



Control Number: 46727



Item Number: 7

Addendum StartPage: 0

March 22, 2017

2017 MAR 24 AM 10:36

Mr. Alexander Petak, Legal Division  
Public Utility Commission of Texas  
1701 N. Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326

PUBLIC UTILITY COMMISSION  
FILING CLERK

Re: Docket No. 46727 – Application of H-M-W SUD to Amend a Water CCN  
in Montgomery County

Dear Mr. Petak,

Please find herewith the following information related to the amendment to the H-M-W SUD Water CCN in Montgomery County:

1. Affidavit stating all notices were mailed – See Attachment 1
2. Notices were mailed to all districts, utilities and cities within 2 miles of the proposed service area; the county judge; landowners who own a tract of land that is at least 25 acres and is wholly or partly located in the proposed area – See Attachment 2
3. Notices and requests for decertification were mailed to Aqua Texas, Cypresswood Estates, Johnston Water Utility, Nerro Supply Investors, Pinehurst Decker Prairie, Quadvest and South Central Water Company – See Attachment 3
4. Notices and requests for consent were mailed to City of Stagecoach and City of Tomball – See Attachment 4
5. Notices were published in the Conroe Courier on 3/1 and 3/8 – See Attachment 5 for notice, affidavit will be mailed at a later date
6. The revised Existing System Information Table which includes M7 – See Attachment 6
7. H-M-W's most recent audited financial statements – See Attachment 7
8. H-M-W's most recent updated contract with Aqua Texas – This contract will be mailed on a separate date after it has been accepted by both parties

The following notices were not sent due to the lack of available addresses: Montgomery County MUD 136 and Rosehill Ranchettes Water System (CCN No. 11955).

If you have any questions, I can be contacted at 713-462-3242 or [rmusgrove@cobbhendley.com](mailto:rmusgrove@cobbhendley.com).

Sincerely,  
CobbFendley  
Texas Registration No. 274



Rachel Musgrove, EIT

cc: Kip Coe – General Manager, HMW Special Utility District  
Patrick Timmons – Counsel, HMW Special Utility District

PUBLIC UTILITY COMMISSION



AFFIDAVIT OF NOTICE TO NEIGHBORING SYSTEMS, LANDOWNERS AND CITIES

DOCKET NO. 46727

STATE OF TEXAS

COUNTY OF Montgomery Cty

Before me, the undersigned authority, on this day personally appeared

W H Coe

who being by me duly sworn, deposes and that (s)he is the

General Manager  
(TITLE)

of the

HMW Special Utility District  
(NAME OF UTILITY)

that the attached notice was provided to landowners and other affected parties by

US Mail  
(METHOD USED TO PROVIDE NOTICE)

on or about the following date, to wit

March 10, 2017  
(DATE)

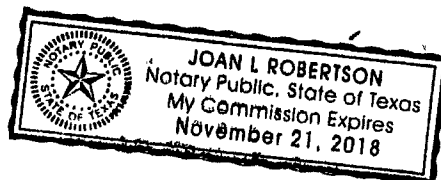
[Signature]  
(SIGNATURE OF UTILITY OFFICIAL)

Subscribed and sworn to before me this 16 day of March, 2017  
to certify which witness my hand and seal of office.

Joan L. Robertson  
Notary Public in and for the State of Texas

Joan L. Robertson  
Print or Type Name of Notary Public

Commission Expires 11-21-18



To All Affected Land Owners or Utilities:

On January 5, 2017, HMW Utility District of Harris and Montgomery Counties ("HMW") filed its Application to Amend a Water Certificate of Convenience and Necessity in Montgomery County to the Texas Public Utility Commission ("PUC"), under PUC Docket No. 46727 (the "Application").

Each water utility within two miles of or land owner with more than 25 acres partially or wholly within the proposed CCN boundary is entitled to notice of HMW's Application under applicable law.

In general, HMW's Application seeks to conform the boundaries of its Certificate of Convenience and Necessity ("CCN") No. 10342 to the areas that it has served and provided water service throughout its existence. Specifically, HMW seeks to do so by (1) incorporating uncertified areas that it serves, and (2) decertifying portions of the CCN service areas of neighboring utilities. All affected areas are of minimal size.

Each affected utility or land owner will receive with this letter an accurate map that shows HMW's proposed service area under the amended CCN as well as the required PUC notice document..

Please advise the undersigned of any questions at your earliest opportunity. You may also contact HMW's Engineer, Rachel Musgrove, as set forth below:

Rachel Musgrove  
Cobb, Fendley & Associates -  
13430 Northwest Freeway, Suite 1100  
Houston, Texas 77040  
Phone: 713.462.3242  
Email: rmusgrove@cobbfendley.com

Patrick F. Timmons, Jr.  
Timmons Law Firm  
8556 Katy Freeway, Suite 120  
Houston, TX 77024-1806  
Phone: 713.465.7638  
Email: pft@timmonslawfirm.com

Sincerely,



Counsel for HMW SUD

***Notice to Neighboring Systems, Landowners and Cities***

**NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND  
NECESSITY (CCN) TO PROVIDE WATER UTILITY SERVICE IN  
MONTGOMERY COUNTY, TEXAS**

To: \_\_\_\_\_ Date Notice Mailed: \_\_\_\_, 2017  
(Name of neighboring systems, cities and landowners)  
\_\_\_\_\_  
(Address)  
\_\_\_\_\_  
(City State Zip)

The H-M-W Special Utility District has filed an application with the Public Utility Commission of Texas to amend its water CCN No. 10342 and to decertify portions of Aqua Texas Inc.'s CCN Nos. 11157 and CCN No. 13203, Cypresswood Estates's CCN No. 12498, Johnston Water Utility LLC's CCN No. 12788, Nerro Supply Investors LLC's CCN No. 10336, Pinehurst Decker Prairie WSC's CCN No. 11768, Quadvest LP's CCN No. 11612, and South Central Water Company's CCN No. 13061 in Montgomery County.

The proposed utility service area is located in southwest Montgomery County, and is generally bounded on the north by FM 1488 (Magnolia Parkway); on the east by FM 2978; on the south by Montgomery/Harris County line; and on the west by Nichols Sawmill Road and Roberts Cemetery Road.

**See enclosed maps of the proposed water service area.**

The proposed water service area being requested includes approximately 6,720 acres and 2,880 current customers.

You may request a public hearing. A request for a public hearing must be in writing and include: (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, docket number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application which would satisfy your concerns and cause you to withdraw your request for a hearing.

Hearing requests, comments or requests to intervene should be filed with the:

Public Utility Commission of Texas  
Central Records  
1701 North Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326

within thirty (30) days from the date of this publication or notice. A public hearing will be held only if a legally sufficient hearing request is received or if the Commission on its own motion requests a hearing. Only those individuals who submit a written hearing request will receive notice if a hearing is scheduled.

If a valid public hearing is requested, the Commission will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, SOAH will submit a recommendation to the Commission for final decision. An evidentiary hearing is a legal proceeding similar to a civil trial in state district court.

A landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the requested area, may file a written request with the Commission to be excluded from the requested area ("opt out") within (30) days from the date that notice was provided by the applicant. All opt out requests must include a large scale map and a metes and bounds description of the landowner's tract of land.

