

Midland County Fresh Water Supply District No. 1

Annual Financial Report

For the Fiscal Year Ended September 30, 2019

Midland County Fresh Water Supply District No. 1
 Annual Financial Report
 For the Fiscal Year Ended September 30, 2019
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Introductory Section

Annual Filing Affidavit

THE STATE OF TEXAS }
COUNTY OF Midland }

I, Jose Cuevas of the Midland County Fresh Water Supply District No. 1 (the District) hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Supervisors on the 6th day of February 2020, its annual audit report for the fiscal period ended September 30, 2019 and that copies of the annual audit report have been filed with the District's office, located at 1700 W. Wall Street, Suite 210, Midland, Texas 79701-6530.

The filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality to satisfy the annual filing of Texas Water Code Section 49.194.

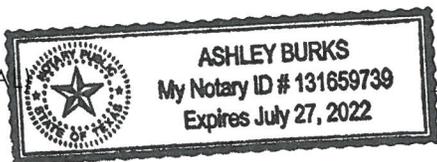
Date: February 6th 2020

By: _____

Jose Cuevas, Board President
(Typed Name & Title of District Representative)

Sworn to and subscribed to before me this 6 day of February, 2020.

(SEAL)



Ashley Burks
(Signature of Notary)

My Commission Expires on: July 27th 2022

Notary Public in the State of Texas

Financial Section

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Independent Auditor's Report

The Members of the Board of Supervisors of
Midland County Fresh Water Supply District No. 1
Midland, Texas

We have audited the accompanying financial statements of the business-type activities of the Midland County Fresh Water Supply District No. 1 (the District) as of and for the year ended September 30, 2019, 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 Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Midland County Fresh Water Supply District No. 1 as of September 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Members of the Board of Supervisors of
Midland County Fresh Water Supply District No. 1

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-10 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 an opinion on the District's basic financial statements. The Texas supplementary information listed in the table of contents is required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The Texas supplementary information is the responsibility of management. The accompanying supplementary information, excluding the portion marked "unaudited" has been derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 supplementary information (other than information marked as "unaudited"), is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

The Members of the Board of Supervisors of
Midland County Fresh Water Supply District No. 1

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
February 6, 2020

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Management's Discussion and Analysis

The management of the Midland County Fresh Water Supply District No. 1 (the District) provides this narrative discussion and analysis of the basic financial statements as an overview of the District's financial position and results of operations for the year ended September 30, 2019. Included in this section are:

- District overview
- Financial highlights
- Overview of the accompanying basic financial statements

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited basic financial statements, which can be found in the section following the MD&A.

District Overview

For the fiscal year ending September 30, 2019, the District completed its sixth full year of operations of the T-Bar Well Field, including the ClearWater Well Field brought on line in 2015. A total of 2,568.75 million gallons (7,883.2 acre feet) of water was delivered to the City of Midland through the District's infrastructure between October 1, 2018 and September 30, 2019.

In 2019, the District focused on rehabilitation and improving system resiliency. The projects included rehabilitation of 6 wells with new boreline, pumps and motors, new generator for the high service pump station and 6 portable generators for wells, drilling a test hole to evaluate the corrosion taking place in the well field and numerous small projects. These projects all completed various phases throughout the year, with some still ongoing and all supported the District in continuing to provide water supply to the City of Midland.

Financial Highlights

- The District's liabilities and deferred inflows exceeded its assets at the close of year ended September 30, 2019 by \$49,930,679.
- The District's assets as of September 30, 2019, which consisted of cash, receivables and capital assets, equaled \$206,522,771.
- The District has revenue refunding bonds, current revenue notes, and capital appreciation notes with the amount of outstanding debt being \$250,117,304 at September 30, 2019. Principal payments began in FY 2014 and are payable through maturity.

More information about the overall analysis of the District's financial position and results of operations is provided in the following sections.

Overview of the Basic Financial Statements

The District's basic financial statements are comprised of two components: (1) district-wide basic financial statements, and (2) notes to the basic financial statements.

District-Wide Basic Financial Statements. The *district-wide basic financial statements* report information about the District, as a whole, using accounting methods similar to those used by private-sector businesses. The reports that the District has prepared are in accordance with Government Accounting Standards Board (GASB) requirements as "business-type activities." Activities such as the District's utility services are considered "business-type" not solely because they resemble those performed by the private-sector, but because there is an exchange involved between the receiver and the provider of the service. For business-type activities, there is frequently a direct relationship between the charge for the service and the service itself. This exchange relationship causes users of the financial information to focus on the costs of providing the service, the revenues obtained from the service, and the difference between the two.

Proprietary Fund Financial Statements. The District's intent is to charge customers for the services it provides through service delivery agreements to outside customers or through customer agreements within the District. These services will be reporting proprietary funds. The district-wide basic financial statements can be found on pages 12 through 15 of this report.

The District maintains one propriety fund. The District's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position shows the revenue sources, expense classifications, and reflects the change in net position for the year.

The statement of cash flows reconciles the beginning and ending cash and cash equivalents, as well as demonstrates the sources and uses of funds received and expended.

Notes to the Basic Financial Statements. The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 17 through 26 of this report.

Supplementary Information. This report also includes other supplementary information. The other supplementary information consists of schedules that have been included to comply with the Texas Commission on Environmental Quality (TCEQ) requirements.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, total liabilities and deferred inflows exceeded assets by \$49,930,679 at the close of the year.

