

FAR HILLS UTILITY DISTRICT
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Far Hills Utility District
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Far Hills Utility District (the "District"), as of and for the year ended December 31, 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 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, 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 Schedules 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

April 11, 2019

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Management's discussion and analysis of Far Hills Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 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 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 Fund 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 like 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 all 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 as a whole 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.

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund financial 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 Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO FINANCIAL STATEMENTS

The accompanying notes to 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"). The 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, liabilities and deferred inflows of resources exceeded assets by \$621,364 as of December 31, 2018.

A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment as well as water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding).

The following is a comparative analysis of government-wide changes in net position:

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 4,119,411	\$ 3,599,485	\$ 519,926
Capital Assets (Net of Accumulated Depreciation)	<u>7,192,525</u>	<u>6,969,420</u>	<u>223,105</u>
Total Assets	<u>\$ 11,311,936</u>	<u>\$ 10,568,905</u>	<u>\$ 743,031</u>
Deferred Outflows of Resources	<u>\$ 2,798</u>	<u>\$ 14,020</u>	<u>\$ (11,222)</u>
Due to Developer	\$	\$ 1,099,214	\$ 1,099,214
Long-Term Liabilities	9,913,715	8,537,890	(1,375,825)
Other Liabilities	<u>782,989</u>	<u>734,095</u>	<u>(48,894)</u>
Total Liabilities	<u>\$ 10,696,704</u>	<u>\$ 10,371,199</u>	<u>\$ (325,505)</u>
Deferred Inflows of Resources	<u>\$ 1,239,394</u>	<u>\$ 1,200,587</u>	<u>\$ (38,807)</u>
Net Position:			
Net Investment in Capital Assets	\$ (2,627,198)	\$ (2,384,512)	\$ (242,686)
Restricted	613,449	544,910	68,539
Unrestricted	<u>1,392,385</u>	<u>850,741</u>	<u>541,644</u>
Total Net Position	<u>\$ (621,364)</u>	<u>\$ (988,861)</u>	<u>\$ 367,497</u>

The following table provides a summary of the District's operations for the years ended December 31, 2018, and December 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,200,977	\$ 1,076,755	\$ 124,222
Charges for Services	473,782	511,264	(37,482)
Other Revenues	<u>202,923</u>	<u>23,805</u>	<u>179,118</u>
Total Revenues	<u>\$ 1,877,682</u>	<u>\$ 1,611,824</u>	<u>\$ 265,858</u>
Expenses for Services	<u>(1,510,185)</u>	<u>(1,274,460)</u>	<u>235,725</u>
Change in Net Position	\$ 367,497	\$ 337,364	\$ 30,133
Net Position, Beginning of Year	<u>(988,861)</u>	<u>(1,326,225)</u>	<u>337,364</u>
Net Position, End of Year	<u>\$ (621,364)</u>	<u>\$ (988,861)</u>	<u>\$ 367,497</u>

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2018, were \$2,443,522, an increase of \$473,714 from the prior year.

The General Fund fund balance increased by \$527,724, primarily due to current year revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$64,050, primarily due to the timing of the District's debt service payments.

The Capital Projects Fund fund balance decreased by \$118,060, primarily due to current year capital expenditures exceeding current year and prior year bond proceeds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$178,161 more than budgeted revenues. Actual expenditures were \$203,672 less than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of December 31, 2018, total \$7,192,525 (net of accumulated depreciation) and include land, buildings and equipment as well as the water, wastewater and drainage systems.

Capital asset events during the current fiscal year included reimbursement for engineering and construction for water, wastewater and drainage to serve French Quarter Sections 2 and 3 and Lake Breeze Section 2. Construction in progress includes water, sewer and drainage for Clear View Estates, installation of the Water Plant generator, Water Plant improvements, new Lift Station and Force Main, and Lift Station No. 1 improvements.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 393,993	\$ 393,993	\$
Construction in Progress	362,770		362,770
Capital Assets, Net of Accumulated Depreciation:			
Buildings	271,570	287,106	(15,536)
Water System	3,166,476	3,269,865	(103,389)
Wastewater System	2,708,224	2,720,720	(12,496)
Drainage System	289,492	297,736	(8,244)
Total Net Capital Assets	\$ 7,192,525	\$ 6,969,420	\$ 223,105

Additional information on the District's capital assets can be found in Note 6 of this report.

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

DEBT ACTIVITY

At the end of the current fiscal year, the District had total debt payable of \$10,340,031. The changes in the debt position of the District during the fiscal year ended December 31, 2018, are summarized as follows:

Bond Debt

Bond Debt Payable, January 1, 2018	\$ 8,820,000
Add: Series 2018 Bond Sale	1,660,000
Less: Bond Principal Paid	<u>240,000</u>
Bond Debt Payable, December 31, 2018	<u>\$ 10,240,000</u>

Capital Lease Payable

Capital Lease Payable, January 1, 2018	\$ 110,646
Less: Capital Lease Principal Paid	<u>10,615</u>
Capital Lease Payable, December 31, 2018	<u>\$ 100,031</u>

The District's bonds carry an underlying rating of "BBB" by Standard & Poor's Ratings Services ("S&P"). The Series 2018 bonds carry an insured rating of "AA" by virtue of bond insurance by Build America Mutual Assurance Company.

CONTACTING THE DISTRICT'S FINANCIAL 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 Far Hills Utility District, c/o Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, TX 77019.