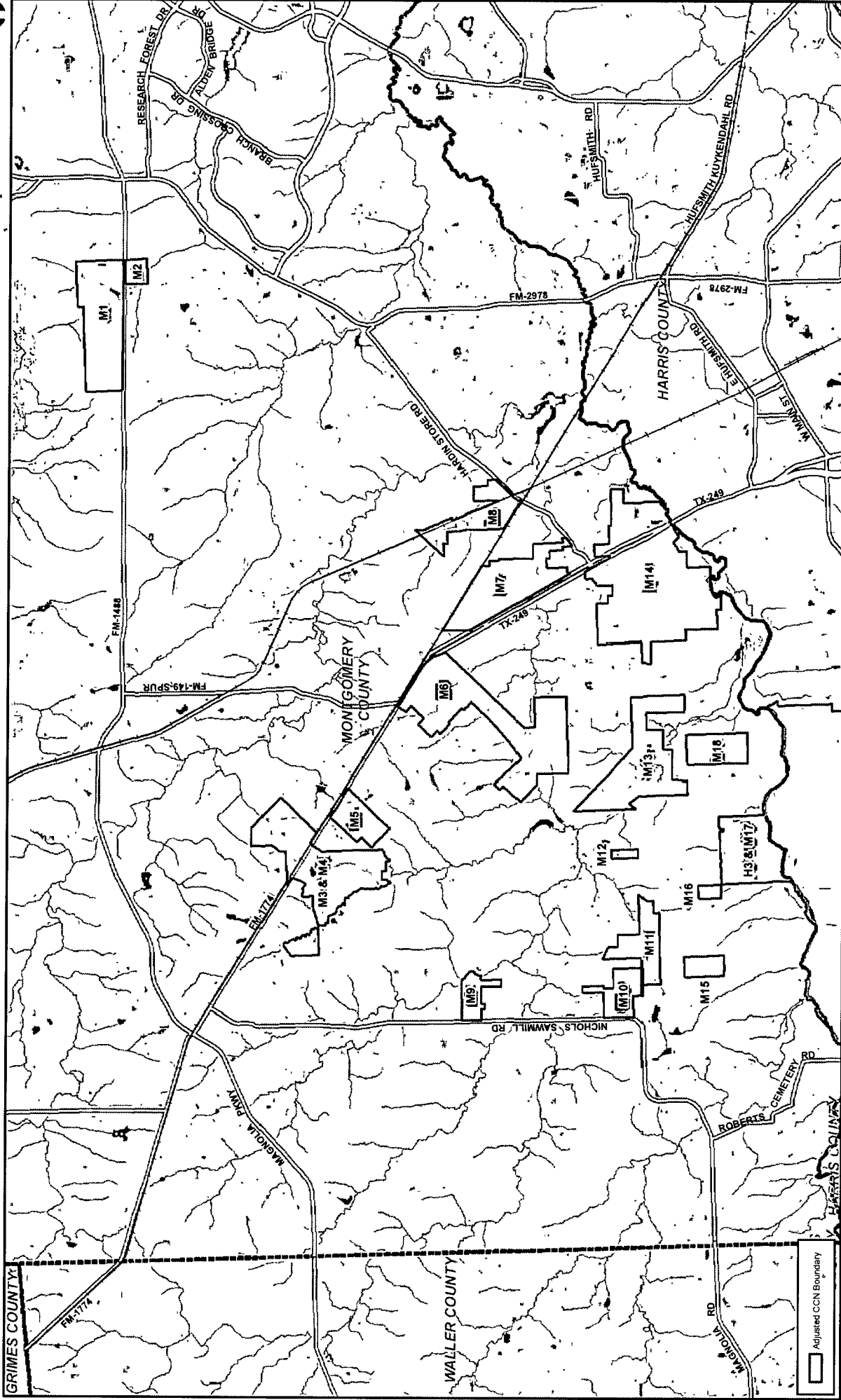
Persons who wish to request this option should file the required documents with the:

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Austin, Texas 78711-3326

In addition, the landowner must also send a copy of the opt out to the applicant. Staff may request additional information regarding your request.

**Si desea informacion en Espanol, puede llamar al 1-888-782-8477**

# MONTGOMERY COUNTY H-M-W SUD CCN



1 inch = 6,000 feet

To All Affected Water Utilities:

On January 5, 2017, HMW Utility District of Harris and Montgomery Counties ("HMW") filed its Application to Amend a Water Certificate of Convenience and Necessity in Montgomery County to the Texas Public Utility Commission ("PUC"), under PUC Docket No. 46727 (the "Application").

Each Affected Water Utility is entitled to notice of HMW's Application under applicable law. As a water utility that HMW overlaps with, you are entitled to grant or withhold consent to the Application. HMW requests consent to decertification of affected property from your Certificates of Convenience and Necessity ("CCN"). HMW hereby requests such consent.

In general, HMW's Application seeks to conform the boundaries of its Certificate of Convenience and Necessity ("CCN") No. 10342 to the areas that it has served and provided water service throughout its existence. Specifically, HMW seeks to do so by (1) incorporating uncertified areas that it serves, and (2) decertifying portions of the CCN service areas of neighboring utilities. All affected areas are of minimal size.

Each water utility will receive with this letter the required PUC notice document as well as an accurate map that shows HMW's proposed service area under the amended CCN, uncertified areas to be included in the amended CCN, overlaps of the amended CCN and known service areas of other utilities, and service areas of other utilities that are sought to be decertified based on longstanding service by HMW.

Please refer to the attached form signifying your consent for Application and therefore decertification of the affected area.

Please advise the undersigned of any questions at your earliest opportunity. You may also contact HMW's Engineer, Rachel Musgrove, as set forth below:

Rachel Musgrove  
Cobb, Fendley & Associates  
13430 Northwest Freeway, Suite 1100  
Houston, Texas 77040  
Phone: 713.462.3242  
Email: [rmusgrove@cobbfendley.com](mailto:rmusgrove@cobbfendley.com)

Patrick F. Timmons, Jr.  
Timmons Law Firm  
8556 Katy Freeway, Suite 120  
Houston, TX 77024-1806  
Phone: 713.465.7638  
Email: [pft@timmonslawfirm.com](mailto:pft@timmonslawfirm.com)

Sincerely,



Counsel for HMW SUD



\_\_\_\_\_  
(Name of neighboring systems, city or landowner)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(City                      State              Zip)

I \_\_\_\_\_,

as \_\_\_\_\_ of the \_\_\_\_\_  
(TITLE) (NAME OF UTILITY OR CITY)

\_\_\_\_\_ Consent \_\_\_\_\_ Do Not Consent.

**To the proposed CCN changes by HMW and understand that this consent allows for decertification of the overlapping portion of my CCN.**

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

***Notice to Neighboring Systems, Landowners and Cities***

**NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND  
NECESSITY (CCN) TO PROVIDE WATER UTILITY SERVICE IN  
MONTGOMERY COUNTY, TEXAS**

To: \_\_\_\_\_ Date Notice Mailed: \_\_\_\_\_, 2017  
(Name of neighboring systems, cities and landowners)  
\_\_\_\_\_  
(Address)  
\_\_\_\_\_  
(City State Zip)

The H-M-W Special Utility District has filed an application with the Public Utility Commission of Texas to amend its water CCN No. 10342 and to decertify portions of Aqua Texas Inc.'s CCN Nos. 11157 and CCN No. 13203, Cypresswood Estates's CCN No. 12498, Johnston Water Utility LLC's CCN No. 12788, Nerro Supply Investors LLC's CCN No. 10336, Pinehurst Decker Prairie WSC's CCN No. 11768, Quadvest LP's CCN No. 11612, and South Central Water Company's CCN No. 13061 in Montgomery County.

The proposed utility service area is located in southwest Montgomery County, and is generally bounded on the north by FM 1488 (Magnolia Parkway); on the east by FM 2978; on the south by Montgomery/Harris County line; and on the west by Nichols Sawmill Road and Roberts Cemetery Road.

**See enclosed maps of the proposed water service area.**

The proposed water service area being requested includes approximately 6,720 acres and 2,880 current customers.

You may request a public hearing. A request for a public hearing must be in writing and include: (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, docket number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application which would satisfy your concerns and cause you to withdraw your request for a hearing.

Hearing requests, comments or requests to intervene should be filed with the:

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P.O. Box 13326  
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within thirty (30) days from the date of this publication or notice. A public hearing will be held only if a legally sufficient hearing request is received or if the Commission on its own motion requests a hearing. Only those individuals who submit a written hearing request will receive notice if a hearing is scheduled.