At the end of the year, the District had unrestricted cash balances of \$0, restricted cash balances of \$13,499,524, and unrestricted deficit net position of \$(49,930,679). The increased deficit balance of unrestricted net position is due to depreciation and interest expenses.

Elements of these amounts are reflected in Table 1 and Table 2 below.

Table 1

District Net Position		
	2019	2018
Restricted assets	\$ 14,508,954	\$ 12,552,802
Capital assets	192,013,817	199,677,002
Total assets	206,522,771	212,229,804
Current liabilities payable from restricted assets	5,652,353	5,283,208
Unearned grants	683,793	829,793
Current portion of long-term debt	4,120,000	3,270,000
Long-term debt	245,997,304	246,264,376
Total liabilities	256,453,450	255,647,377
Net position		
Unrestricted net position	(49,930,679)	(43,417,573)
Total net position	\$ (49,930,679)	\$ (43,417,573)

Table 2

District Changes in Net Position		
	Year Ended September 30, 2019	Year Ended September 30, 2018
Operating revenues		
Water sales to customers	\$ 12,024,000	\$ 12,024,000
Water development fees	22,500	27,500
Total operating revenues	12,046,500	12,051,500
Operating expenses		
Production expenses	2,913,144	2,959,593
General and administrative	553,097	652,610
Depreciation	7,769,434	7,764,755
Total operating expenses	11,235,675	11,376,958
Operating income	810,825	674,542
Non-operating revenues/(expenses)		
Other income	2,733,529	2,717,617
County grant revenues	146,000	-
Interest income	138,769	91,967
Interest expense and fiscal charges	(10,342,229)	(10,239,011)
Total non-operating expenses	(7,323,931)	(7,429,427)
Decrease in net position	\$ (6,513,106)	\$ (6,754,885)

Capital Assets and Debt Administration

Capital Assets. The District substantially completed construction of the T-Bar water system on May 31, 2013. During 2016, the District completed the construction of the T-Bar 191 extension as well as ClearWater Ranch. In 2017, the District completed construction on the 1788 Extension Project. The District began construction on the 191 Bore and Terminus Access Road Project to provide additional improvements to the T-Bar system. As of the year ended September 30, 2019, the District's capital assets totaled \$192,013,817. This amount includes pipeline, well field development, pump station/ground storage tanks/meters, chlorination stations/elevated storage tank, right of way, capitalized interest as well as assets in the construction process.

Additional information regarding the District's capital assets can be found in Note 7 of this report.

Long-term Debt. As of the year ended September 30, 2019, the District had total long-term debt outstanding in the amount of \$250,117,304. This amount includes Series 2012 revenue bonds principal of \$63,750,000, Series 2012A revenue notes principal of \$61,055,000, capital appreciation notes principal of \$67,211,160, Series 2014 revenue notes principal of \$22,780,000, unamortized bond premium of \$8,753,434 and capital appreciation bond interest accretion of \$26,567,710. The District's bond rating is "AA-" from Standard & Poor's and "Aa3" from Moody's. The Series 2014 revenue notes are unrated.

Additional information regarding the District's long-term debt can be found in Note 9 of this report.

Economic Outlook for the Future

The District has approved an overall budget for fiscal year 2020 which includes costs associated with operations and maintenance through PSC Services, administrative expenses, materials and supplies, anticipated contract services and electricity costs. The overall budget includes the costs associated with debt service on the bonds and notes for the T-Bar Project and bonds for the ClearWater project. Also included in the budget are funds sufficient to meet the annual requirement of the Renewal and Replacement Fund for the facilities as required by the Delivery Agreement with the City of Midland.

The annual costs outlined in the budget of the District will be covered by revenue generated through payments from the City of Midland for the delivery of water each month. The Delivery Agreement provides for the District to charge the City of Midland a rate sufficient to produce minimum monthly payments that cover the entire project cost including costs associated with District debt, operations and maintenance. The approved rate the District will charge the City for water in 2020 is \$3.46 per 1,000 gallons. The City is obligated to pay for a minimum of 300 million gallons of water per month plus the debt service requirements for the ClearWater Ranch project. The City approved increases in their water utility rates to sufficiently cover the minimum payment obligations to the District.

Requests for Information

This financial report is designed to provide a general overview of the Midland County Fresh Water Supply District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kyle Krueger, Project Manager, Midland County Fresh Water District No. 1, 1700 W. Wall Street, Suite 210, Midland, Texas 79701-6530.

Basic Financial Statements

Midland County Fresh Water Supply District No. 1

Statement of Net Position

September 30, 2019

	<u>Business-Type Activities</u>
ASSETS	
Restricted current assets:	
Cash and cash equivalents	\$ 13,499,524
Receivables	1,009,430
	<hr/>
Total restricted current assets	14,508,954
	<hr/>
Total current assets	14,508,954
Unrestricted noncurrent assets:	
Capital assets	239,472,868
Construction in progress	296,687
Accumulated depreciation	(47,755,738)
	<hr/>
Total unrestricted noncurrent assets	192,013,817
	<hr/>
Total assets	206,522,771
LIABILITIES	
Current liabilities payable from restricted assets:	
Accounts payable	1,010,012
Accrued interest	276,315
Contract rights payable	4,366,026
Unearned county revenue	230,978
Unearned city revenue	452,815
Current portion of long-term debt	4,120,000
	<hr/>
Total current liabilities	10,456,146
Noncurrent liabilities:	
Long-term debt, net of current portion	245,997,304
	<hr/>
Total liabilities	256,453,450
	<hr/>
NET POSITION	
Unrestricted net position	(49,930,679)
	<hr/>
TOTAL NET POSITION	<u>\$ (49,930,679)</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Midland County Fresh Water Supply District No. 1
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended September 30, 2019