**FAR HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2018**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 951,480	\$ 762,426
Investments	973,365	307,829
Cash with Tax Assessor/Collector		39,258
Receivables:		
Property Taxes	284,347	321,271
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$3,000)	27,393	
Annexation Costs	805	
Due from Other Funds	189,743	
Prepaid Costs	3,818	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 2,430,951	\$ 1,430,784
DEFERRED OUTLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,430,951	\$ 1,430,784

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 27,923	\$ 1,741,829	\$	\$ 1,741,829
402,540	1,683,734		1,683,734
	39,258		39,258
	605,618		605,618
		6,957	6,957
	27,393		27,393
	805		805
	189,743	(189,743)	
	3,818	9,999	13,817
		393,993	393,993
		362,770	362,770
		6,435,762	6,435,762
<u>\$ 430,463</u>	<u>\$ 4,292,198</u>	<u>\$ 7,019,738</u>	<u>\$ 11,311,936</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,798</u>	<u>\$ 2,798</u>
<u><u>\$ 430,463</u></u>	<u><u>\$ 4,292,198</u></u>	<u><u>\$ 7,022,536</u></u>	<u><u>\$ 11,314,734</u></u>

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

**FAR HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2018**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 38,594	\$
Accrued Interest Payable		
Due to Other Funds		184,292
Security Deposits	76,643	
Other Deposits	250,377	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
Capital Lease Payable, Due Within One Year		
Capital Lease Payable, Due After One Year		
TOTAL LIABILITIES	\$ 365,614	\$ 184,292
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 593,518	\$ 669,454
FUND BALANCES		
Nonspendable: Prepaid Costs	\$ 3,818	\$
Restricted for Authorized Construction:		
Bond Proceeds		
Net Investment Revenues		
Restricted for Debt Service		577,038
Unassigned	1,468,001	
TOTAL FUND BALANCES	\$ 1,471,819	\$ 577,038
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,430,951	\$ 1,430,784
NET POSITION		
Net Investment in Capital Assets		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 30,347	\$ 68,941	\$	\$ 68,941
		96,027	96,027
5,451	189,743	(189,743)	
	76,643		76,643
	250,377		250,377
		280,000	280,000
		9,824,685	9,824,685
		11,001	11,001
		89,030	89,030
<u>\$ 35,798</u>	<u>\$ 585,704</u>	<u>\$ 10,111,000</u>	<u>\$ 10,696,704</u>
<u>\$ - 0 -</u>	<u>\$ 1,262,972</u>	<u>\$ (23,578)</u>	<u>\$ 1,239,394</u>
\$	\$ 3,818	\$ (3,818)	\$
282,164	282,164	(282,164)	
112,501	112,501	(112,501)	
	577,038	(577,038)	
	1,468,001	(1,468,001)	
<u>\$ 394,665</u>	<u>\$ 2,443,522</u>	<u>\$ (2,443,522)</u>	<u>\$ - 0 -</u>
<u>\$ 430,463</u>	<u>\$ 4,292,198</u>		
		\$ (2,627,198)	\$ (2,627,198)
		500,948	500,948
		112,501	112,501
		<u>1,392,385</u>	<u>1,392,385</u>
		<u>\$ (621,364)</u>	<u>\$ (621,364)</u>

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

**FAR HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Fund Balances - Governmental Funds \$ 2,443,522

Amounts reported for governmental activities in the Statement of Net Position are different because:

The difference between the net carrying amount of refunded bonds and the reacquisition price is recorded as a deferred outflow of resources in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. 2,798

Bond insurance premiums paid at closing are amortized over the term of the bonds. 9,999

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 7,192,525

Deferred inflows of resources related to property tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2017 and prior tax levies became part of recognized revenues in the governmental activities of the District. 30,535

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	\$ (96,027)	
Capital Lease Payable Within One Year	(11,001)	
Capital Lease Payable After One Year	(89,030)	
Bonds Payable Within One Year	(280,000)	
Bonds Payable After One Year	<u>(9,824,685)</u>	<u>(10,300,743)</u>

Total Net Position - Governmental Activities \$ (621,364)

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

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FAR HILLS UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 537,563	\$ 654,295
Water Service	182,120	
Wastewater Service	196,388	
San Jacinto River Authority Fees	48,223	
Penalty and Interest	4,447	9,176
Tap Connection and Inspection Fees	30,075	
Investment Revenues	19,636	6,549
Sale of Capacity	75,291	
Capital Contributions	83,689	
Miscellaneous Revenues	8,706	
TOTAL REVENUES	\$ 1,186,138	\$ 670,020
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 82,252	\$ 2,271
Contracted Services	102,480	13,149
Utilities	52,791	
Repairs and Maintenance	202,555	
San Jacinto River Authority Assessments	15,618	
Depreciation		
Other	98,897	1,780
Conveyance of Assets		
Capital Outlay	113,435	
Debt Service:		
Bond Principal		240,000
Capital Lease Principal	10,615	
Bond Interest		348,770
Capital Lease Interest	4,015	
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	\$ 682,658	\$ 605,970
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 503,480	\$ 64,050
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ 24,244	\$
Long-Term Debt Issued		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 24,244	\$ -0-
NET CHANGE IN FUND BALANCES	\$ 527,724	\$ 64,050
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2018	944,095	512,988
FUND BALANCES/NET POSITION - DECEMBER 31, 2018	\$ 1,471,819	\$ 577,038

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,191,858	\$ 9,119	\$ 1,200,977
	182,120		182,120
	196,388		196,388
	48,223		48,223
	13,623	3,353	16,976
	30,075		30,075
9,052	35,237		35,237
	75,291		75,291
	83,689		83,689
	8,706		8,706
<u>\$ 9,052</u>	<u>\$ 1,865,210</u>	<u>\$ 12,472</u>	<u>\$ 1,877,682</u>
\$	\$ 84,523	\$	\$ 84,523
	115,629		115,629
	52,791		52,791
	202,555	(27,111)	175,444
	15,618		15,618
		296,373	296,373
156	100,833		100,833
		125,360	125,360
1,603,506	1,716,941	(1,716,941)	
	240,000	(240,000)	
	10,615	(10,615)	
	348,770	31,930	380,700
	4,015	(307)	3,708
159,206	159,206		159,206
<u>\$ 1,762,868</u>	<u>\$ 3,051,496</u>	<u>\$ (1,541,311)</u>	<u>\$ 1,510,185</u>
<u>\$ (1,753,816)</u>	<u>\$ (1,186,286)</u>	<u>\$ 1,186,286</u>	<u>\$ -0-</u>
\$ (24,244)	\$	\$	\$
1,660,000	1,660,000	(1,660,000)	
<u>\$ 1,635,756</u>	<u>\$ 1,660,000</u>	<u>\$ (1,660,000)</u>	<u>\$ -0-</u>
\$ (118,060)	\$ 473,714	\$ (473,714)	\$
		367,497	367,497
<u>512,725</u>	<u>1,969,808</u>	<u>(2,958,669)</u>	<u>(988,861)</u>
<u>\$ 394,665</u>	<u>\$ 2,443,522</u>	<u>\$ (3,064,886)</u>	<u>\$ (621,364)</u>