If a valid public hearing is requested, the Commission will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, SOAH will submit a recommendation to the Commission for final decision. An evidentiary hearing is a legal proceeding similar to a civil trial in state district court.

A landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the requested area, may file a written with the Commission to be excluded from the requested area ("opt out") within (30) days from the date that notice was provided by the applicant. All opt out requests must include a large scale map and a metes and bounds description of the landowner's tract of land.

Persons who wish to request this option should file the required documents with the:

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1701 North Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326

In addition, the landowner must also send a copy of the opt out to the applicant. Staff may request additional information regarding your request.

**Si desea informacion en Espanol, puede llamar al 1-888-782-8477**

# **OVERSIZED MAP(S)**

**TO VIEW  
OVERSIZED MAP(S),  
PLEASE GO TO  
CENTRAL RECORDS.**

**(512) 936-7180**

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Each Affected City is entitled to notice of HMW's Application under applicable law. As a city that HMW overlaps with, you are entitled to grant or withhold consent to the Application which signifies your consent to operate within your city limits. HMW hereby requests such consent.

In general, HMW's Application seeks to conform the boundaries of its Certificate of Convenience and Necessity ("CCN") No. 10342 to the areas that it has served and provided water service throughout its existence. Specifically, HMW seeks to do so by (1) incorporating uncertified areas that it serves, and (2) decertifying portions of the CCN service areas of neighboring utilities. All affected areas are of minimal size.

Each addressee will receive with this letter an accurate map that shows HMW's proposed service area under the amended CCN, uncertified areas to be included in the amended CCN, overlaps of the amended CCN and the city limits.

Please refer to the attached form signifying your consent for HMW to operate within your city limits.

Please advise the undersigned of any questions at your earliest opportunity. You may also contact HMW's Engineer, Rachel Musgrove, as set forth below:

Rachel Musgrove  
Cobb, Fendley & Associates  
13430 Northwest Freeway, Suite 1100  
Houston, Texas 77040  
Phone: 713.462.3242  
Email: [rmusgrove@cobb fendley.com](mailto:rmusgrove@cobb fendley.com)

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Timmons Law Firm  
8556 Katy Freeway, Suite 120  
Houston, TX 77024-1806  
Phone: 713.465.7638  
Email: [pft@timmonslawfirm.com](mailto:pft@timmonslawfirm.com)

Sincerely,



Counsel for HMW SUD

\_\_\_\_\_  
(Name of City)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(City)          State          Zip)

I \_\_\_\_\_,

as \_\_\_\_\_ of the \_\_\_\_\_  
(TITLE) (NAME OF CITY)

\_\_\_\_\_ **Consent** \_\_\_\_\_ **Do Not Consent**

**To the proposed CCN changes by HMW and understand that this consent allows for HMW to serve within the City limits.**

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

***Notice to Neighboring Systems, Landowners and Cities***

**NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND  
NECESSITY (CCN) TO PROVIDE WATER UTILITY SERVICE IN  
MONTGOMERY COUNTY, TEXAS**

To: \_\_\_\_\_ Date Notice Mailed: \_\_\_\_, 2017  
(Name of neighboring systems, cities and landowners)  
\_\_\_\_\_  
(Address)  
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The H-M-W Special Utility District has filed an application with the Public Utility Commission of Texas to amend its water CCN No. 10342 and to decertify portions of Aqua Texas Inc.'s CCN Nos. 11157 and CCN No. 13203, Cypresswood Estates's CCN No. 12498, Johnston Water Utility LLC's CCN No. 12788, Nerro Supply Investors LLC's CCN No. 10336, Pinehurst Decker Prairie WSC's CCN No. 11768, Quadvest LP's CCN No. 11612, and South Central Water Company's CCN No. 13061 in Montgomery County.

The proposed utility service area is located in southwest Montgomery County, and is generally bounded on the north by FM 1488 (Magnolia Parkway); on the east by FM 2978; on the south by Montgomery/Harris County line; and on the west by Nichols Sawmill Road and Roberts Cemetery Road.

**See enclosed maps of the proposed water service area.**

The proposed water service area being requested includes approximately 6,720 acres and 2,880 current customers.

You may request a public hearing. A request for a public hearing must be in writing and include: (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, docket number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application which would satisfy your concerns and cause you to withdraw your request for a hearing.

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P.O. Box 13326  
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A landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the requested area, may file a written with the Commission to be excluded from the requested area ("opt out") within (30) days from the date that notice was provided by the applicant. All opt out requests must include a large scale map and a metes and bounds description of the landowner's tract of land.

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**Notice for Publication****NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) TO PROVIDE WATER UTILITY SERVICE IN MONTGOMERY COUNTY, TEXAS**

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The proposed water service area being requested includes approximately 6,720 acres and 2,880 current customers.

Maps showing the proposed water service area are available at:  
26726 Decker Prairie Rosehill Road, Magnolia, Texas 77355

You may request a public hearing. A request for a public hearing must be in writing and include: (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, docket number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application which would satisfy your concerns and cause you to withdraw your request for a hearing.

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HMW SPECIAL UTILITY DISTRICT  
TCEQ Inspections

MAP ID	PLANT	PWS ID	Last Inspection	Notes	Status	Date of Letter**	Number of Connection 5/8" or Larger	Number of Connection 1" or Larger
M1	Sendera Lake Estates	1700565	3/29/2016	No violations		Not Available	134	11
M3 & M4 & M5	Hunters Retreat/Greenwood Country	1700149	6/30/2015	No violations		7/16/2015	400	24
M6	Kipling Oaks I/Pinehurst Village	1700228	6/27/2016	Pending letter		7/16/2015	398	6
M6	Kipling Oaks II/Timbergreen	1700153	7/16/2015	No violations		6/3/2009	364	13
M8	Rimwick Forest	1700156	11/17/2011	No violations		12/14/2011	54	2
M8	Rustic Oaks	1700410	6/15/2011	No violations		7/22/2011	14	4
M9	Mink Branch	1700150	2/2/2016	No violations		9/29/2014	42	2
M10	Pleasant Forest	1700245	12/29/2014	AV1216644 - Sample sites not being rotated	Resolved	Not Available	130	2
M11	Armadio Woods/Magnolia Oaks	1700447	6/25/2015	Adequacy of Water Utility Service	Submitted plan and approved	7/16/2015	205	5
M12	Shady Acres	1700083	6/25/2015	No violations		6/29/2012	17	2
M13	Allenwood	1700131	9/29/2014	Failure to cap or plug open pipes penetrating concrete sealing block surrounding the well	Resolved	Not Available	148	5
M7 & M14	Coe Country/Meadowood/Foxwood	1700318	12/4/2014	No violations		7/11/2011	482	27
M15	Deer Ridge	1700307	12/29/2014	AV1217222 - Sample sites not being rotated	Resolved	6/5/2012	51	2
M17 & H3 & M18	Towering Oaks/Rosewood I & II/Woodloch	1700317	11/19/2014	No violations		Not Available	483	21

\*\*NOTE: Most recent inspection report letters were not available for all plants. "Date of Letter" column shows the date of the most recent available letter through TCEQ Central Filing

# **H-M-W SPECIAL UTILITY DISTRICT**

**HARRIS AND MONTGOMERY COUNTIES, TEXAS**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2016**



# **H-M-W SPECIAL UTILITY DISTRICT**

**HARRIS AND MONTGOMERY COUNTIES, TEXAS**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2016**





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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
H-M-W Special Utility District  
Harris and Montgomery Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of H-M-W Special Utility District (the "District"), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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  
H-M-W Special 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 August 31, 2016, 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 on 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*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

February 15, 2017



# **H-M-W SPECIAL UTILITY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2016**

Management's discussion and analysis of H-M-W Special Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2016.

