -</u>	<u>\$ 38,388</u>	<u>\$ 29,478</u>
			Notes Payable, Due Within One Year	\$ 26,580
			Notes Payable, Due After One Year	<u>2,898</u>
			Total Notes Payable - June 30, 2018	<u>\$ 29,478</u>

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SAN LEON MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

SAN LEON MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 680,000	\$ 628,487	\$ (51,513)
Water Service	1,200,000	1,173,498	(26,502)
Wastewater Service	1,010,000	920,195	(89,805)
Street Lighting	120,000	127,059	7,059
Fire Fighting Service	264,000	273,152	9,152
Solid Waste Service	615,600	572,346	(43,254)
Penalty and Interest	34,000	33,242	(758)
Tap Connection and Inspection Fees	156,000	141,295	(14,705)
Miscellaneous Revenues	<u>29,940</u>	<u>149,406</u>	<u>119,466</u>
TOTAL REVENUES	<u>\$ 4,109,540</u>	<u>\$ 4,018,680</u>	<u>\$ (90,860)</u>
EXPENDITURES			
Services Operations:			
Personnel	\$ 968,019	\$ 875,399	\$ 92,620
Professional Fees	197,025	151,469	45,556
Fire Fighting Expenses	264,000	256,920	7,080
Solid Waste Service	653,292	605,017	48,275
Purchased Water	484,863	466,145	18,718
Utilities	135,000	126,693	8,307
Repairs and Maintenance	490,000	326,418	163,582
Street Lighting	92,000	73,743	18,257
Other	608,888	1,134,950	(526,062)
Capital Outlay	<u>220,000</u>	<u>787,160</u>	<u>(567,160)</u>
TOTAL EXPENDITURES	<u>\$ 4,113,087</u>	<u>\$ 4,803,914</u>	<u>\$ (690,827)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (3,547)</u>	<u>\$ (785,234)</u>	<u>\$ (781,687)</u>
OTHER FINANCING SOURCES(USES)			
Transfers In(Out)	<u>\$ - 0 -</u>	<u>\$ 266,123</u>	<u>\$ 266,123</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,547)</u>	<u>\$ (519,111)</u>	<u>\$ (515,564)</u>
FUND BALANCE - JULY 1, 2017	<u>1,648,019</u>	<u>1,648,019</u>	<u></u>
FUND BALANCE - JUNE 30, 2018	<u>\$ 1,644,472</u>	<u>\$ 1,128,908</u>	<u>\$ (515,564)</u>

See accompanying independent auditor's report.

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SAN LEON MUNICIPAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
JUNE 30, 2018

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> </u>	Drainage
<u> X </u>	Retail Sewer	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> X </u>	Fire Protection	<u> </u>	Security
<u> X </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> X </u>	Other (specify): <u>Street Lights</u>				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective January 17, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 16.00	2,000	N	\$ 4.50	2,001 to 4,000
				\$ 4.75	4,001 to 7,000
				\$ 5.00	7,001 to 10,000
				\$ 5.25	10,001 to 24,000
				\$ 5.50	24,001 to 44,000
				\$ 5.75	44,001 to 75,000
				\$ 6.00	75,001 and up
WASTEWATER:	\$ 17.00	2,000	N	\$ 3.75	2,001 to 4,000
				\$ 4.00	4,001 to 7,000
				\$ 4.25	7,001 to 10,000
				\$ 4.50	10,001 to 24,000
				\$ 4.50	24,001 to 44,000
				\$ 4.50	44,001 to 75,000
				\$ 4.50	75,001 and up

SURCHARGE:

Commission	
Regulatory Assessments	0.5% of water and sewer bill
Street Lights	\$ 3.95
VFD	\$ 8.00
Garbage	\$ 19.00

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$54.25 Wastewater: \$49.25 Surcharge: \$31.47