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

**FAR HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$	473,714
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.		9,119
Governmental funds report penalty and interest revenues on property taxes when collected. However, in the government-wide financial statements, revenues are recorded when the penalty and interest are assessed.		3,353
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(296,373)
Governmental funds report capital costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital assets purchases are expensed in the Statement of Activities.		1,744,052
Assets conveyed to other governmental entities are recorded as expenses in the Statement of Activities.		(125,360)
Governmental funds report principal payments on long-term debt as expenditures. However, in the government-wide financial statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected.		250,615
Governmental funds report interest payments on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on the long-term debt through fiscal year-end.		(31,623)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the government-wide financial statements.		<u>(1,660,000)</u>
Change in Net Position - Governmental Activities	\$	<u><u>367,497</u></u>

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

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1. CREATION OF DISTRICT

Far Hills Utility District, located in Montgomery County, Texas (the “District”), was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective January 4, 1972. Pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain 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 February 2, 1972 and the first bonds were sold on November 15, 1972.

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 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 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”).

GASB Codification sets 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:

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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 revenues and expenses in the government-wide Statement of Activities.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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 financial statements. The fund financial statements include a Governmental Funds Balance Sheet and a Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each fund 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 revenues include the 2017 tax levy collections during the period October 1, 2017, to December 31, 2018, taxes collected from January 1, 2018, to December 31, 2018, for all prior tax levies. The 2018 tax levy has been fully deferred to meet the District's planned expenditures in the 2019 fiscal year.

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. As of December 31, 2018, the Debt Service Fund (Tax Account) owed the General Fund \$184,292 for maintenance tax collections and the Capital Projects Fund owed the General Fund \$5,451 for repairs paid by the Developer. The District transferred \$24,244 from the Capital Projects Fund to the General Fund to reimburse for bond issuance costs paid in the prior year.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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 an expenditure 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. 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 of \$5,000 or more and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage 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

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are wages subject to federal income tax withholding for payroll tax purposes only.

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

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

of operating income, changes in net position, financial position, and cash flows. All assets, liabilities, and deferred inflows and outflows of resources 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 Government Funds 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.

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. The District 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.

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.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3. LONG-TERM DEBT

	<u>Series 2012</u>	<u>Series 2013</u>	<u>Series 2015 Refunding</u>
Amount Outstanding - December 31, 2018	\$ 2,060,000	\$ 1,010,000	\$ 2,125,000
Interest Rates	2.15% - 3.75%	3.50% - 5.00%	2.00% - 3.375%
Maturity Dates – Serially Beginning/Ending	April 1 2019/2023, 2027, 2031, 2034, 2037	April 1 2019/2022, 2024, 2027, 2037	April 1 2019/2025, 2027, 2029, 2031
Interest Payment Dates	April 1/October 1	April 1/October 1	April 1/October 1
Callable Dates	April 1, 2020*	April 1, 2021*	April 1, 2023*
	<u>Series 2015</u>	<u>Series 2018</u>	
Amount Outstanding - December 31, 2018	\$ 3,385,000	\$ 1,660,000	
Interest Rates	3.00% - 4.00%	3.00% - 4.00%	
Maturity Dates – Serially Beginning/Ending	April 1 2019/2035, 2038, 2041	April 1 2019/2034, 2038, 2039/2042	
Interest Payment Dates	April 1/October 1	April 1/October 1	
Callable Dates	April 1, 2023*	April 1, 2025*	

* Or any date therefore, in whole or in part, at par plus unpaid accrued interest. Series 2012 term bonds maturing April 1, 2027, 2031, 2034 and 2037, are subject to mandatory redemption beginning on April 1, 2024, 2028, 2032 and 2035, respectively. Series 2013 term bonds maturing April 1, 2024, 2027 and 2037 are subject to mandatory redemption beginning on April 1, 2023, 2025 and 2028, respectively. The Series 2015 Refunding term bonds maturing on April 1, 2027, 2029 and 2031 are subject to mandatory redemption beginning on April 1, 2026, 2028 and 2030 respectively. The Series 2015 term bonds maturing on April 1, 2038 and 2041 are subject to mandatory redemption beginning on April 1, 2036 and 2039, respectively. The Series 2018 term bonds maturing on April 1, 2038 are subject to mandatory redemption beginning on April 1, 2035.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2018:

	January 1, 2018	Additions	Retirements	December 31, 2018
Bonds Payable	\$ 8,820,000	\$ 1,660,000	\$ 240,000	\$ 10,240,000
Unamortized Discounts	(142,141)		(6,826)	(135,315)
Bonds Payable, Net	\$ 8,677,859	\$ 1,660,000	\$ 233,174	\$ 10,104,685
		Amount Due Within One Year		\$ 280,000
		Amount Due After One Year		9,824,685
		Bonds Payable, Net		\$ 10,104,685

As of December 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 280,000	\$ 368,438	\$ 648,438
2020	285,000	360,248	645,248
2021	295,000	351,048	646,048
2022	305,000	341,354	646,354
2023	315,000	331,148	646,148
2024-2028	1,735,000	1,487,479	3,222,479
2029-2033	2,080,000	1,152,774	3,232,774
2034-2038	2,525,000	715,137	3,240,137
2039-2042	2,420,000	186,387	2,606,387
	\$ 10,240,000	\$ 5,294,013	\$ 15,534,013

As of December 31, 2018, the District had authorized but unissued bonds in the amount of \$23,075,000 for waterworks, sanitary sewer and drainage facilities and \$38,450,000 for refunding purposes.

The bonds are payable from the proceeds of an ad valorem tax and benefits tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and wastewater system.

Each year the Commissioners of Appraisement define benefit sites, which are to be assessed in an amount so that the total benefit tax levy will be sufficient to pay up to 50% of the following years' debt service. The remainder of the required funds is levied in the form of an ad valorem debt service tax.