### **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 portion of these statements provides 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 first of the government-wide statements is the Statement of Net Position. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of 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 government-wide portion of 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 two 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 net operating revenues and financial resources restricted, committed, or assigned for servicing bond debt.



**H-M-W SPECIAL UTILITY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**FUND FINANCIAL STATEMENTS (Continued)**

Governmental funds are reported in each of the financial statements. 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 explain the differences between the two presentations and assist 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 \$8,768,232 as of August 31, 2016.

A portion of the District's net position reflects its net investment in capital assets (water facilities less any debt used to acquire those assets that are still outstanding). The District uses these assets to provide water services.

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

# H-M-W SPECIAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2016

### GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes In the Statement of Net Position		
	2016	2015	Change Positive (Negative)
Current and Other Assets	\$ 4,467,773	\$ 4,505,714	\$ (37,941)
Capital Assets (Net of Accumulated Depreciation)	7,799,060	7,543,136	255,924
Total Assets	12,266,833	12,048,850	217,983
Bonds Payable	\$ 2,858,642	\$ 3,366,964	\$ 508,322
Other Liabilities	639,959	629,084	(10,875)
Total Liabilities	3,498,601	3,996,048	497,447
Net Position:			
Net Investment in Capital Assets	\$ 4,940,418	\$ 4,176,172	\$ 764,246
Restricted	611,311	609,587	1,724
Unrestricted	3,216,503	3,267,043	(50,540)
Total Net Position	\$ 8,768,232	\$ 8,052,802	\$ 715,430

The following table provides a comparative analysis of the District's operations for the years ended August 31, 2016, and August 31, 2015.

	Summary of Changes In the Statement of Activities		
	2016	2015	Change Positive (Negative)
Revenues			
Charges for Services	\$ 4,541,515	\$ 4,548,389	\$ (6,874)
Other Revenues	52,405	219,055	(166,650)
Developer Contribution	239,670	108,200	131,470
Total Revenues	4,833,590	4,875,644	(42,054)
Expenses for Services	\$ 4,118,160	\$ 4,396,433	\$ 278,273
Change in net position	\$ 715,430	\$ 479,211	\$ 236,219
Net Position, Beginning of Year	8,052,802	7,573,591	479,211
Net Position, End of Year	\$ 8,768,232	\$ 8,052,802	\$ 715,430

# H-M-W SPECIAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE YEAR ENDED AUGUST 31, 2016

#### FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of August 31, 2016, were \$3,801,175, an increase of \$15,638 from the prior year.

The General Fund balance increased by \$13,914, which is basically unchanged.

The Debt Service Fund balance increased by \$1,724, which is basically unchanged.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$186,936 greater than budgeted revenues primarily due to higher than anticipated water sales. Actual expenditures were \$140,580 more than budgeted expenditures primarily due to higher than anticipated repairs and maintenance and regional water authority assessments.

#### CAPITAL ASSETS

Capital assets as of August 31, 2016, total \$7,799,060 (net of accumulated depreciation) and include land, buildings, equipment, and the water system.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2016	2015	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 710,928	\$ 710,928	\$
Construction in Progress	31,092		31,092
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	602,671	622,221	(19,550)
Equipment	362,160	344,418	17,742
Water System	6,092,209	5,865,569	226,640
Total Net Capital Assets	\$ 7,799,060	\$ 7,543,136	\$ 255,924

# **H-M-W SPECIAL UTILITY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2016**

### **LONG-TERM DEBT ACTIVITY**

As of August 31, 2016, the District had total bond debt payable of \$2,858,642. The changes in the debt position of the District during the fiscal year ended August 31, 2016, are summarized as follows:

Bond Debt Payable, September 1, 2015	\$ 3,366,964
Less: Bond Principal Paid	<u>508,322</u>
Bond Debt Payable, August 31, 2016	<u><u>\$ 2,858,642</u></u>

The outstanding bonds of the District were not assigned a rating as of August 31, 2016, and August 31, 2015.

### **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 H-M-W Special Utility District, P.O. Box 837, Pinehurst, TX 77362.

**H-M-W SPECIAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**AUGUST 31, 2016**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 74,315	\$
Investments	3,080,634	611,311
Receivables:		
Service Accounts (Net of Allowance for Doubtful Accounts of \$2,000)	494,676	
Note Receivable for Sale of Wastewater System		
Prepaid Costs	16,109	
Inventory	164,089	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 3,829,823</b>	<b>\$ 611,311</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 293,227	\$
Security Deposits	346,732	
Long-Term Liabilities:		
Bonds Payable due within one year		
Bonds Payable due after one year		
<b>TOTAL LIABILITIES</b>	<b>\$ 639,959</b>	<b>\$ -0-</b>
<b>FUND BALANCES</b>		
Nonspendable: Inventory	\$ 164,089	\$
Nonspendable: Prepaid Costs	16,109	
Assigned for 2017 Budget Deficit	160,351	
Restricted for Debt Service		611,311
Unassigned	2,849,315	
<b>TOTAL FUND BALANCES</b>	<b>\$ 3,189,864</b>	<b>\$ 611,311</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,829,823</b>	<b>\$ 611,311</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 74,315	\$	\$ 74,315
3,691,945	4,411	3,696,356
494,676		494,676
	22,228	22,228
16,109		16,109
164,089		164,089
	710,928	710,928
	31,092	31,092
	7,057,040	7,057,040
<u>\$ 4,441,134</u>	<u>\$ 7,825,699</u>	<u>\$ 12,266,833</u>
\$ 293,227	\$	\$ 293,227
346,732		346,732
	525,295	525,295
	2,333,347	2,333,347
<u>\$ 639,959</u>	<u>\$ 2,858,642</u>	<u>\$ 3,498,601</u>
\$ 164,089	\$ (164,089)	\$
16,109	(16,109)	
160,351	(160,351)	
611,311	(611,311)	
2,849,315	(2,849,315)	
<u>\$ 3,801,175</u>	<u>\$ (3,801,175)</u>	<u>\$ -0-</u>
<u>\$ 4,441,134</u>		
	\$ 4,940,418	\$ 4,940,418
	611,311	611,311
	3,216,503	3,216,503
	<u>\$ 8,768,232</u>	<u>\$ 8,768,232</u>

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

**H-M-W SPECIAL UTILITY DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**AUGUST 31, 2016**

Total Fund Balances-Governmental Funds	\$ 3,801,175
--	--------------

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

The note receivable from the sale of wastewater operations is not a current financial resource and therefore is not reported as an asset in governmental funds.	22,228
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The District records accrued interest receivable on investments in its governmental activities.	4,411
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Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds.	7,799,060
--	-----------

Bonds Payable are not due in the current period, and therefore are not reported as liabilities in the governmental funds.	<u>(2,858,642)</u>
---	--------------------

Total Net Position - Governmental Activities	<u><u>\$ 8,768,232</u></u>
--	----------------------------

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

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**H-M-W SPECIAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Water Service	\$ 3,519,061	\$
Sale of Wastewater Operations	65,160	
Regional Water Authority Fee	846,489	
Tap Connection and Inspection Fees	108,976	
Penalty and Interest	66,989	
Investment Revenues	15,516	1,543
Developer Contributions		
Miscellaneous Revenues	34,640	
<b>TOTAL REVENUES</b>	<b>\$ 4,656,831</b>	<b>\$ 1,543</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Personnel	\$ 1,262,025	\$
Professional Fees	312,795	375
Purchased and Contracted Services	14,768	
Utilities	194,107	
Repair and Maintenance	360,445	
Regional Water Authority Assessment	825,195	
Depreciation		
Other	558,638	
Capital Outlay	742,614	
Cost of Assets Sold and Retired		
Debt Service:		
Bond Principal		508,322
Bond Interest		103,122
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 4,270,587</b>	<b>\$ 611,819</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>\$ 386,244</b>	<b>\$ (610,276)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfer In/Out	\$ (612,000)	\$ 612,000
Developer Proceeds	239,670	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (372,330)</b>	<b>\$ 612,000</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 13,914</b>	<b>\$ 1,724</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - SEPTEMBER 1, 2015</b>	<b>3,175,950</b>	<b>609,587</b>
<b>FUND BALANCES/NET POSITION - AUGUST 31, 2016</b>	<b>\$ 3,189,864</b>	<b>\$ 611,311</b>