	<u>Business-Type Activities</u>
OPERATING REVENUES	
Water sales	\$ 12,024,000
Miscellaneous fees	22,500
	<hr/>
Total operating revenues	12,046,500
OPERATING EXPENSES	
Production expenses	2,913,144
General and administrative	553,097
Depreciation	7,769,434
	<hr/>
Total operating expenses	11,235,675
	<hr/>
Operating income	810,825
NONOPERATING REVENUES (EXPENSES)	
Other income	2,733,529
County grant revenues	146,000
Interest income	138,769
Interest expense and fiscal charges	(10,342,229)
	<hr/>
Total nonoperating expenses	(7,323,931)
	<hr/>
Decrease in net position	(6,513,106)
	<hr/>
Net position - beginning balance	(43,417,573)
	<hr/>
NET POSITION - ENDING	\$ (49,930,679)
	<hr/> <hr/>

The Notes to the Basic Financial Statements are an integral part of this statement.

Midland County Fresh Water Supply District No. 1

Statement of Cash Flows

For the Fiscal Year Ended September 30, 2019

	<u>Business-Type Activities</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from water sales	\$ 12,025,805
Cash payments to suppliers for goods and services	(3,083,257)
Cash received from line crossing fees	22,500
	<hr/>
Net cash provided by operating activities	8,965,048
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash received from city for debt service	2,716,681
Cash paid for capital assets	(106,249)
Cash paid for principal on capital debt	(3,270,000)
Cash paid for interest on debt	(6,470,670)
	<hr/>
Net cash used in capital and related financing activities	(7,130,238)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	138,769
	<hr/>
Net cash provided by investing activities	138,769
	<hr/>
Net increase in cash and cash equivalents	1,973,579
 CASH AND CASH EQUIVALENTS, beginning of period	<hr/> 11,525,946
 CASH AND CASH EQUIVALENTS, end of period	<hr/> <hr/> \$ 13,499,525

The Notes to the Basic Financial Statements are an integral part of this statement.

Midland County Fresh Water Supply District No. 1

Statement of Cash Flows – Continued

For the Fiscal Year Ended September 30, 2019

	<u>Business-Type Activities</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 810,825
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	7,769,434
Changes in operating assets and liabilities:	
Accounts receivable	13,926
Accounts payable	370,863
	<hr/>
Net cash provided by operating activities	\$ 8,965,048
	<hr/> <hr/>
NONCASH INVESTING AND FINANCING ACTIVITIES	
Capital appreciation bond accretion expense	\$ 4,377,415
Bond premium amortization	(524,487)
	<hr/>
Total noncash investing and financing activities	\$ 3,852,928
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The Notes to the Basic Financial Statements are an integral part of this statement.

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Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

Note 1. Organization and Operations

Reporting Entity

Midland County Fresh Water Supply District No. 1 (the District) was created in December 2009 by the Midland County Commissioners Court under Article XVI, Section 59, of the Constitution of the State of Texas and the Texas Water Code Chapters 49 and 53. The District operates under the Statutes of Texas. The District was created for purpose of conserving, transporting, and distributing fresh water from any source for domestic and commercial purposes. The District's service area consists of the City of Midland.

The District is governed by a five member Board of Supervisors, which has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) and is not included in any other governmental reporting entity.

Note 2. Summary of Significant Accounting Policies

A. Measurement Focus

The accompanying basic financial statements are reported using the economic resources measurement focus and full accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

The District operates as an enterprise (proprietary) fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Basis of Presentation

The District presents its basic financial statements in accordance with GASB Statement 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* which provides guidance for governments engaged in business-type activities. Accordingly, the basic financial statements and Required Supplementary Information (RSI) of the District consist of management's discussion and analysis, statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the basic financial statements.

The District prepares its financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB).

C. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the basic financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are considered to be cash on hand, demand deposits, money market funds, and investments with a maturity of three months or less from the date of acquisition.

E. Capital Assets

Capital assets, when purchased or constructed, are recorded at cost or estimated historical cost based on the corresponding asset class.

The District's capital assets include public domain (infrastructure) assets such as the water pipeline and right of way.

It is the policy of the District to capitalize certain interest costs on revenue bonds and commercial paper associated with newly constructed capital asset additions. The applicable interest costs are reflected in the capitalized value of the assets being constructed.

Depreciable capital assets are depreciated using the straight-line method over the estimated useful lives of 20 years for well field development, pump station and tanks and 40 years for pipeline.

F. Net Position

Net position represents the difference between assets and liabilities. Net position is categorized as follows: Net position is reported as (1) net investment in capital assets; (2) restricted and; (3) unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, net of unspent bond proceeds. The District's investment in capital assets net of related debt is \$0 for the period ended September 30, 2019.