During the year ended December 31, 2018, the District levied an ad valorem debt service tax at the rate of \$0.357 per \$100 of assessed valuation, which resulted in a tax levy of \$656,474 on the

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

adjusted taxable valuation of \$183,886,305 for the 2018 tax year. The District did not levy a benefit tax for the 2018 tax year. The bond orders require that the District 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 7 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 | - 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

- A. The bond orders state that the District is required to provide to the Municipal Securities Rulemaking Board via the Electronic Municipal Market Access system continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.
- B. 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 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 each five-year anniversary of each issue.

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 \$1,741,829 and the bank balance was \$1,578,042.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Of the bank balance, \$500,000 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2018, as listed below:

	Cash
GENERAL FUND	\$ 951,480
DEBT SERVICE FUND	762,426
CAPITAL PROJECTS FUND	27,923
TOTAL DEPOSITS	\$ 1,741,829

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 contract with the Comptroller. TexPool measures all its portfolio assets at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from the TexPool.

As of December 31, 2018, the District had the following investments and maturities:

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities of Less Than 1 Year</u>
<u>GENERAL FUND</u>		
TexPool	\$ 973,365	\$ 973,365
<u>DEBT SERVICE FUND</u>		
TexPool	307,829	307,829
<u>CAPITAL PROJECTS FUND</u>		
TexPool	<u>402,540</u>	<u>402,540</u>
TOTAL INVESTMENTS	<u>\$ 1,683,734</u>	<u>\$ 1,683,734</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2018, the District's investment in TexPool was rated "AAAm" by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

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.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018:

	January 1, 2018	Increases	Decreases	December 31, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 393,993	\$	\$	\$ 393,993
Construction in Progress		519,478	156,708	362,770
Total Capital Assets Not Being Depreciated	<u>\$ 393,993</u>	<u>\$ 519,478</u>	<u>\$ 156,708</u>	<u>\$ 756,763</u>
Capital Assets Cost Subject to Depreciation				
Buildings	\$ 538,994	\$	\$	\$ 538,994
Water System	4,504,856	56,559		4,561,415
Wastewater System	4,075,614	100,149		4,175,763
Drainage System	370,984			370,984
Total Capital Assets Cost Subject to Depreciation	<u>\$ 9,490,448</u>	<u>\$ 156,708</u>	<u>\$ - 0 -</u>	<u>\$ 9,647,156</u>
Less Accumulated Depreciation				
Buildings	\$ 251,888	\$ 15,536	\$	\$ 267,424
Water System	1,234,991	159,948		1,394,939
Wastewater System	1,354,894	112,645		1,467,539
Drainage System	73,248	8,244		81,492
Total Accumulated Depreciation	<u>\$ 2,915,021</u>	<u>\$ 296,373</u>	<u>\$ - 0 -</u>	<u>\$ 3,211,394</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 6,575,427</u>	<u>\$ (139,665)</u>	<u>\$ - 0 -</u>	<u>\$ 6,435,762</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 6,969,420</u></u>	<u><u>\$ 379,813</u></u>	<u><u>\$ 156,708</u></u>	<u><u>\$ 7,192,525</u></u>

NOTE 7. MAINTENANCE TAX

On May 4, 1972, the voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended December 31, 2018, the District levied an ad valorem maintenance tax at the rate of \$0.317 per \$100 of assessed valuation, which resulted in a tax levy of \$582,920 on the adjusted taxable valuation of \$183,886,305 for the 2018 tax year.

NOTE 8. CAPITAL LEASE

On March 17, 2016, the District entered into an equipment lease-purchase agreement with Government Capital Corporation to finance the acquisition and installation of electronic water meters. The meters were expensed in repairs and maintenance. The financed amount was \$120,854 with an incremental borrowing rate of 3.629%. Ten annual payments of \$14,631 are due beginning March 15, 2017 and ending March 15, 2026.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8. CAPITAL LEASE (Continued)

The following is a schedule of future minimum lease payments under this capital lease as of December 31, 2018:

Fiscal Year	Principal	Interest	Total
2019	\$ 11,001	\$ 3,630	\$ 14,631
2020	11,400	3,231	14,631
2021	11,813	2,817	14,630
2022	12,242	2,389	14,631
2023	12,686	1,944	14,630
2024-2026	40,889	3,003	43,892
	<u>\$ 100,031</u>	<u>\$ 17,014</u>	<u>\$ 117,045</u>

The following is a summary of transitions regarding capital lease payable for the year ended December 31, 2018:

Capital Lease Payable, January 1, 2018	\$ 110,646
Less: Capital Lease Principal Paid	<u>10,615</u>
Capital Lease Payable, December 31, 2018	<u><u>\$ 100,031</u></u>
Capital Lease Payable:	
Due Within One Year	\$ 11,001
Due After One Year	<u>89,030</u>
Capital Lease Payable, December 31, 2018	<u><u>\$ 100,031</u></u>

NOTE 9. UNREIMBURSED COSTS

The District has entered into agreements with a developer within the District to fund the costs related to the construction of water, wastewater and drainage facilities to serve The French Quarter on Lake Conroe, Sections 2 and 3 and Lake Breeze, Section 2. The estimated cost basis of projects funded by a developer and the related liability are recorded in the Statement of Net Assets when the project is completed and ready for use and the District operates or maintains the facility. The District reimbursed the developer in full during the current fiscal year and removed the liability.

NOTE 10. LONE STAR GROUND WATER CONSERVATION DISTRICT

The District is located within the boundaries of the Lone Star Ground Water Conservation District (the "Conservation District"). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial,

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 10. LONE STAR GROUND WATER CONSERVATION DISTRICT
(Continued)

industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Conservation District is overseeing that its participants comply with subsidence district pumpage requirements.

The Conservation District charges a fee based on the amount of water pumped from a well to the owner of wells located within the boundaries of the Conservation District, unless exempted. The fee enables the Conservation District to fulfill its purpose and regulatory functions. The fee for 2018 was \$0.06 per 1,000 gallons of water pumped from each well. During the current fiscal year, the District recorded an expenditure of \$3,840 to the Conservation District.