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	<u>65</u>	<u> </u>	x 1.0	<u> </u>
≤¾"	<u>3,341</u>	<u>2,651</u>	x 1.0	<u>2,651</u>
1"	<u>109</u>	<u>96</u>	x 2.5	<u>240</u>
1½"	<u> </u>	<u> </u>	x 5.0	<u> </u>
2"	<u>34</u>	<u>32</u>	x 8.0	<u>256</u>
3"	<u> </u>	<u> </u>	x 15.0	<u> </u>
4"	<u>4</u>	<u>4</u>	x 25.0	<u>100</u>
6"	<u> </u>	<u> </u>	x 50.0	<u> </u>
8"	<u> </u>	<u> </u>	x 80.0	<u> </u>
10"	<u> </u>	<u> </u>	x 115.0	<u> </u>
Total Water Connections	<u>3,553</u>	<u>2,783</u>		<u>3,247</u>
Total Wastewater Connections	<u>3,539</u>	<u>2,725</u>	x 1.0	<u>2,725</u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited):

Gallons billed to customers:	178,095,000	Water Accountability Ratio: 80.9%
		(Gallons billed/Gallons purchased)
Gallons purchased:	220,056,000	From: <u>Gulf Coast Water Authority</u>

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ___ No X

Does the District have Operation and Maintenance standby fees? Yes ___ No X

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Galveston County, Texas

Is the District located within a city is extraterritorial jurisdiction (ETJ)?

Entirely X Partly _____ Not at all _____

ETJ in which district is located:

City of Texas City, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2018

PERSONNEL EXPENDITURES (Including Benefits)	
Salaries	\$ 601,444
Payroll Taxes	47,948
Pension	16,741
Payroll Service	2,793
Insurance	<u>206,473</u>
TOTAL PERSONNEL EXPENDITURES	<u>\$ 875,399</u>
PROFESSIONAL FEES:	
Auditing	\$ 21,000
Engineering	99,222
Legal	28,747
Financial Advisor	<u>2,500</u>
TOTAL PROFESSIONAL FEES	<u>\$ 151,469</u>
PURCHASED WATER SERVICE	<u>\$ 466,145</u>
CONTRACTED SERVICES:	
Tax Collection and Appraisal District	<u>\$ 11,354</u>
UTILITIES:	
Electricity	\$ 106,123
Telephone	<u>20,570</u>
TOTAL UTILITIES	<u>\$ 126,693</u>
REPAIRS AND MAINTENANCE	<u>\$ 326,418</u>
ADMINISTRATIVE EXPENDITURES:	
Computer/Internet	\$ 22,842
Director Fees	7,650
Dues	795
Insurance	65,864
Office Supplies and Postage	44,263
Rents and Leases	22,827
Payroll Taxes	436
Training	12,406
Travel and Meetings	9,151
Other	<u>18,753</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 204,987</u>

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2018

CAPITAL OUTLAY	\$ <u>787,160</u>
SOLID WASTE DISPOSAL	\$ <u>605,017</u>
SECURITY	\$ <u>2,324</u>
FIRE FIGHTING	\$ <u>256,920</u>
STREET LIGHTING	\$ <u>73,743</u>
OTHER EXPENDITURES:	
Auto and Vehicle Expenditures	\$ 7,373
Chemicals	20,107
Contract Labor	587,952
Fuel	9,293
Laboratory Fees	22,552
Permit Fees	15,985
Regulatory Assessment	9,676
Sludge Hauling	128,350
Small Tools and Equipment	60,614
Uniforms	9,326
Other	<u>4,691</u>
TOTAL OTHER EXPENDITURES	\$ <u>875,919</u>
DEBT SERVICE:	
Note Principal	\$ 38,388
Note Interest	<u>1,978</u>
TOTAL DEBT SERVICE	\$ <u>40,366</u>
TOTAL EXPENDITURES	\$ <u><u>4,803,914</u></u>