Restricted net position represents resources that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws/regulations of other governments or constitutional provisions, or (b) resources resulting from enabling legislation. The District's restricted net position is \$0 for the period ended September 30, 2019.

Unrestricted net position represents resources that have not been restricted by the constraints mentioned above.

G. Revenue

Revenues are recognized as earned and result from providing water to the City of Midland. Revenues resulting from other transactions are reported as non-operating revenues.

H. Bond Related Activity

Bond premiums are deferred and amortized over the life of the bonds using the effective interest method for premiums. Bonds payable are reported net of the applicable premium.

I. Subsequent Events

The District has evaluated subsequent events through February 6, 2020, the date the financial statements were available to be issued. See note 13 for discussion of subsequent refinancing event.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

J. Recent Account Pronouncements

Statement No. 87, Leases – The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 31, 2020.

Statement No. 88, Certain Disclosures Related to Debt, Including Borrowings and Direct Placements – The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period – The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The District's management is reviewing the implementation process of these standard by gathering required information.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

Note 3. Stewardship, Compliance and Accountability

A. Annual Budget

The Board of Supervisors approves an annual budget each fiscal year, which estimates the amount of funds available from all sources for expenditure by the District during the fiscal year. The annual budget serves as a control device in executing the programs approved therein.

Since the District operates as an enterprise fund, a Budget to Actual schedule is not required to be presented as part of the basic financial statements.

B. Deficit Net Position Balance

The District had a negative net position balance on September 30, 2019, in the amount of \$49,930,679. The negative net position balance is due to depreciation, interest and accretion expenses, which continue to exceed operating income.

Note 4. Cash, Cash Equivalents, Custodial Risk and Investments

At September 30, 2019, the carrying amount of the District's cash in bank was \$13,499,524 , all of which was restricted. The District's cash deposits held at a financial institution in the amount of \$12,977,164 at September 30, 2019, and during the year ended September 30, 2019, were entirely covered by FDIC insurance and/or pledged collateral held by the District's pledging financial institution, as required by its investment policy and the Public Funds Investment Act.

Beginning in March 2015, the District entered into a demand deposit marketplace arrangement with the financial institution, whereby cash balances exceeding the FDIC insurance limit are automatically swept into a demand account at other participating banks in order for the District's cash to be fully insured. The District's cash deposits held at the financial institution in the amount of \$522,360 at September 30, 2019 and during the year ended September 30, 2019 were entirely covered by FDIC insurance as a result of this arrangement.

The District's investment policy authorizes the investment officer to invest funds in national or state banking associations or savings and loan associations located within the State of Texas or in federal treasury bills. The funds must not exceed the FDIC or FSLIC insurance limits or the collateral pledged as a security for the District's investments. At September 30, 2019, the District did not have any investments.

Note 5. Receivables

Receivables consist of amounts due from customers, refunds due from vendors and interest. The balance of receivables at September 30, 2019, was \$1,009,430, all of which was restricted for repayment of debt.

Note 6. Concentrations

For the year ended September 30, 2019, approximately 99% of the District's operating revenues were derived from a single customer. Additionally, the District generated 99% of this revenue from water sales.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

Note 7. Capital Asset Activity

Capital asset activity for the year ended September 30, 2019 was as follows:

	Beginning Balance October 1, 2018	Additions	Deletions	Reclass	Ending Balance September 30, 2019
Capital assets, not subject to depreciation					
Construction in progress					
Pipeline	\$ 271,240	\$ 25,066	\$ -	\$ -	\$ 296,306
Capitalized interest	382	-	-	-	382
Total construction in progress	271,622	25,066	-	-	296,688
Land					
Right of way - T-Bar	9,247,794	-	-	-	9,247,794
Right of way - ClearWater Ranch	1,663,755	-	-	-	1,663,755
Roark Ranch Water Rights	4,366,026	-	-	-	4,366,026
1788 extension	274,214	-	-	-	274,214
191 extension	1,555	3,016	-	-	4,571
Total land	15,553,344	3,016	-	-	15,556,360
Capital assets, subject to depreciation					
Pipeline	114,201,615	-	-	-	114,201,615
1788 pipeline	2,574,787	-	-	-	2,574,787
Well field development	13,341,796	-	-	-	13,341,796
Pump station/ground storage tanks/meters	49,292,690	-	-	-	49,292,690
Chlorination stations/elev ated storage tank	11,138,541	-	-	-	11,138,541
Capitalized interest	5,041,033	4,439	-	-	5,045,472
Leasehold improvements	37,764	-	-	-	37,764
ClearWater - Pipeline	14,802,852	-	-	-	14,802,852
ClearWater - Pump Station	2,721,677	-	-	-	2,721,677
ClearWater - Well Field	9,402,881	-	-	-	9,402,881
ClearWater - Ground Storage	816,504	-	-	-	816,504
ClearWater capitalized interest	466,200	-	-	-	466,200
Engineering	-	73,728	-	-	73,728
Total capital assets	223,838,340	78,167	-	-	223,916,507
Less accumulated depreciation	(39,986,304)	(7,769,434)	-	-	(47,755,738)
Total capital assets, net	\$ 199,677,002	\$ (7,663,185)	\$ -	\$ -	\$ 192,013,817

Depreciation expense for the year ended September 30, 2019 was \$7,769,434.