NOTE 11. 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 amount for the past three fiscal years.

NOTE 12. SAN JACINTO RIVER AUTHORITY

On June 1, 2010, the District entered into the Contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the "Authority"). The District and the Authority operate within the boundaries of Lone Star Groundwater Conservation District (the "Conservation District"). See also Note 9. The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. A surface water treatment and transmission system (the "Project") is proposed to be designed, constructed, operated, and maintained by the Authority in order to provide phased treatment, transmission, and delivery of the Authority's surface water to regulated users for blending with groundwater supplies, so that regulated users may continue to pump groundwater. The Authority will develop a Groundwater Reduction Plan (the "GRP") for all participants. The Authority charges a fee, currently \$2.64 per 1,000 gallons, based on the amount of groundwater pumped from each well. This fee enables the Authority to achieve, maintain and implement the GRP. The term of this contract expires on December 31, 2045. During the current fiscal year, the District was assessed \$15,618 in relation to this contract.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13. USE OF SURPLUS FUNDS

On May 10, 2018, the District approved the use of surplus funds in the amount of \$156,758 from the Series 2018 Bonds to provide for the installation of the Water Plant generator and the construction of Lift Station improvements. This approval was in accordance with 293.83 (c) (3) (B) of the Commission rules.

NOTE 14. BOND SALE

On March 15, 2018, the District closed on the sale of its \$1,660,000 Series 2018 Unlimited Tax and Revenue Bonds. Proceeds were used to reimburse the developer for water, wastewater and drainage facilities previously constructed within French Quarter Sections 2 and 3 and in Lake Breeze, Section 2; and pay issuance costs of the bonds.

FAR HILLS UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

**FAR HILLS UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 531,477	\$ 537,563	\$ 6,086
Water Service	185,000	182,120	(2,880)
Wastewater Service	185,000	196,388	11,388
San Jacinto River Authority Fees	70,000	48,223	(21,777)
Penalty and Interest	5,000	4,447	(553)
Tap Connection and Inspection Fees	18,000	30,075	12,075
Investment Revenues	5,000	19,636	14,636
Sale of Capacity		75,291	75,291
Developer Contributions		83,689	83,689
Miscellaneous Revenues	8,500	8,706	206
TOTAL REVENUES	<u>\$ 1,007,977</u>	<u>\$ 1,186,138</u>	<u>\$ 178,161</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 118,000	\$ 82,252	\$ 35,748
Contracted Services	122,000	102,480	19,520
Utilities	59,500	52,791	6,709
Repairs and Maintenance	327,700	202,555	125,145
San Jacinto River Authority Assessments	70,000	15,618	54,382
Other	174,500	98,897	75,603
Capital Outlay		113,435	(113,435)
Debt Service:			
Capital Lease Principal	10,615	10,615	
Capital Lease Interest	4,015	4,015	
TOTAL EXPENDITURES	<u>\$ 886,330</u>	<u>\$ 682,658</u>	<u>\$ 203,672</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 121,647</u>	<u>\$ 503,480</u>	<u>\$ 381,833</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	<u>\$</u>	<u>\$ 24,244</u>	<u>\$ 24,244</u>
NET CHANGE IN FUND BALANCE	\$ 121,647	\$ 527,724	\$ 406,077
FUND BALANCE - JANUARY 1, 2018	<u>944,095</u>	<u>944,095</u>	<u></u>
FUND BALANCE - DECEMBER 31, 2018	<u>\$ 1,065,742</u>	<u>\$ 1,471,819</u>	<u>\$ 406,077</u>

See accompanying independent auditor's report.

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FAR HILLS UTILITY DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2018

**FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 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 Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </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> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 14, 2017, effective October 2, 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:	\$ 18.00	2,000	N	\$ 1.37 1.50 2.12 2.62 2.87 3.37 3.50 4.00	2,001 to 5,000 5,001 to 10,000 10,001 to 15,000 15,001 to 20,000 20,001 to 30,000 30,001 to 35,000 35,001 to 50,000 50,001 and up
WASTEWATER:	\$ 33.00	5,000	N	0.17	5,001 and up
SURCHARGE:					
San Jacinto River Authority Assessments			N	\$ 1.00	All
TCEQ Regulatory Assessments			N	0.5 % of water and wastewater charges	

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$29.61 Wastewater: \$33.85 Surcharge: 10.32 Total: \$ 73.78

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 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			x 1.0	
≤ ³ / ₄ "	493	479	x 1.0	479
1"	30	29	x 2.5	73
1½"	1		x 5.0	
2"	3	2	x 8.0	16
3"	2		x 15.0	
4"	1	4	x 25.0	100
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>530</u>	<u>514</u>		<u>668</u>
Total Wastewater Connections	<u>509</u>	<u>493</u>	x 1.0	<u>493</u>

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

Gallons pumped into system:	53,577,000	Water Accountability Ratio: 94.4% (Gallons billed and used/Gallons pumped and purchased)
Gallons billed to customers:	50,599,000	

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 19,850
Engineering	16,847
Legal	<u>45,555</u>
TOTAL PROFESSIONAL FEES	<u>\$ 82,252</u>
CONTRACTED SERVICES:	
Bookkeeping and Billings	\$ 25,330
Operations	<u>77,150</u>
TOTAL CONTRACTED SERVICES	<u>\$ 102,480</u>
UTILITIES:	
Electricity	<u>\$ 52,791</u>
REPAIRS AND MAINTENANCE	<u>\$ 202,555</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 11,500
Dues	650
Election Costs	1,325
Insurance	13,584
Office Supplies and Postage	4,472
Payroll Taxes	879
Travel and Meetings	4,600
Other	<u>3,546</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 40,556</u>
CAPITAL OUTLAY	<u>\$ 113,435</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2018**