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

Total	Adjustments	Statement of Activities
\$ 3,519,061	\$	\$ 3,519,061
65,160	(65,160)	
846,489		846,489
108,976		108,976
66,989		66,989
17,059	706	17,765
	239,670	239,670
34,640		34,640
<u>\$ 4,658,374</u>	<u>\$ 175,216</u>	<u>\$ 4,833,590</u>
\$ 1,262,025	\$	\$ 1,262,025
313,170		313,170
14,768		14,768
194,107		194,107
360,445		360,445
825,195		825,195
	448,320	448,320
558,638		558,638
742,614	(742,614)	
	38,370	38,370
508,322	(508,322)	
103,122		103,122
<u>\$ 4,882,406</u>	<u>\$ (764,246)</u>	<u>\$ 4,118,160</u>
\$ (224,032)	\$ 939,462	\$ 715,430
\$ 239,670	\$ (239,670)	\$
<u>\$ 239,670</u>	<u>\$ (239,670)</u>	<u>\$</u>
\$ 15,638	\$ (15,638)	\$
	715,430	715,430
3,785,537	4,267,265	8,052,802
<u>\$ 3,801,175</u>	<u>\$ 4,967,057</u>	<u>\$ 8,768,232</u>

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

**H-M-W SPECIAL 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 AUGUST 31, 2016**

Net Change in Fund Balances - Governmental Funds	\$ 15,638
--	-----------

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

Governmental funds report proceeds from the sale of assets in the year received. However, in the Statement of Activities, the total proceeds were recorded in the year of sale.	(65,160)
---	----------

Governmental funds do not record the net cost of fixed assets sold. However, in the Statement of Activities, the net cost of assets sold or retired are recorded.	(38,370)
---	----------

Governmental funds do not record accrued interest on investments. However, in the Statement of Activities, accrued interest is recorded as interest income.	706
---	-----

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.	(448,320)
--	-----------

Governmental funds report capital 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.	742,614
---	---------

Governmental funds report bond principal payments as expenditures. In the Statement of Net Position bond principal payments decrease long-term liabilities.	508,322
---	---------

Change in Net Position - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 715,430</div>
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The accompanying notes to the financial  
statements are an integral part of this report.

# H-M-W SPECIAL UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

### NOTE 1. CREATION OF DISTRICT

H-M-W Special Utility District (the "District") was formed on March 13, 1998, by order of the Texas Commission on Environmental Quality (the "Commission"), under Sections 65.020 and 65.021, Texas Water Code, and is composed of noncontiguous areas of Montgomery County and Harris County, in the State of Texas. Pursuant to an election held on May 2, 1998, in accordance with Section 49.102, Texas Water Code, the voters of the District confirmed the District's creation and elected persons to serve as permanent directors for the District. The Board of Directors held their first meeting on March 18, 1998. The District sold its first bonds on June 24, 1998.

### 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 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 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:

**H-M-W SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2016**

**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 to obtain net total revenues and expenses of the government-wide Statements of Activities.

**H-M-W SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2016**

**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 two major governmental funds.

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 net operating revenues and financial resources restricted, committed or assigned for servicing bond debt.

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 revenue 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.

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 inter-fund 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.

# H-M-W SPECIAL UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

### 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
All Other Equipment	3-20

#### Inventory

Inventory is recorded at the average cost basis. Average cost is calculated on the average cost of each specific item during the fiscal year.

#### 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's employees make payments into the Social Security System. Effective September 1, 2006, the District established the H-M-W Special Utility District 457 Plan. Eligible employees deposit salary deferrals, and the District may make a matching contribution and an annual discretionary Profit Sharing Contribution. The District's Board of Directors are not eligible for the 457 plan. See also Note 9.

**H-M-W SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2016**

**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:

*Non-spendable:* amounts that cannot be spent either because they are in non-spendable 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 has assigned \$160,351 of its General Fund fund balance to cover a projected budget shortfall in the 2017 fiscal year.

*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.



# H-M-W SPECIAL UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

### 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

	<u>Series 2013 Refunding</u>
Amount Outstanding - August 31, 2016	\$ 2,858,642
Interest Rates	3.289%
Maturity Dates –Beginning/Ending	Monthly through September 2021
Interest Payment Dates	Monthly
Callable Dates	None**

\*\* The Bonds are not subject to redemption prior to their stated maturity.

The following is a summary of transactions regarding bonds payable for the year ended August 31, 2016:

	<u>September 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>August 31, 2016</u>
Bonds Payable	<u>\$ 3,366,964</u>	<u>\$ -0-</u>	<u>\$ 508,322</u>	<u>\$ 2,858,642</u>

Amount Due Within One Year	\$ 525,295
Amount Due After One Year	<u>2,333,347</u>
Bonds Payable	<u>\$ 2,858,642</u>

**H-M-W SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2016**

**NOTE 3. LONG TERM DEBT (Continued)**

As of August 31, 2016, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 525,295	\$ 86,149	\$ 611,444
2018	542,835	68,609	611,444
2019	560,960	50,484	611,444
2020	579,691	31,753	611,444
2021	599,047	12,397	611,444
2022	50,814	140	50,954
	<u>\$ 2,858,642</u>	<u>\$ 249,532</u>	<u>\$ 3,108,174</u>

The bonds are payable from the pledge of revenues to be derived from water revenues earned from the sale of water services to customers within the area of the District.

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

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 every fifth year anniversary date of each issue.

The 2013 bond order requires the District to maintain a reserve fund in the amount of \$429,227, which is 10% of the proceeds of the bonds. As of August 31, 2016, the District has \$611,311 deposited in the reserve fund and a total fund balance reserved for servicing bond debt of \$611,311. The District pledges net revenues to secure payment of the bonds and such revenues are not subject to any other lien. In the current fiscal year, the District transferred \$612,000 from the General Fund to the Debt Service Fund to provide for debt service payments on the outstanding bonds.

In accordance with the bond orders, the District covenants that it will keep the system insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties to the extent that such insurance is available.

**H-M-W SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2016**

**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 Authority, 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 \$1,894,280 and bank balance was \$1,922,278. The District was not exposed to custodial credit risk at year-end.

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. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United

# H-M-W SPECIAL UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

### NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

#### Investments (Continued)

States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District invests in TexPool, an external investment pool that is not SEC-registered. The District's investment in TexPool was recorded at amortized cost. 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.

As of August 31, 2016, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years	
		Less Than 1	1-5
<u>GENERAL FUND -</u>			
TexPool	\$ 1,260,669	\$ 1,260,669	\$
Certificates of Deposit and Money Market	1,819,965	1,326,965	493,000
<u>DEBT SERVICE</u>			
<u>FUND -</u>			
TexPool	<u>611,311</u>	<u>611,311</u>	
Total Investments	<u>\$ 3,691,945</u>	<u>\$ 3,198,945</u>	<u>\$ 493,000</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At August 31, 2016, the District's investment in TexPool was rated AAAm by Standard and Poor's. The District uses the CDARS program to invest in certificates of deposit.

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.

**H-M-W SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2016**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service.