Note 8. Capitalized Interest Costs

Interest costs incurred on revenue bonds for the year ended September 30, 2019, was \$6,495,459, of which \$4,439 was capitalized in 2019 as part of the cost of the District's construction projects. The remaining interest cost, totaling \$6,491,020, is included as a component of "interest expense and fiscal charges" on the accompanying statement of revenue, expenses and changes in net position.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

Note 9. Long-Term Debt

A summary of changes in long-term debt for the year ended September 30, 2019 is as follows:

	Outstanding October 1, 2018	Additions	Deductions	Outstanding September 30, 2019	Due Within One Year
Bonds and notes payable:					
Series 2012 revenue bonds	\$ 65,125,000	\$ -	\$ (1,375,000)	\$ 63,750,000	\$ 2,165,000
Series 2012A revenue and capital appreciation notes	128,266,160	-	-	128,266,160	-
Series 2014 revenue notes	24,675,000	-	(1,895,000)	22,780,000	1,955,000
Total bonds payable	218,066,160	-	(3,270,000)	214,796,160	4,120,000
Bonds and notes premium	9,277,921	-	(524,487)	8,753,434	-
Accretion of interest on capital appreciation bonds	22,190,295	4,377,415	-	26,567,710	-
Total long-term debt	\$ 249,534,376	\$ 4,377,415	\$ (3,794,487)	\$ 250,117,304	\$ 4,120,000

At September 30, 2019, long-term debt consisted of bonds payable which was comprised of the following individual issues:

	Interest Rates	Issue Amount	Outstanding at September 30, 2019
Midland County Fresh Water Supply District No. 1 Revenue Refunding Bonds (City of Midland Project), Series 2012	2.5% to 5.0%	\$ 68,310,000	\$ 63,750,000
Midland County Fresh Water Supply District No. 1 Revenue Notes (City of Midland Project), Series 2012A	3.25% to 5.0%	\$ 61,055,000	61,055,000
Midland County Fresh Water Supply District No. 1 Capital Appreciation Notes (City of Midland Project), Series 2012A	4.53% to 5.05%	\$ 67,211,160	67,211,160
Midland County Fresh Water Supply District No. 1 Revenue Notes (City of Midland Project), Series 2014	3.33%	\$ 26,510,000	22,780,000
Total bonds payable			\$ 214,796,160

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

A. Series 2012 Revenue Bonds Payable

The District issued revenue refunding bonds and notes, to provide funds for construction of a groundwater system to augment or replace the nearly depleted water supplies provided via current District contracts with the Colorado River Municipal Water District, and to pay the issuance costs. These bonds constitute special obligations of the District and are secured by revenues to be received from the City of Midland by the District.

At September 30, 2019 the District held \$63,750,000 of Midland County Fresh Water Supply District No. 1 Revenue Refunding Bonds, Series 2012 with interest rates of 2.0% to 5.0%.

There are a number of limitations and restrictions contained in the bond indentures. Management has complied with all significant limitations and restrictions through September 30, 2019.

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years; therefore, the estimated liability is updated at that time for all tax-exempt issuances or when there is a change in yields. The District had no arbitrage rebate liability at September 30, 2019.

The annual debt service requirements for the revenue refunding bonds as of September 30, 2019 are as follows:

Year Ending September 30,	Principal	Interest	Total
2020	\$ 2,165,000	\$ 2,701,756	\$ 4,866,756
2021	2,130,000	2,636,806	4,766,806
2022	2,135,000	2,530,306	4,665,306
2023	2,950,000	2,466,256	5,416,256
2024	2,945,000	2,318,756	5,263,756
2025-2029	14,555,000	9,560,382	24,115,382
2030-2032	36,870,000	2,933,250	39,803,250
Totals	\$ 63,750,000	\$ 25,147,512	\$ 88,897,512

Revenue bonds interest is payable semi-annually on March 15 and September 15 each year.

B. Series 2012A Revenue Notes Payable and Capital Appreciation Notes Payable

At September 30, 2019 the District held \$61,055,000 of Midland County Fresh Water Supply District No. 1 Serial current interest notes and term current interest notes (City of Midland Project), Series 2012A with interest rates of 3.25% to 5.00% to provide funds for construction of the groundwater system.

At September 30, 2019 the District held \$67,211,160 of Midland County Fresh Water Supply District No. 1 Revenue Notes (City of Midland Project), Series 2012A with interest rates of 4.53% to 5.05% to provide funds for construction of the groundwater system.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

The total revenue and capital appreciation notes issued was \$128,266,160. The annual debt service requirements for the revenue notes and capital appreciation notes payable as of September 30, 2019 are as follows:

Year Ending September 30,	Principal	Interest	Total
2020	\$ -	\$ 2,930,775	\$ 2,930,775
2021	-	2,930,775	2,930,775
2022	-	2,930,775	2,930,775
2023	-	2,930,775	2,930,775
2024	-	2,930,775	2,930,775
2025-2029	3,270,000	14,653,875	17,923,875
2030-2034	42,887,984	59,848,267	102,736,251
2035-2039	60,833,105	87,904,394	148,737,499
2040-2042	21,275,071	15,285,429	36,560,500
Totals	\$ 128,266,160	\$ 192,345,840	\$ 320,612,000

Revenue notes payable interest is payable semi-annually on March 15 and September 15 each year. Capital appreciation notes payable interest is payable as the notes mature.