Number of persons employed by the District 12 Full-Time 0 Part-Time

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
INVESTMENTS
JUNE 30, 2018

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 334,983	\$
TexPool	XXXX0004	Varies	Daily	220,327	
Certificate of Deposit	XXXX6307	0.60%	11/09/19	205,455	
Certificate of Deposit	XXXX0007	0.85%	11/23/18	211,027	
TOTAL GENERAL FUND				<u>\$ 971,792</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0006	Varies	Daily	\$ 1,287,813	\$
TexSTAR	XXXX6790	Varies	Daily	249,570	
TOTAL DEBT SERVICE FUND				<u>\$ 1,537,383</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexSTAR	XXXX0170	Varies	Daily	\$ 2,210,364	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 4,719,539</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JULY 1, 2017	\$	86,399		\$ 94,360
Adjustments to Beginning				
Balance		<u>(2,606)</u>	\$ 83,793	<u>(2,862)</u> \$ 91,498
Original 2017 Tax Levy	\$	578,862		\$ 779,332
Adjustment to 2017 Tax Levy		<u>73,447</u>	<u>652,309</u>	<u>98,882</u> <u>878,214</u>
TOTAL TO BE				
ACCOUNTED FOR			\$ 736,102	\$ 969,712
TAX COLLECTIONS:				
Prior Years	\$	26,479		\$ 32,765
Current Year		<u>602,008</u>	<u>628,487</u>	<u>810,494</u> <u>843,259</u>
TAXES RECEIVABLE -				
JUNE 30, 2018		<u>\$ 107,615</u>		<u>\$ 126,453</u>
TAXES RECEIVABLE BY				
YEAR:				
2017		\$ 50,301		\$ 67,720
2016		12,394		14,930
2015		7,024		9,808
2014		3,523		7,047
2013		2,817		5,635
2012		4,763		2,381
2011		3,819		1,909
2010		3,531		1,765
2009		3,150		1,575
2008		2,585		1,292
2007		2,988		1,494
2006		1,978		1,297
2005		2,033		1,429
2004 and Prior		<u>6,709</u>		<u>8,171</u>
TOTAL		<u>\$ 107,615</u>		<u>\$ 126,453</u>

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 117,759,355	\$ 84,601,856	\$ 84,231,854	\$ 82,953,689
Improvements	267,754,377	225,104,245	204,987,185	171,479,180
Personal Property	8,552,844	9,001,318	9,601,467	8,337,883
Exemptions	(92,369,056)	(50,453,116)	(45,715,500)	(35,704,275)
TOTAL PROPERTY VALUATIONS	\$ 301,697,520	\$ 268,254,303	\$ 253,105,006	\$ 227,066,477
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.2582	\$ 0.2459	\$ 0.2622	\$ 0.30
Maintenance	0.1918	0.2041	0.1878	0.15
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.4500	\$ 0.4500	\$ 0.4500	\$ 0.45
ADJUSTED TAX LEVY*	\$ 1,530,523	\$ 1,207,959	\$ 1,140,276	\$ 1,023,546
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	92.29 %	97.74 %	98.52 %	98.97 %

* Based upon the adjusted tax levy at the time of audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.30 per \$100 of assessed valuation approved by voters on August 14, 1999.

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

REFUNDING SERIES - 2012

Due During Fiscal Years Ending June 30	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 220,000	\$ 64,090	\$ 284,090
2020	225,000	56,525	281,525
2021	240,000	48,620	288,620
2022	245,000	40,375	285,375
2023	255,000	31,875	286,875
2024	265,000	23,035	288,035
2025	275,000	13,855	288,855
2026	270,000	4,590	274,590
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
	<u>\$ 1,995,000</u>	<u>\$ 282,965</u>	<u>\$ 2,277,965</u>

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 1 3

Due During Fiscal Years Ending June 30	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 155,000	\$ 214,113	\$ 369,113
2020	170,000	207,206	377,206
2021	170,000	199,981	369,981
2022	180,000	193,669	373,669
2023	190,000	188,119	378,119
2024	195,000	182,344	377,344
2025	205,000	176,344	381,344
2026	230,000	169,819	399,819
2027	525,000	158,494	683,494
2028	550,000	142,025	692,025
2029	580,000	124,369	704,369
2030	610,000	105,394	715,394
2031	640,000	84,681	724,681
2032	675,000	62,491	737,491
2033	710,000	38,675	748,675
2034	750,000	13,125	763,125
2035			
2036			
2037			
2038			
	<u>\$ 6,535,000</u>	<u>\$ 2,260,849</u>	<u>\$ 8,795,849</u>