TAP CONNECTIONS	\$ <u>9,040</u>
OTHER EXPENDITURES:	
Chemicals	\$ 12,764
Inspection Fees	854
Laboratory Fees	16,254
Permit Fees	10,783
Commission Regulatory Assessment	1,860
San Jacinto River Authority Assessments	15,618
Sludge Hauling	<u>6,786</u>
TOTAL OTHER EXPENDITURES	\$ <u>64,919</u>
DEBT SERVICE:	
Capital Lease Principal	\$ 10,615
Capital Lease Interest	<u>4,015</u>
TOTAL DEBT SERVICE	\$ <u>14,630</u>
TOTAL EXPENDITURES	\$ <u>682,658</u>

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
INVESTMENTS
DECEMBER 31, 2018

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	2.5304%	Daily	<u>\$ 973,365</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	2.5304%	Daily	<u>\$ 307,829</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0003	2.5304%	Daily	<u>\$ 402,540</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 1,683,734</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JANUARY 1, 2018	\$ 242,804		\$ 295,615	
Adjustments to Beginning				
Balance	172	\$ 242,976	218	\$ 295,833
Original 2018 Tax Levy	\$ 583,494		\$ 657,121	
Adjustment to 2018 Tax Levy	(574)	582,920	(647)	656,474
TOTAL TO BE				
ACCOUNTED FOR		\$ 825,896		\$ 952,307
 TAX COLLECTIONS:				
Prior Years	\$ 232,378		\$ 282,853	
Current Year	309,171	541,549	348,183	631,036
 TAXES RECEIVABLE -				
DECEMBER 31, 2018		\$ 284,347		\$ 321,271
 TAXES RECEIVABLE BY				
YEAR:				
2018		\$ 273,749		\$ 308,291
2017		5,914		7,199
2016		4,002		4,906
2015		563		739
2013		41		44
2012		39		46
2011		39		46
TOTAL		\$ 284,347		\$ 321,271

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 58,914,960	\$ 60,231,310	\$ 54,732,740	\$ 49,350,440
Improvements	133,152,900	128,093,920	120,127,780	115,277,090
Personal Property	1,073,276	1,052,129	979,575	836,495
Exemptions	<u>(9,254,831)</u>	<u>(11,278,991)</u>	<u>(10,549,820)</u>	<u>(10,837,902)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 183,886,305</u>	<u>\$ 178,098,368</u>	<u>\$ 165,290,275</u>	<u>\$ 154,626,123</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.357	\$ 0.370	\$ 0.358	\$ 0.369
Maintenance**	<u>0.317</u>	<u>0.304</u>	<u>0.292</u>	<u>0.281</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.674</u>	<u>\$ 0.674</u>	<u>\$ 0.650</u>	<u>\$ 0.650</u>
BENEFIT TAX-PER LOT	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Tax Rolls	\$ 1,239,394	\$ 1,200,587	\$ 1,074,388	\$ 1,005,071
Benefit Tax	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ADJUSTED TAX LEVY*	<u>\$ 1,239,394</u>	<u>\$ 1,200,587</u>	<u>\$ 1,074,388</u>	<u>\$ 1,005,071</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>53.04 %</u>	<u>98.91 %</u>	<u>99.87 %</u>	<u>99.99 %</u>

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

** Maintenance Tax – An unlimited tax rate was approved by voters on May 4, 1972.

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

S E R I E S - 2 0 1 2

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 20,000	\$ 74,700	\$ 94,700
2020	25,000	74,185	99,185
2021	25,000	73,554	98,554
2022	25,000	72,879	97,879
2023	25,000	72,160	97,160
2024	25,000	71,348	96,348
2025	30,000	70,385	100,385
2026	25,000	69,422	94,422
2027	30,000	68,460	98,460
2028	30,000	67,410	97,410
2029	30,000	66,360	96,360
2030	30,000	65,310	95,310
2031	30,000	64,260	94,260
2032	245,000	59,203	304,203
2033	260,000	49,860	309,860
2034	275,000	39,962	314,962
2035	290,000	29,438	319,438
2036	310,000	18,187	328,187
2037	330,000	6,187	336,187
2038			
2039			
2040			
2041			
2042			
	<u>\$ 2,060,000</u>	<u>\$ 1,113,270</u>	<u>\$ 3,173,270</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

S E R I E S - 2 0 1 3

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 40,000	\$ 46,100	\$ 86,100
2020	40,000	44,700	84,700
2021	45,000	43,156	88,156
2022	45,000	41,412	86,412
2023	50,000	39,450	89,450
2024	45,000	37,431	82,431
2025	45,000	35,463	80,463
2026	55,000	33,213	88,213
2027	55,000	30,737	85,737
2028	55,000	28,125	83,125
2029	60,000	25,250	85,250
2030	60,000	22,250	82,250
2031	65,000	19,125	84,125
2032	65,000	15,875	80,875
2033	60,000	12,750	72,750
2034	60,000	9,750	69,750
2035	60,000	6,750	66,750
2036	55,000	3,875	58,875
2037	50,000	1,250	51,250
2038			
2039			
2040			
2041			
2042			
	<u>\$ 1,010,000</u>	<u>\$ 496,662</u>	<u>\$ 1,506,662</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

SERIES - 2015 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 135,000	\$ 62,988	\$ 197,988
2020	135,000	59,613	194,613
2021	140,000	55,488	195,488
2022	145,000	51,213	196,213
2023	150,000	46,788	196,788
2024	160,000	42,138	202,138
2025	165,000	37,263	202,263
2026	165,000	32,313	197,313
2027	170,000	27,288	197,288
2028	180,000	21,925	201,925
2029	185,000	16,222	201,222
2030	195,000	10,041	205,041
2031	200,000	3,375	203,375
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
	<u>\$ 2,125,000</u>	<u>\$ 466,655</u>	<u>\$ 2,591,655</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