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2016:

	September 1, 2015	Increases	Decreases	August 31, 2016
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 710,928	\$	\$	\$ 710,928
Construction in Progress		31,092		31,092
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 710,928</b>	<b>\$ 31,092</b>	<b>\$</b>	<b>\$ 742,020</b>
<b>Capital Assets Subject to Depreciation</b>				
Buildings and Improvements	\$ 741,110	\$	\$	\$ 741,110
Equipment	854,808	108,083	65,765	897,126
Water System	8,586,232	621,533	64,650	9,143,115
<b>Total Capital Assets Subject to Depreciation</b>	<b>\$ 10,182,150</b>	<b>\$ 729,616</b>	<b>\$ 130,415</b>	<b>\$ 10,781,351</b>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	\$ 118,889	\$ 19,550	\$	\$ 138,439
Equipment	510,390	76,721	52,145	534,966
Water System	2,720,663	352,049	21,806	3,050,906
<b>Total Accumulated Depreciation</b>	<b>\$ 3,349,942</b>	<b>\$ 448,320</b>	<b>\$ 73,951</b>	<b>\$ 3,724,311</b>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 6,832,208</b>	<b>\$ 281,296</b>	<b>\$ 56,464</b>	<b>\$ 7,057,040</b>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 7,543,136</b>	<b>\$ 312,388</b>	<b>\$ 56,464</b>	<b>\$ 7,799,060</b>

# **H-M-W SPECIAL UTILITY DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2016**

### **NOTE 7. 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. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

### **NOTE 8. REGIONAL WATER AUTHORITY ASSESSMENTS**

The District is located within the boundaries of the North Harris County Regional Water Authority (the "Authority") for its customers located in Harris County and is a part of the Lone Star Ground Water Conservation District ("Conservation District") for its customers residing in Montgomery County. The District is required to participate in the area-wide plan to convert the area's water supply to surface water over a period of time. The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the "Act"), as passed by the 76<sup>th</sup> Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements. The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. The District recorded expenditures of \$261,155 for fees assessed during the fiscal year.

The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 2362 (the "Act"), as passed by the 77<sup>th</sup> Texas Legislature, in 2001. The Conservation District was created to conserve, protect, and enhance the groundwater resources of Montgomery County, Texas. The Conservation District charges production fees based on the amount of water authorized by permit to be withdrawn from a well. During the current fiscal year, the District recorded expenditures of \$17,787 pertaining to these fees.

The San Jacinto River Authority (SJRA) was created in 1937. SJRA's jurisdiction includes the entire San Jacinto River basin, excluding Harris County. The SJRA is a multi-county, government agency covering all or part of seven counties, but centered in Montgomery County, especially with completion of Lake Conroe. The SJRA's Groundwater Reduction Plan (GRP) creates a county-wide solution that is available for all Large Volume Groundwater User's (LVGU) in the county. The primary goal of the GRP is to achieve compliance with the Conservation District's rules. In order to be in compliance with the Conservation District's groundwater reduction requirements, the District joined the SJRA GRP. The plan will stabilize groundwater levels, which benefits LVGUs that will remain on 100% groundwater. SJRA charges fees based on the amount of water pumped from a well to the owner of wells located within the boundaries, unless exempted. The District recorded expenditures of \$546,253 for fees assessed during the fiscal year.

# H-M-W SPECIAL UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

### NOTE 9. RETIREMENT PLAN

The District provides retirement benefits through a qualified retirement 401(k) plan for eligible employees over age 21 and after completing three months of employment. The plan is titled "HMW SPECIAL UTILITIES DISTRICT 457 PLAN" and is administered by the District. Records are maintained on a 12-month year beginning September 1 and ending August 31. Benefits provided by the plan are not insured by the Pension Benefit Guaranty Corporation (PBGC). Contributions are held in a Trust Fund with a trustee responsible for safekeeping. Under the plan, a portion of the participating employee's compensation is placed into a salary deferral account established on a pre-tax basis. Benefits paid upon termination are vested according to years of service. The District makes a matching contribution to retirement accounts. During the current fiscal year, the District recorded \$37,036 as its contribution to the plan. The retirement plans were revised and consolidated effective January 1, 2013.

### NOTE 10. SALE OF ASSETS

The District executed an Agreement for Sale and Purchase of Wastewater System Assets on February 27, 2012, that would transfer wastewater assets to Quadvest L.P. On May 29, 2012, an amendment was signed to provide for a cost adjustment for a portion of the transmission line. As a part of the transaction, the Commission approved the expansion of the District's wastewater Certificate of Convenience and Necessity on May 20, 2013. On April 17, 2014, the Commission approved the required Sale, Transfer and Merger application. The closing and transfer of the wastewater assets and expanded wastewater CCN was completed on January 5, 2015. The remaining balance is due in monthly increments of \$5,430 and will be received in the 2017 fiscal year. Details of the transaction are as follows:

Sale price	\$	171,620
Book value of assets sold		349,768
Loss on sale	\$	<u>(178,148)</u>
Receivable at September 1, 2015	\$	87,388
Collected in current fiscal year		<u>65,160</u>
Note Receivable Balance	\$	<u><u>22,228</u></u>

**H-M-W SPECIAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**AUGUST 31, 2016**





**H-M-W SPECIAL UTILITY DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Water Service	\$ 3,383,658	\$ 3,519,061	\$ 135,403
Sale of Wastewater Operations	65,160	65,160	-
Regional Water Authority Fees	762,573	846,489	83,916
Tap Connection and Inspection Fees	70,598	108,976	38,378
Penalty and Interest	71,576	66,989	(4,587)
Investment Revenues	8,085	15,516	7,431
Miscellaneous Revenues	108,245	34,640	(73,605)
<b>TOTAL REVENUES</b>	<u>\$ 4,469,895</u>	<u>\$ 4,656,831</u>	<u>\$ 186,936</u>
<b>EXPENDITURES</b>			
Service Operations:			
Personnel	\$ 1,295,328	\$ 1,262,025	\$ 33,303
Professional Fees	275,572	312,795	(37,223)
Contracted Services	5,200	4,850	350
Purchased Water Service	18,659	9,918	8,741
Utilities	184,804	194,107	(9,303)
Repair and Maintenance	302,170	360,445	(58,275)
Regional Water Authority Assessment	755,018	825,195	(70,177)
Other	542,256	558,638	(16,382)
Capital Outlay	751,000	742,614	8,386
<b>TOTAL EXPENDITURES</b>	<u>\$ 4,130,007</u>	<u>\$ 4,270,587</u>	<u>\$ (140,580)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 339,888</u>	<u>\$ 386,244</u>	<u>\$ 46,356</u>
<b>OTHER FINANCING SOURCES (USES)</b>	<u>\$ (611,448)</u>	<u>\$ (372,330)</u>	<u>\$ 239,118</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (271,560)</u>	<u>\$ 13,914</u>	<u>\$ 285,474</u>
<b>FUND BALANCE - SEPTEMBER 1</b>	<u>3,175,950</u>	<u>3,175,950</u>	
<b>FUND BALANCE - AUGUST 31</b>	<u><u>\$ 2,904,390</u></u>	<u><u>\$ 3,189,864</u></u>	<u><u>\$ -285,474</u></u>

See accompanying independent auditor's report.

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**H-M-W SPECIAL UTILITY DISTRICT**  
**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**AUGUST 31, 2016**



# H-M-W SPECIAL UTILITY DISTRICT

## SERVICES AND RATES

### FOR THE YEAR ENDED AUGUST 31, 2016

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

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

#### 2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective August 19, 2015.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER		-0-	N		
3/4"	\$ 43.70			\$ 3.00	0 to 10,000
1"	\$109.25			\$ 4.00	10,001 to 30,000
1-1/2"	\$218.50			\$ 4.50	Over 30,001
2"	\$349.60				
3"	\$655.50				

Effective February 1, 2015, the District does not provide wastewater service.

#### SURCHARGE

Water Authority and Commission Fees	\$ 2.40 per 1,000 gallons pumpage water charge for Harris County Customers
	\$ 0.11 per 1,000 gallons pumpage water charge for Montgomery County Customers
	\$ 2.35 per 1,000 gallons pumpage SJRA GRP water charge for Montgomery County Customers
	0.5% of actual water and sewer bill for Texas Commission on Environmental Quality

District employs winter averaging for wastewater usage?