There are a number of limitations and restrictions contained in the bond indentures. Management has complied with all significant limitations and restrictions through September 30, 2019.

C. Series 2014 Revenue Notes Payable

At September 30, 2019 the District held \$22,780,000 of Midland County Fresh Water Supply District No. 1 Revenue Notes (City of Midland Project), Series 2014 with interest rates of 3.33% to provide funds for ClearWater Well Field Development and Delivery Project.

The annual debt service requirements for the revenue notes payable as of September 30, 2019 are as follows:

Year Ending September 30,	Principal	Interest	Total
2020	\$ 1,955,000	\$ 758,574	\$ 2,713,574
2021	2,025,000	693,473	2,718,473
2022	2,090,000	626,040	2,716,040
2023	2,160,000	556,443	2,716,443
2024	2,230,000	484,515	2,714,515
2025-2029	12,320,000	1,257,908	13,577,908
Totals	\$ 22,780,000	\$ 4,376,953	\$ 27,156,953

Revenue notes payable interest is payable semi-annually on March 15 and September 15 each year.

There are a number of limitations and restrictions contained in the bond indentures. Management has complied with all significant limitations and restrictions through September 30, 2019.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

Note. 10. Operating Leases

During 2012, the District entered into a lease agreement with PSC Services, LLC to lease office space in the Parkhill, Smith and Cooper building in Midland, Texas. The lease has an initial term of 10 years with an option to renew for an additional 10 years. During 2013, the District entered into a lease for certain land on the Beckham Ranch in Winkler County, Texas. The initial term of the lease is for five years, with two, five year, options to renew. During 2016, the District entered into a lease for certain real property on the ClearWater Ranch in Winkler County, Texas. The term of the lease is for twenty-seven months. The District's future minimum rental commitments for office space and land accounted for as operating leases at September 30, 2019 were as follows:

2020	\$	16,992
2021		16,992
2022		16,992
Total future minimum rental commitments	\$	50,976

Rental expense related to leases totaled \$31,151 for the year ended September 30, 2019, which is included in general and administrative expense in the statement of revenue, expenses and changes in net position.

Note 11. Interlocal Agreements

A. City of Midland

In May 2012, the District entered into a water supply agreement with the City of Midland (the City) to purchase water. The basic term of this contract is 40 years. The contract requires a minimum purchase of 300 million gallons of water each month, beginning August 1, 2013, for the first 15 years, and a minimum of 840 million gallons the rest of the contract (25 years). The rate to be paid to the District by the City is set at \$3.34 per 1,000 gallons through September 30, 2019. For the 2020 fiscal year, the approved rate is \$3.46 per 1,000 gallons.

In November 2013, the aforementioned agreement was amended and restated to include provisions related to the development and operations of ClearWater Ranch. As part of this agreement, the City unconditionally pledged to provide funding for debt service related to the District's \$30 million dollar bond issue as well as for operations and maintenance in addition to revenue paid to the District for water delivery. During the year ended September 30, 2019, the City disbursed \$2,570,681 for debt service payments. Of this amount, \$2,879,529 was used for debt service during 2019. Unearned city grant revenue as of September 30, 2019 was \$452,815.

In August 2013, the District entered into a lease and operating agreement with the City of Midland (the City). In the agreement, the City of Midland will lease from the District Extended Infrastructure. The City records the District's assets as a capital lease with the related debt in the fiscal year ended September 30, 2019. The City is responsible for the operations and maintenance of the Extended Infrastructure for a period of fifty years, at which time the City takes ownership of the infrastructure.

Midland County Fresh Water Supply District No. 1

Notes to the Basic Financial Statements

B. Midland County

In September 2012, the District entered into an interlocal agreement with Midland County (the County). The purpose of this agreement is to enable Midland County to provide funding to the District for the purpose of performing a study to identify sources of water and formulate a plan to meet future water needs within Midland County. If not spent in their entirety the remaining funds are to be returned to Midland County. There is not a time frame in the agreement for the funds to be spent. The initial funds provided by Midland County were \$100,000 in fiscal 2013, an additional \$200,000 provided in fiscal 2014, and \$100,000 in fiscal year 2015.

In March 2014, the District entered into an additional agreement with the County, whereby the County authorized the District to acquire water rights of not less than 150,000 acre feet of potable water on the County's behalf for up to \$2,000,000. This agreement was suspended in March 2016 by a new interlocal agreement that authorized the District to spend up to \$4,300,000 for the acquisition of water rights.

In March 2015, the district entered into an agreement to purchase the Roark Ranch water rights on behalf of the County for \$3,201,000 plus future royalties. In addition to the cash purchase price the District expended another \$1,165,026 in capital costs related to due diligence and closing, which increased the cost basis of the water rights to \$4,366,026.

Based on the terms of both the March 2014 and March 2015 interlocal agreements, the County has the right to demand title to the water rights at any time during the agreement, which renews annually, or within 90 days of termination. As such, the water rights represent both an asset of the District, as well as an obligation. Both the asset and liability component of the Roark Ranch water rights, totaling \$4,366,026, are included in the statement of net position under the captions "capital assets" and "contract rights payable", respectively.

During the year ended September 30, 2019, the District expended \$146,000 in County funds, recognizing \$146,000 in revenue. The unspent portion of County funding, totaling \$230,978 as of September 30, 2019, is included in the statement of net position under the caption "unearned county grant."