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending June 30	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 90,000	\$ 87,806	\$ 177,806
2020	95,000	85,031	180,031
2021	100,000	82,106	182,106
2022	105,000	79,031	184,031
2023	110,000	75,806	185,806
2024	115,000	72,431	187,431
2025	120,000	68,906	188,906
2026	125,000	65,700	190,700
2027	135,000	62,691	197,691
2028	140,000	59,338	199,338
2029	145,000	55,413	200,413
2030	155,000	50,913	205,913
2031	165,000	46,113	211,113
2032	170,000	41,088	211,088
2033	180,000	35,838	215,838
2034	190,000	30,288	220,288
2035	200,000	24,313	224,313
2036	210,000	17,907	227,907
2037	220,000	11,051	231,051
2038	230,000	3,738	233,738
	<u>\$ 3,000,000</u>	<u>\$ 1,055,508</u>	<u>\$ 4,055,508</u>

See accompanying independent auditor's report.

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SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 465,000	\$ 366,009	\$ 831,009
2020	490,000	348,762	838,762
2021	510,000	330,707	840,707
2022	530,000	313,075	843,075
2023	555,000	295,800	850,800
2024	575,000	277,810	852,810
2025	600,000	259,105	859,105
2026	625,000	240,109	865,109
2027	660,000	221,185	881,185
2028	690,000	201,363	891,363
2029	725,000	179,782	904,782
2030	765,000	156,307	921,307
2031	805,000	130,794	935,794
2032	845,000	103,579	948,579
2033	890,000	74,513	964,513
2034	940,000	43,413	983,413
2035	200,000	24,313	224,313
2036	210,000	17,907	227,907
2037	220,000	11,051	231,051
2038	230,000	3,738	233,738
	<u>\$ 11,530,000</u>	<u>\$ 3,599,322</u>	<u>\$ 15,129,322</u>

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2018

Description	Original Bonds Issued	Bonds Outstanding July 1, 2017
San Leon Municipal Utility District Unlimited Tax Refunding Bonds - Series 2012	\$ 3,055,000	\$ 2,205,000
San Leon Municipal Utility District Unlimited Tax Bonds - Series 2013	7,000,000	6,685,000
San Leon Municipal Utility District Unlimited Tax Bonds - Series 2017	<u>3,000,000</u>	<u> </u>
TOTAL	<u>\$ 13,055,000</u>	<u>\$ 8,890,000</u>
Bond Authority:	<u>Tax Bonds</u>	
Amount Authorized by Voters	\$ 21,660,000	
Amount Issued	<u>16,660,000</u>	
Remaining to be Issued	<u>\$ 5,000,000</u>	

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding June 30, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 210,000	\$ 71,400	\$ 1,995,000	Branch Banking and Trust Company Charlotte, NC
	150,000	220,594	6,535,000	Amegy Bank National Association Houston, Texas
<u>3,000,000</u>		<u>26,004</u>	<u>3,000,000</u>	Amegy Bank National Association Houston, Texas
<u>\$ 3,000,000</u>	<u>\$ 360,000</u>	<u>\$ 317,998</u>	<u>\$ 11,530,000</u>	

Debt Service Fund cash, investment and cash with tax office
balances as of June 30, 2018:

\$ 1,591,825

Average annual debt service payment (principal and interest) for remaining term
of all debt:

\$ 756,466

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 628,487	\$ 550,579	\$ 375,324
Water Service	1,173,498	1,115,885	1,061,850
Wastewater Service	920,195	895,413	909,500
Street Lighting	127,059	126,999	122,871
Fire Fighting Service	273,152	273,616	264,013
Solid Waste Service	572,346	284,769	
Penalty and Interest	33,242	35,419	33,124
Tap Connection and Inspection Fees	141,295	242,080	131,095
Miscellaneous Revenues and FEMA Reimbursements	149,406	164,026	53,778
TOTAL REVENUES	\$ 4,018,680	\$ 3,688,786	\$ 2,951,555
EXPENDITURES			
Personnel	\$ 875,399	\$ 910,236	\$ 821,010
Professional Fees	151,469	317,231	93,142
Contracted Services	875,615	595,865	277,780
Purchased Water	466,145	436,831	401,450
Utilities	126,693	121,567	149,341
Repairs and Maintenance	326,418	236,383	350,445
Street Lighting	73,743	71,871	98,442
Other	1,080,906	758,297	539,028
Capital Outlay	787,160	301,782	454,017
Debt Service:			
Note Principal	38,388	38,100	15,934
Note Interest	1,978	3,401	1,348
TOTAL EXPENDITURES	\$ 4,803,914	\$ 3,791,564	\$ 3,201,937
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (785,234)	\$ (102,778)	\$ (250,382)
OTHER FINANCING SOURCES (USES)			
Note Proceeds	\$	\$ 33,913	\$ 57,008
Transfers In(Out)	266,123	233,139	
TOTAL OTHER FINANCING SOURCES (USES)	\$ 266,123	\$ 267,052	\$ 57,008
NET CHANGE IN FUND BALANCE	\$ (519,111)	\$ 164,274	\$ (193,374)
BEGINNING FUND BALANCE	1,648,019	1,483,745	1,677,119
ENDING FUND BALANCE	\$ 1,128,908	\$ 1,648,019	\$ 1,483,745

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 346,452	\$ 352,294	15.7 %	14.9 %	12.8 %	12.3 %	14.9 %
902,065	742,209	29.2	30.3	36.0	32.2	31.4
797,213	716,684	22.9	24.3	30.8	28.5	30.2
121,421	116,131	3.2	3.4	4.2	4.3	4.9
260,986	254,582	6.8	7.4	8.9	9.3	10.8
		14.2	7.7			
26,804	26,847	0.8	1.0	1.1	1.0	1.1
150,305	107,340	3.5	6.6	4.4	5.4	4.6
196,878	50,402	3.7	4.4	1.8	7.0	2.1
<u>\$ 2,802,124</u>	<u>\$ 2,366,489</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 802,330	\$ 745,775	21.8 %	24.7 %	27.8 %	28.6 %	31.5 %
76,786	71,595	3.8	8.6	3.2	2.7	3.0
279,499	277,109	21.8	16.2	9.4	10.0	11.7
271,963	231,550	11.6	11.8	13.6	9.7	9.8
114,425	120,888	3.2	3.3	5.1	4.1	5.1
396,783	626,807	8.1	6.4	11.9	14.2	26.5
81,787	90,223	1.8	1.9	3.3	2.9	3.8
512,561	451,416	26.9	20.6	18.3	18.3	19.1
271,392	121,091	19.6	8.2	15.4	9.7	5.1
10,983	10,652	1.0	1.0	0.5	0.4	0.5
1,131	1,461		0.1			0.1
<u>\$ 2,819,640</u>	<u>\$ 2,748,567</u>	<u>119.6 %</u>	<u>102.8 %</u>	<u>108.5 %</u>	<u>100.6 %</u>	<u>116.2 %</u>
<u>\$ (17,516)</u>	<u>\$ (382,078)</u>	<u>(19.6) %</u>	<u>(2.8) %</u>	<u>(8.5) %</u>	<u>(0.6) %</u>	<u>(16.2) %</u>
\$	\$					
<u>89,243</u>	<u>10,429</u>					
<u>\$ 89,243</u>	<u>\$ 10,429</u>					
\$ 71,727	\$ (371,649)					
<u>1,605,392</u>	<u>1,977,041</u>					
<u>\$ 1,677,119</u>	<u>\$ 1,605,392</u>					