<input type="checkbox"/>	<input checked="" type="checkbox"/>
Yes	No

Total charges per 10,000 gallons usage: Water: \$73.70 Surcharge: (Harris County): \$24.00, Surcharge (Montgomery County): \$1.10, SJRA Surcharge (Montgomery County): \$23.50, Surcharge (TCEQ): \$0.37

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**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"	<u>4,663</u>	<u>4,187</u>	x 1.0	<u>4,187</u>
1"	<u>87</u>	<u>87</u>	x 2.5	<u>218</u>
1 1/2"	<u>9</u>	<u>9</u>	x 5.0	<u>45</u>
2"	<u>10</u>	<u>9</u>	x 8.0	<u>72</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"			x 25.0	
6"	<u>1</u>		x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>4,772</u>	<u>4,294</u>		<u>4,552</u>
Total Wastewater Connections	<u>N/A</u>	<u>N/A</u>	x 1.0	<u>N/A</u>

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

Gallons pumped into system	398,714,000	Water Accountability Ratio: <u>90.7%</u> (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	361,529,000	
Gallons purchased:	988,000	From: <u>AquaTexas</u>
Gallons sold:	925,000	

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**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      No X

Counties in which District is located:

Harris County, Texas  
Montgomery County, Texas

Is the District located within a city?

Entirely      Partly      Not at all X

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

Entirely      Partly X Not at all     

ETJ's in which District is located:

City of Houston, Texas, City of Tomball, Texas and City of Conroe, Texas.

Are Board Members appointed by an office outside the District?

Yes      No X

See accompanying independent auditor's report.



**H-M-W SPECIAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

PERSONNEL (INCLUDING BENEFITS)	<u>\$ 1,262,025</u>
PROFESSIONAL FEES:	
Auditing	\$ 14,000
Engineering	147,708
Accounting/Financial Advisor	50,000
Legal	<u>101,087</u>
TOTAL PROFESSIONAL FEES	<u>\$ 312,795</u>
PURCHASED WATER SERVICES	<u>\$ 9,918</u>
CONTRACTED SERVICES:	
Labor	<u>\$ 4,850</u>
UTILITIES:	
Electricity	\$ 174,780
Garbage Service	1,816
Telephone	<u>17,511</u>
TOTAL UTILITIES	<u>\$ 194,107</u>
REPAIRS AND MAINTENANCE	<u>\$ 360,445</u>
ADMINISTRATIVE EXPENDITURES:	
Computer	\$ 53,882
Director Fees	20,400
Insurance	46,922
Payroll Administration	2,871
Postage	34,895
Printing	23,437
Bad Debt Expense	6,906
Other	<u>56,973</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 246,286</u>

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED AUGUST 31, 2016**

CAPITAL OUTLAY	<u>\$ 742,614</u>
TAP CONNECTION EXPENDITURES	<u>\$ 45,159</u>
SECURITY	<u>\$ 10,398</u>
OTHER EXPENDITURES:	
Chemicals	\$ 93,085
Continuing Education	2,250
Equipment Rental	12,409
Fuel	40,303
Permit Fees	16,150
Laboratory Fees	52,385
Uniforms	11,162
Vehicle Expenditures	29,051
Regional Water Authority Assessment	825,195
TOTAL OTHER EXPENDITURES	<u>\$ 1,081,990</u>
TOTAL EXPENDITURES	<u><u>\$ 4,270,587</u></u>

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT**  
**INVESTMENTS**  
**AUGUST 31, 2016**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Principal Amount	Days Accrued	Accrued Interest Receivable
<b>GENERAL FUND</b>						
TexPool	XXXX0003	Varies	Daily	\$ 1,260,669		\$
Money Market Fund - Whitney Bank	XXXX1897	0.75%	Monthly	243,093		
Certificate of Deposit - Green Bank	XXXX0938	0.45%	02/06/17	240,000	23 Days	77
Certificate of Deposit - BMO Harris Bank	XXXXWGF6	0.85%	11/24/17	248,000	13 Days	76
Certificate of Deposit - JPMorgan Chase	XXXXXAM7	1.10%	08/16/18	245,000	28 Days	210
Certificate of Deposit - Ally Bank US	XXXXLHV8	1.00%	09/19/16	240,000	347 Days	2,313
Certificate of Deposit - Bank of North Carolina	XXXX2385	0.68%	03/30/17	201,230	151 Days	578
Certificate of Deposit - Amarillo National Bank	XXXX2482	0.68%	03/30/17	126,872	151 Days	362
Certificate of Deposit - Bank of North Carolina	XXXX2482	0.68%	03/30/17	37,270	151 Days	106
Certificate of Deposit - EverBank	XXXX2482	0.68%	03/30/17	238,500	151 Days	689
<b>TOTAL GENERAL FUND</b>				<u>\$ 3,080,634</u>		<u>\$ 4,411</u>
<b>DEBT SERVICE FUND</b>						
TexPool	XXXX0004	Varies	Daily	<u>\$ 611,311</u>		<u>\$ -0-</u>
<b>TOTAL - ALL FUNDS</b>				<u><u>\$ 3,691,945</u></u>		<u><u>\$ 4,411</u></u>

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**AUGUST 31, 2016**

**SERIES - 2013 REFUNDING**

Due During Fiscal Years Ending August 31	Principal Due Monthly	Interest Due Monthly	Total
2017	\$ 525,295	\$ 86,149	\$ 611,444
2018	542,835	68,609	611,444
2019	560,960	50,484	611,444
2020	579,691	31,753	611,444
2021	599,047	12,397	611,444
2022	50,814	140	50,954
	<u>\$ 2,858,642</u>	<u>\$ 249,532</u>	<u>\$ 3,108,174</u>

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

Description	Original Bonds Issued	Bonds Outstanding September 1, 2015
H-M-W Special Utility District of Harris and Montgomery Counties Waterworks and Sewer System Revenue Refunding Bonds - Series 2013	<u>\$ 4,292,274</u>	<u>\$ 3,366,964</u>

Debt Service Fund investment balances as of August 31, 2016: \$ 611,311

Average annual debt service payment (principal and interest) for remaining term  
of bond debt: \$ 518,029

For interest rates, interest payment dates and maturity dates, see Note 3.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>			
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding August 31, 2016</u>
	<u>Principal</u>	<u>Interest</u>	
<u>\$ - 0 -</u>	<u>\$ 508,322</u>	<u>\$ 103,122</u>	<u>\$ 2,858,642</u>

Frost Bank  
Houston, TX

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2016	2015	2014
<b>REVENUES</b>			
Water Service	\$ 3,519,061	\$ 3,371,877	\$ 3,116,061
Sewer Service		58,355	168,672
Sale of Wastewater Operations	65,160	84,232	
Penalty and Interest	66,989	70,891	70,607
Regional Water Authority Fee	846,489	780,766	674,539
Generator Assessment Fees		131,404	173,551
Tap Connection and Inspection Fees	108,976	135,096	139,384
Investment Revenues	15,516	9,566	2,160
Miscellaneous Revenue	34,640	33,778	27,432
<b>TOTAL REVENUES</b>	<b>\$ 4,656,831</b>	<b>\$ 4,675,965</b>	<b>\$ 4,372,406</b>
<b>EXPENDITURES</b>			
Service Operations:			
Personnel	\$ 1,262,025	\$ 1,228,282	\$ 1,144,940
Professional Fees	312,795	285,964	256,320
Purchased and Contracted Services	14,768	24,288	27,185
Utilities	194,107	205,107	216,119
Repair and Maintenance	360,445	273,760	379,297
Regional Water Authority Assessment	825,195	758,682	678,433
Other	558,638	569,382	580,754
Capital Outlay	742,614	493,280	494,581
Note Principal	-	9,770	20,473
Note Interest	-	171	606
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,270,587</b>	<b>\$ 3,848,686</b>	<b>\$ 3,798,708</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 386,244</b>	<b>\$ 827,279</b>	<b>\$ 573,698</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer Out	\$ (612,000)	\$ (612,000)	\$ (616,000)
Note Proceeds/Other	239,670	108,200	67,097
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (372,330)</b>	<b>\$ (503,800)</b>	<b>\$ (548,903)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 13,914</b>	<b>\$ 323,479</b>	<b>\$ 24,795</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>3,175,950</b>	<b>2,852,471</b>	<b>2,827,676</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 3,189,864</b>	<b>\$ 3,175,950</b>	<b>\$ 2,852,471</b>

See accompanying independent auditor's report.