Note 12. Related Parties

The District has a related party relationship with Parkhill, Smith and Cooper, Inc. (PSC) as well as the affiliated company PSC Services, LLC. During 2019, a District Engineer under the umbrella of Parkhill, Smith and Cooper, Inc. Additionally, the District leased office space, as described in Note 10, from PSC Services, LLC. For the year ended September 30, 2019 the District paid these entities approximately \$421,227 for services. At September 30, 2019, the District had a payable balance to PSC Services, LLC totaling \$194,636, which is included in accounts payable on the accompanying statement of net position.

Note 13. Subsequent Events

On December 11, 2019, the District issued revenue refunding bonds taxable series 2019 in the principle amount of \$98,120,000. The proceeds and \$1,059,293 of cash were used to irrevocably fund an escrow to legally defease a portion of the revenue notes Series 2012A and the refunding bonds Series 2012. The par amount of the revenue notes Series 2012A legally defeased was \$54,085,000 and the par amount of the refunding bond Series 2012 legally defeased was \$34,600,000

Texas Supplementary Information

Midland County Fresh Water Supply District No. 1

TSI-2. Enterprise Fund Expenses

For the Fiscal Year Ended September 30, 2019

OPERATING EXPENSES

Production expenses	\$ 2,913,144
General and administrative	553,097
Depreciation	<u>7,769,434</u>

Total operating expenses 11,235,675

NONOPERATING EXPENSES

Interest expense and fiscal charges	<u>10,342,229</u>
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Total nonoperating expenses 10,342,229

TOTAL EXPENSES

\$ 21,577,904

Midland County Fresh Water Supply District No. 1
 TSI-5. Long-Term Debt Service Requirements by Years
 September 30, 2019

Year Ending 'September 30,	Revenue Refunding Bonds Series 2012			Revenue and Capital Appreciation Notes Series 2012A			Revenue Notes Series 2014			Total Debt Service		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 2,165,000	\$ 2,701,756	\$ 4,866,756	\$ -	\$ 2,930,775	\$ 2,930,775	\$ 1,955,000	\$ 758,574	\$ 2,713,574	\$ 4,120,000	\$ 6,391,105	\$ 10,511,105
2021	2,130,000	2,636,806	4,766,806	-	2,930,775	2,930,775	2,025,000	693,473	2,718,473	4,155,000	6,261,054	10,416,054
2022	2,135,000	2,530,306	4,665,306	-	2,930,775	2,930,775	2,090,000	626,040	2,716,040	4,225,000	6,087,121	10,312,121
2023	2,950,000	2,466,256	5,416,256	-	2,930,775	2,930,775	2,160,000	556,443	2,716,443	5,110,000	5,953,474	11,063,474
2024	2,945,000	2,318,756	5,263,756	-	2,930,775	2,930,775	2,230,000	484,515	2,714,515	5,175,000	5,734,046	10,909,046
2025	2,995,000	2,171,507	5,166,507	-	2,930,775	2,930,775	2,305,000	410,256	2,715,256	5,300,000	5,512,538	10,812,538
2026	3,835,000	2,081,656	5,916,656	-	2,930,775	2,930,775	2,380,000	333,500	2,713,500	6,215,000	5,345,931	11,560,931
2027	3,875,000	1,889,906	5,764,906	-	2,930,775	2,930,775	2,460,000	254,245	2,714,245	6,335,000	5,074,926	11,409,926
2028	3,850,000	1,768,813	5,618,813	-	2,930,775	2,930,775	2,545,000	172,327	2,717,327	6,395,000	4,871,915	11,266,915
2029	-	1,648,500	1,648,500	3,270,000	2,930,775	6,200,775	2,630,000	87,580	2,717,580	5,900,000	4,666,855	10,566,855
2030	15,375,000	1,648,500	17,023,500	3,700,000	2,824,500	6,524,500	-	-	-	19,075,000	4,473,000	23,548,000
2031	9,495,000	879,750	10,374,750	12,814,415	6,559,835	19,374,250	-	-	-	22,309,415	7,439,585	29,749,000
2032	12,000,000	405,000	12,405,000	6,115,145	11,227,355	17,342,500	-	-	-	18,115,145	11,632,355	29,747,500
2033	-	-	-	10,481,999	19,265,501	29,747,500	-	-	-	10,481,999	19,265,501	29,747,500
2034	-	-	-	9,776,425	19,971,076	29,747,501	-	-	-	9,776,425	19,971,076	29,747,501
2035	-	-	-	9,119,596	20,627,904	29,747,500	-	-	-	9,119,596	20,627,904	29,747,500
2036	-	-	-	8,549,792	21,197,707	29,747,499	-	-	-	8,549,792	21,197,707	29,747,499
2037	-	-	-	8,024,605	21,722,895	29,747,500	-	-	-	8,024,605	21,722,895	29,747,500
2038	-	-	-	7,599,112	22,148,388	29,747,500	-	-	-	7,599,112	22,148,388	29,747,500
2039	-	-	-	27,540,000	2,207,500	29,747,500	-	-	-	27,540,000	2,207,500	29,747,500
2040	-	-	-	19,668,162	10,077,338	29,745,500	-	-	-	19,668,162	10,077,338	29,745,500
2041	-	-	-	1,606,909	5,208,091	6,815,000	-	-	-	1,606,909	5,208,091	6,815,000
Totals	\$ 63,750,000	\$ 25,147,512	\$ 88,897,512	\$ 128,266,160	\$ 192,345,840	\$ 320,612,000	\$ 22,780,000	\$ 4,376,953	\$ 27,156,953	\$ 214,796,160	\$ 221,870,305	\$ 436,666,465