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amount		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 843,259	\$ 667,937	\$ 738,199
Penalty and Interest	55,427	46,944	33,358
Miscellaneous Revenues	<u>12,624</u>	<u>4,776</u>	<u>2,281</u>
TOTAL REVENUES	<u>\$ 911,310</u>	<u>\$ 719,657</u>	<u>\$ 773,838</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 12,000	\$ 14,185	\$ 10,905
Debt Service Principal	360,000	350,000	335,000
Debt Service Interest and Fees	<u>321,908</u>	<u>305,517</u>	<u>318,097</u>
TOTAL EXPENDITURES	<u>\$ 693,908</u>	<u>\$ 669,702</u>	<u>\$ 664,002</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 217,402</u>	<u>\$ 49,955</u>	<u>\$ 109,836</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	<u>\$ 95,880</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 313,282	\$ 49,955	\$ 109,836
BEGINNING FUND BALANCE	<u>1,448,279</u>	<u>1,398,324</u>	<u>1,288,488</u>
ENDING FUND BALANCE	<u>\$ 1,761,561</u>	<u>\$ 1,448,279</u>	<u>\$ 1,398,324</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>2,783</u>	<u>2,719</u>	<u>2,809</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>2,725</u>	<u>2,661</u>	<u>2,795</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 673,126	\$ 635,207	92.5 %	92.8 %	95.4 %	94.2 %	94.4 %
40,435	37,062	6.1	6.5	4.3	5.7	5.5
772	278	1.4	0.7	0.3	0.1	0.1
<u>\$ 714,333</u>	<u>\$ 672,547</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 10,945	\$ 12,942	1.3 %	2.0 %	1.4 %	1.5 %	1.9 %
320,000	45,000	39.5	48.6	43.3	44.8	6.7
<u>330,982</u>	<u>471,713</u>	<u>35.3</u>	<u>42.5</u>	<u>41.1</u>	<u>46.3</u>	<u>70.1</u>
<u>\$ 661,927</u>	<u>\$ 529,655</u>	<u>76.1 %</u>	<u>93.1 %</u>	<u>85.8 %</u>	<u>92.6 %</u>	<u>78.7 %</u>
<u>\$ 52,406</u>	<u>\$ 142,892</u>	<u>23.9 %</u>	<u>6.9 %</u>	<u>14.2 %</u>	<u>7.4 %</u>	<u>21.3 %</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 52,406	\$ 142,892					
<u>1,236,082</u>	<u>1,093,190</u>					
<u>\$ 1,288,488</u>	<u>\$ 1,236,082</u>					
<u>2,637</u>	<u>2,549</u>					
<u>2,536</u>	<u>2,536</u>					

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2018**

District Mailing Address - San Leon Municipal Utility District
443 24th Street
San Leon, TX 77539

District's Telephone Number - (281) 339-1586

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of office for the year ended <u>June 30, 2018</u>	Expense Reimbursements for the year ended <u>June 30, 2018</u>	<u>Title</u>
Joe Manchaca	05/18 05/22 (Elected)	\$ -0-	\$ -0-	President
Tyson Kennedy	05/18 05/22 (Elected)	\$ 1,650	\$ 1,538	Vice President
Julie Hall	05/16 05/20 (Elected)	\$ 1,950	\$ -0-	Secretary
Kenneth Bishop	05/16 05/20 (Elected)	\$ 1,950	\$ 1,283	Treasurer/ Investment Officer
Kelly Neason	05/18 05/22 (Elected)	\$ 2,100	\$ -0-	Assistant Secretary

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
June 5, 2017.

Limit on Fees of Office that a Director may receive during a fiscal year \$7,200 as set by Board Resolution (TWC Section 49.060) on August 13, 2005. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2018**

	<u>Date Hired</u>	<u>Fees/ Compensation for the fiscal year ended June 30, 2018</u>	<u>Title</u>
Key Administrative Personnel:			
Janice Hoffman	07/23/95	\$ 77,785	Office Manager
Andrew Miller	01/17/18	\$ 34,415	District Manager
Ken Keller	04/96	\$ 75,568	Field Supervisor
Consultants:			
Reid, Strickland & Gillette	Prior to 1992	\$ 15,450	General Counsel/
		\$ 25,000	Co-Bond Counsel
Baker Williams & Matthiesen LLP	10/16/17	\$ 51,300	Co-Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	06/20/95	\$ 21,000	Audit Related
		\$ 900	Bond Related
Linebarger Goggan Blair and Sampson, LLP	1992	\$ 12,000	Delinquent Tax Attorney
Costello, Inc.	05/16/18	\$ 9,649	Engineer
AEI Engineering	12/21/10	\$ 99,331	Prior Engineer
SAMCO Capital Markets	06/22/03	\$ 61,013	Financial Advisor
Galveston County Tax Assessor	9/2002	\$ 1,423	Tax Collector

See accompanying independent auditor's report.