		Percent of Total Revenues				
2013	2012	2016	2015	2014	2013	2012
\$ 3,217,685	\$ 3,412,817	75.7%	72.2%	71.3%	74.3%	76.7%
150,694	135,575	0.0%	1.2%	3.9%	3.5%	3.0%
		1.4%	1.8%			
585,493	74,086	1.4%	1.5%	1.6%	1.6%	1.7%
172,074	535,674	18.2%	16.7%	15.4%	13.5%	12.0%
111,619	171,762	0.0%	2.8%	4.0%	4.0%	3.9%
69,469	92,267	2.3%	2.9%	3.2%	2.5%	2.0%
4,971	4,546	0.3%	0.2%	0.0%	0.1%	0.1%
25,364	26,165	0.7%	0.7%	0.6%	0.5%	0.6%
<u>\$ 4,337,369</u>	<u>\$ 4,452,892</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 1,091,530	\$ 1,076,242	27.1%	26.3%	26.2%	25.2%	24.2%
301,386	347,804	6.7%	6.1%	5.9%	6.9%	7.8%
48,987	33,207	0.3%	0.5%	0.6%	1.1%	0.7%
231,352	235,158	4.2%	4.4%	4.9%	5.3%	5.3%
369,733	362,946	7.7%	5.9%	8.7%	8.5%	8.2%
597,366	479,472	17.7%	16.2%	15.5%	13.8%	10.8%
549,314	557,643	12.0%	12.2%	13.3%	12.7%	12.5%
646,338	111,619	15.9%	10.5%	11.3%	14.9%	2.5%
793,031	191,369	0.0%	0.2%	0.5%	18.3%	4.3%
24,730	41,605	0.0%	0.0%	0.0%	0.6%	0.9%
<u>\$ 4,653,767</u>	<u>\$ 3,437,065</u>	<u>91.6%</u>	<u>82.3%</u>	<u>86.9%</u>	<u>107.3%</u>	<u>77.2%</u>
<u>\$ (316,398)</u>	<u>\$ 1,015,827</u>	<u>8.4%</u>	<u>17.7%</u>	<u>13.1%</u>	<u>-7.3%</u>	<u>22.8%</u>
\$ (245,321)	\$ (503,394)					
<u>\$ (245,321)</u>	<u>\$ (503,394)</u>					
\$ (561,719)	\$ 512,433					
<u>3,389,395</u>	<u>2,876,962</u>					
<u>\$ 2,827,676</u>	<u>\$ 3,389,395</u>					

See accompanying independent auditor's report.



**H-M-W SPECIAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2016	2015	2014
<b>REVENUES:</b>			
Investment Revenues	\$ 1,543	\$ 276	\$ 201
<b>TOTAL REVENUES</b>	<u>\$ 1,543</u>	<u>\$ 276</u>	<u>\$ 201</u>
<b>EXPENDITURES:</b>			
Expenditures	\$ 375	\$ -	\$ -
Debt Service Principal	508,322	491,897	823,413
Debt Service Interest and Fees	103,122	119,547	137,297
<b>TOTAL EXPENDITURES</b>	<u>\$ 611,819</u>	<u>\$ 611,444</u>	<u>\$ 960,710</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ (610,276)	\$ (611,168)	\$ (960,509)
<b>OTHER FINANCING SOURCES (USES)</b>	<u>612,000</u>	<u>612,000</u>	<u>616,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 1,724	\$ 832	\$ (344,509)
<b>FUND BALANCE -BEGINNING OF YEAR</b>	<u>609,587</u>	<u>608,755</u>	<u>953,264</u>
<b>FUND BALANCE - END OF YEAR</b>	<u><u>\$ 611,311</u></u>	<u><u>\$ 609,587</u></u>	<u><u>\$ 608,755</u></u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>4,294</u>	<u>4,246</u>	<u>4,146</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>0</u>	<u>0</u>	<u>180</u>
<b>NUMBER OF EMPLOYEES</b>			
Full-time	<u>15</u>	<u>16</u>	<u>16</u>
Part-time	<u>1</u>	<u>2</u>	<u>2</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
2013	2012	2016	2015	2014	2013	2012
\$ 792	\$ 917	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 792	\$ 917	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 962	\$ 963	24.3 %	- %	- %	121.5 %	105.0 %
375,000	350,000	32,943.7 %	178,223.6 %	409,658.2 %	47,348.5 %	38,167.9 %
296,489	270,838	6,683.2 %	43,314.1 %	68,307.0 %	37,435.5 %	29,535.2 %
\$ 672,451	\$ 621,801	39,651.2 %	221,537.7 %	477,965.2 %	84,905.5 %	67,808.1 %
\$ (671,659)	\$ (620,884)	(39,551.2) %	(221,437.7) %	(477,865.2) %	(84,805.5) %	(67,708.1) %
527,914	636,000					
\$ (143,745)	\$ 15,116					
1,097,009	1,081,893					
\$ 953,264	\$ 1,097,009					
4,118	4,119					
160	150					
15	15					
2	2					

See accompanying independent auditor's report.

# H-M-W SPECIAL UTILITY DISTRICT

## BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

### AUGUST 31, 2016

District Mailing Address - H-M-W Special Utility District  
P.O. Box 837  
Pinehurst, TX 77362

District Telephone Number - (281) 356-5060

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of Office for the year ended August 31, 2016</b>	<b>Expense Reimbursements for the year ended August 31, 2016</b>	<b>Title</b>
Mark Halk	05/2016 - 05/2019 (Elected)	\$ 1,950	\$ -0-	Director
Lance Stahl	05/2014 - 05/2017 (Elected)	\$ 3,150	\$ 125	Director
Doug Miller	05/2016 - 05/2019 (Elected)	\$ 5,100	\$ 371	Director/ President
Mike Hulon	05/2014 - 05/2017 (Elected)	\$ 2,550	\$ -0-	Director/ Vice President
Thomas Busker	05/2015 - 05/2018 (Elected)	\$ 2,700	\$ -0-	Director
Stan Mramor, Jr	05/2015 - 05/2018 (Elected)	\$ 1,650	\$ -0-	Director
Cindy Hillman	05/2016 - 05/2019 (Elected)	\$1,050	\$ 145	Director/ Secretary
Joshua Wall	05/2016 - 05/2019 (Elected)	\$ 600	\$ -0-	Director
Mark Pinter	05/2013 - 2/2016	\$ 1,650	\$ 667	Resigned

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):  
May 19, 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 23, 2003. Fees of Office are the amounts actually paid to a

See accompanying independent auditor's report.

**H-M-W SPECIAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
AUGUST 31, 2016**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended August 31, 2016</u>	<u>Title</u>
Patrick F. Timmons	06/24/98	\$ 101,087	General Counsel
McCall Gibson Swedlund Barfoot PLLC	06/24/98	\$ 14,000	Auditor
Robert E. Degeyter	08/01/08	\$ 50,000	CPA / Investment Officer
Cobb, Fendley & Associates, Inc.	3/19/13	\$ 147,708	Engineer

See accompanying independent auditor's report.