S E R I E S - 2 0 1 5

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 50,000	\$ 127,706	\$ 177,706
2020	50,000	126,206	176,206
2021	50,000	124,706	174,706
2022	50,000	123,206	173,206
2023	50,000	121,706	171,706
2024	55,000	120,131	175,131
2025	55,000	118,413	173,413
2026	60,000	116,506	176,506
2027	60,000	114,444	174,444
2028	60,000	112,344	172,344
2029	65,000	110,156	175,156
2030	70,000	107,750	177,750
2031	75,000	105,122	180,122
2032	75,000	102,356	177,356
2033	80,000	99,450	179,450
2034	80,000	96,450	176,450
2035	85,000	93,356	178,356
2036	85,000	90,116	175,116
2037	90,000	86,725	176,725
2038	495,000	75,391	570,391
2039	520,000	55,400	575,400
2040	550,000	34,000	584,000
2041	575,000	11,500	586,500
2042			
	<u>\$ 3,385,000</u>	<u>\$ 2,273,140</u>	<u>\$ 5,658,140</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 35,000	\$ 56,944	\$ 91,944
2020	35,000	55,544	90,544
2021	35,000	54,144	89,144
2022	40,000	52,644	92,644
2023	40,000	51,044	91,044
2024	40,000	49,444	89,444
2025	40,000	47,844	87,844
2026	40,000	46,444	86,444
2027	45,000	45,169	90,169
2028	45,000	43,819	88,819
2029	45,000	42,469	87,469
2030	45,000	41,090	86,090
2031	45,000	39,656	84,656
2032	45,000	38,194	83,194
2033	50,000	36,650	86,650
2034	50,000	35,025	85,025
2035	50,000	33,369	83,369
2036	55,000	31,597	86,597
2037	55,000	29,740	84,740
2038	50,000	27,969	77,969
2039	50,000	26,250	76,250
2040	40,000	24,675	64,675
2041	40,000	23,275	63,275
2042	645,000	11,287	656,287
	<u>\$ 1,660,000</u>	<u>\$ 944,286</u>	<u>\$ 2,604,286</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 280,000	\$ 368,438	\$ 648,438
2020	285,000	360,248	645,248
2021	295,000	351,048	646,048
2022	305,000	341,354	646,354
2023	315,000	331,148	646,148
2024	325,000	320,492	645,492
2025	335,000	309,368	644,368
2026	345,000	297,898	642,898
2027	360,000	286,098	646,098
2028	370,000	273,623	643,623
2029	385,000	260,457	645,457
2030	400,000	246,441	646,441
2031	415,000	231,538	646,538
2032	430,000	215,628	645,628
2033	450,000	198,710	648,710
2034	465,000	181,187	646,187
2035	485,000	162,913	647,913
2036	505,000	143,775	648,775
2037	525,000	123,902	648,902
2038	545,000	103,360	648,360
2039	570,000	81,650	651,650
2040	590,000	58,675	648,675
2041	615,000	34,775	649,775
2042	645,000	11,287	656,287
	<u>\$ 10,240,000</u>	<u>\$ 5,294,013</u>	<u>\$ 15,534,013</u>

See accompanying independent auditor's report.

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**FAR HILLS UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2018**

Description	Original Bonds Issued*	Bonds Outstanding January 1, 2018
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2012	\$ 2,160,000	\$ 2,080,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2013	1,185,000	1,045,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2015	2,535,000	2,265,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2015	3,470,000	3,430,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2018	<u>1,660,000</u>	
TOTAL	<u>\$ 11,010,000</u>	<u>\$ 8,820,000</u>
 Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 35,200,000	\$ 39,000,000
Amount Issued	<u>12,125,000</u>	<u>550,000</u>
Remaining to be Issued	<u>\$ 23,075,000</u>	<u>\$ 38,450,000</u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 20,000	\$ 75,105	\$ 2,060,000	Wells Fargo Bank N.A. Houston, TX
	35,000	47,413	1,010,000	Bank of Texas Austin, TX
	140,000	65,738	2,125,000	Bank of Texas Austin, TX
	45,000	129,131	3,385,000	Bank of Texas Austin, TX
<u>1,660,000</u>		<u>31,383</u>	<u>1,660,000</u>	UMB Bank, N.A. Houston, TX
<u>\$ 1,660,000</u>	<u>\$ 240,000</u>	<u>\$ 348,770</u>	<u>\$ 10,240,000</u>	

Debt Service Fund cash and investment balances as of December 31, 2018: \$ 1,109,513

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 647,251

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

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 537,563	\$ 478,453	\$ 432,649
Water Service	182,120	177,735	176,024
Wastewater Service	196,388	192,167	191,544
San Jacinto River Authority Fees	48,223	104,275	122,378
Penalty and Interest	4,447	4,509	5,958
Tap Connection and Inspection Fees	30,075	22,650	19,300
Investment Revenues	19,636	7,411	1,189
Sale of Capacity	75,291		
Developer Contributions	83,689		
Miscellaneous Revenues	8,706	7,990	99,685
TOTAL REVENUES	\$ 1,186,138	\$ 995,190	\$ 1,048,727
EXPENDITURES			
Professional Fees	\$ 82,252	\$ 105,396	\$ 140,364
Contracted Services	102,480	82,990	101,614
Utilities	52,791	63,519	48,815
Repairs and Maintenance	202,555	242,234	417,365
San Jacinto River Authority Assessments	15,618	82,446	122,126
Other	98,897	107,014	105,893
Capital Outlay	113,435	83,714	
Debt Service:			
Bond Issuance Costs		19,651	4,593
Capital Lease Principal	10,615	10,208	
Capital Lease Interest	4,015	4,423	
Revenue Note Interest			
TOTAL EXPENDITURES	\$ 682,658	\$ 801,595	\$ 940,770
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 503,480	\$ 193,595	\$ 107,957
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ 24,244	\$	\$ 288,603
Capital Lease Proceeds			120,854
Refunding Bonds			
TOTAL OTHER FINANCING SOURCES (USES)	\$ 24,244	\$ - 0 -	\$ 409,457
NET CHANGE IN FUND BALANCE	\$ 527,724	\$ 193,595	\$ 517,414
BEGINNING FUND BALANCE	944,095	750,500	233,086
ENDING FUND BALANCE	\$ 1,471,819	\$ 944,095	\$ 750,500

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 377,382	\$ 346,651	45.2 %	48.0 %	41.2 %	36.6 %	40.3 %
185,494	163,387	15.4	17.9	16.8	18.1	18.9
184,673	167,473	16.6	19.3	18.3	18.0	19.4
111,551	85,174	4.1	10.5	11.7	10.9	9.9
5,451	4,220	0.4	0.5	0.6	0.5	0.5
83,316	84,520	2.5	2.3	1.8	8.1	9.8
859	981	1.7	0.7	0.1	0.1	0.1
		6.3				
		7.1				
78,701	9,874	0.7	0.8	9.5	7.7	1.1
<u>\$ 1,027,427</u>	<u>\$ 862,280</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 108,080	\$ 90,130	6.9 %	10.6 %	13.4 %	10.5 %	10.5 %
109,351	120,662	8.6	8.3	9.7	10.6	14.0
77,524	60,548	4.5	6.4	4.7	7.5	7.0
402,737	96,986	17.1	24.3	39.8	39.2	11.2
115,889	87,311	1.3	8.3	11.6	11.3	10.1
125,236	203,725	8.3	10.8	10.1	12.2	23.6
	60,528	9.6	8.4			7.0
			2.0	0.4		
		0.9	1.0			
		0.3	0.4			
9,654	27,505				0.9	3.2
<u>\$ 948,471</u>	<u>\$ 747,395</u>	<u>57.5 %</u>	<u>80.5 %</u>	<u>89.7 %</u>	<u>92.2 %</u>	<u>86.6 %</u>
<u>\$ 78,956</u>	<u>\$ 114,885</u>	<u>42.5 %</u>	<u>19.5 %</u>	<u>10.3 %</u>	<u>7.8 %</u>	<u>13.4 %</u>
\$ 236,723	\$					
388,988						
<u>\$ 625,711</u>	<u>\$ - 0 -</u>					
\$ 704,667	\$ 114,885					
<u>(471,581)</u>	<u>(586,466)</u>					
<u>\$ 233,086</u>	<u>\$ (471,581)</u>					

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 654,295	\$ 586,603	\$ 567,562
Penalty and Interest	9,176	7,050	8,617
Investment Revenues	6,549	3,048	858
Miscellaneous Revenues	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	<u>\$ 670,020</u>	<u>\$ 596,701</u>	<u>\$ 577,037</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 15,200	\$ 11,689	\$ 15,619
Debt Service Principal	240,000	230,000	185,000
Debt Service Interest and Fees	350,770	324,991	332,455
Bond Issuance Costs	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	<u>\$ 605,970</u>	<u>\$ 566,680</u>	<u>\$ 533,074</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 64,050</u>	<u>\$ 30,021</u>	<u>\$ 43,963</u>
OTHER FINANCING SOURCES (USES)			
Refunding Bonds	\$	\$	\$
Payment to Refunded Bond Escrow Agent	<u> </u>	<u> </u>	<u> </u>
Bond Discount	<u> </u>	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 64,050	\$ 30,021	\$ 43,963
BEGINNING FUND BALANCE	<u>512,988</u>	<u>482,967</u>	<u>439,004</u>
ENDING FUND BALANCE	<u>\$ 577,038</u>	<u>\$ 512,988</u>	<u>\$ 482,967</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>514</u>	<u>502</u>	<u>494</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>493</u>	<u>494</u>	<u>472</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 362,311	\$ 368,895	97.6 %	98.3 %	98.4 %	97.4 %	97.9 %
8,551	6,691	1.4	1.2	1.5	2.3	1.8
748	1,088	1.0	0.5	0.1	0.2	0.3
549					0.1	
<u>\$ 372,159</u>	<u>\$ 376,674</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 18,942	\$ 22,581	2.3 %	2.0 %	2.7 %	5.1 %	6.0 %
135,000	355,000	35.8	38.5	32.1	36.3	94.2
209,706	241,100	52.4	54.5	57.6	56.3	64.0
144,624					38.9	
<u>\$ 508,272</u>	<u>\$ 618,681</u>	<u>90.5 %</u>	<u>95.0 %</u>	<u>92.4 %</u>	<u>136.6 %</u>	<u>164.2 %</u>
<u>\$ (136,113)</u>	<u>\$ (242,007)</u>	<u>9.5 %</u>	<u>5.0 %</u>	<u>7.6 %</u>	<u>(36.6) %</u>	<u>(64.2) %</u>
\$ 2,146,012	\$					
(1,993,449)						
(9,604)						
<u>\$ 142,959</u>	<u>\$ - 0 -</u>					
\$ 6,846	\$ (242,007)					
432,158	674,165					
<u>\$ 439,004</u>	<u>\$ 432,158</u>					
494	454					
<u>493</u>	<u>438</u>					

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2018**

District Mailing Address - Far Hills Utility District
10320 Cude Cemetery Road
Willis, TX 77318

District Telephone Number - (936) 856-0770

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2018	Expense Reimbursements for the year ended December 31, 2018	Title
Jim Haymon	11/18 11/22 (Elected)	\$ 3,750	\$ -0-	President
Christopher Kuhl	11/18 11/22 (Elected)	\$ 2,000	\$ 1,359	Vice President
Melinda M. Shelly	11/16 11/20 (Elected)	\$ 3,150	\$ 2,237	Secretary
H. Douglas Hall	11/18 11/22 (Elected)	\$ 1,100	\$ -0-	Assistant Secretary
Rich Cutler	11/16 11/20 (Elected)	\$ 1,500	\$ -0-	Director

Notes: 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 developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
December 9, 2016

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 9, 2003. Fees of Office are the amounts paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2018

	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2018</u>	<u>Title</u>
Consultants:			
Radcliffe Bobbitt Adams Polley PLLC	09/14/94	\$ 56,697 \$ 34,550	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	12/14/94	\$ 26,800	Auditor
Myrtle Cruz, Inc.	05/01/11	\$ 32,050	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	06/09/99	\$ 1,671	Delinquent Tax Attorney
Langford Engineering, Inc.	10/10/01	\$ 171,157	Engineer
Blich Associates, Inc.	11/12/09	\$ 31,395	Financial Advisor
M. Marlon Ivy & Associates, Inc.	08/15/15	\$ 159,618	Operator
Montgomery County Tax Assessor/Collector	10/01/15	\$ 187	Tax Assessor/ Collector
Terry Holland	01/12/12	\$ -0-	Investment Officer

See accompanying independent auditor's report.