Midland County Fresh Water Supply District No. 1

TSI-6. Changes in Long-Term Bonded Debt For the Fiscal Year Ended September 30, 2019

	Revenue Refunding Bonds Series 2012	Current Refunding Notes Series 2012A	Capital Appreciation Notes Series 2012A	Revenue Notes Series 2014
Interest rate	2.0% - 5.0%	3.25% - 5.0%	4.53% - 5.05%	3.33%
Dates interest payable	March and Sept 15	March and Sept 15	March and Sept 15	March and Sept 15
Maturity dates	9/26/12 to 9/15/32	9/26/12 to 9/15/31	9/26/12 to 9/15/41	5/28/14 to 9/15/29
Beginning bonds outstanding	\$ 65,125,000	\$ 61,055,000	\$ 67,211,160	\$ 24,675,000
Bonds sold during the current period	-	-	-	-
Bonds retired during the current period	1,375,000	-	-	1,895,000
Ending bonds outstanding	<u>\$ 63,750,000</u>	<u>\$ 61,055,000</u>	<u>\$ 67,211,160</u>	<u>\$ 22,780,000</u>
Interest paid during the current period	<u>\$ 2,743,006</u>	<u>\$ 2,930,775</u>	<u>\$ -</u>	<u>\$ 821,678</u>

Paying Agent's Name and City

Midland County Fresh Water Supply District No. 1 Revenue Refunding Bonds (City of Midland Project), Series 2012	Wells Fargo Bank, N.A.
Midland County Fresh Water Supply District No. 1 Revenue Notes (City of Midland Project), Series 2012A	Wells Fargo Bank, N.A.
Midland County Fresh Water Supply District No. 1 Revenue Notes (City of Midland Project), Series 2014	Wells Fargo Bank, N.A.

Bond Authority

	Refunding Bonds	Revenue Notes	Capital Appreciation Notes	Revenue Notes	Total
Amount authorized	\$ 75,000,000	\$ 66,000,000	\$ 68,000,000	\$ 30,000,000	\$ 239,000,000
Amount issued	68,310,000	61,055,000	67,211,160	30,000,000	226,576,160
Remaining to be issued	<u>\$ 6,690,000</u>	<u>\$ 4,945,000</u>	<u>\$ 788,840</u>	<u>\$ -</u>	<u>\$ 12,423,840</u>
Debt service cash and temporary investment balances September 30, 2019	<u>\$ -</u>				
Average annual debt service payments for the remaining term of all debt	<u>\$ 18,985,498</u>				

Midland County Fresh Water Supply District No. 1
 TSI-7c. Comparative Schedule of Revenues and Expenses
 Enterprise Fund – Five Years Ended September 30, 2019

	Amounts					Percent of Fund Total Revenues				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
OPERATING REVENUES										
Water sales	\$ 12,024,000	12,024,000	\$ 11,484,000	\$ 10,008,000	\$ 10,008,000	99.8	99.8	99.9	99.9	100.0
Miscellaneous fees	22,500	27,500	12,500	7,500	5,000	0.2	0.2	0.1	0.1	0.0
Total operating revenues	12,046,500	12,051,500	11,496,500	10,015,500	10,013,000	100.00	100.00	100.00	100.00	100.00
OPERATING EXPENSES										
Production expenses	2,913,144	2,959,593	2,669,488	1,907,923	1,877,442	24.2	24.6	23.2	19.0	18.8
General and administrative	553,097	652,610	532,327	500,219	526,305	4.6	5.4	4.6	5.0	5.3
Depreciation	7,769,434	7,764,755	7,756,441	7,698,405	7,508,397	64.5	64.4	67.5	76.9	75.0
Total operating expenses	11,235,675	11,376,958	10,958,256	10,106,547	9,912,144	93.3	94.4	95.3	100.9	99.0
Operating income (loss)	810,825	674,542	538,244	(91,047)	100,856	6.7	5.6	4.7	(0.9)	1.0
NON-OPERATING REVENUES (EXPENSES)										
Other income	2,733,529	2,717,617	2,716,292	2,717,841	1,004,660	22.7	22.6	23.6	27.1	10.0
County grant revenues	146,000	-	8,130	9,805	-	1.2	-	0.1	0.1	-
Interest income	138,769	91,967	41,632	18,381	8,503	1.2	0.8	0.4	0.2	0.1
Interest expense and fiscal charges	(10,342,229)	(10,239,011)	(10,135,789)	(9,941,918)	(9,735,596)	(85.9)	(85.0)	(88.2)	(99.3)	(97.2)
County grant expenses	-	-	(8,130)	(9,805)	-	-	-	(0.1)	(0.1)	-
Total non-operating revenues (expenses)	(7,323,931)	(7,429,427)	(7,377,865)	(7,205,696)	(8,722,433)	(60.8)	(61.6)	(64.2)	(71.9)	(87.1)
Decrease in net position	<u>\$ (6,513,106)</u>	<u>\$ (6,754,885)</u>	<u>\$ (6,839,621)</u>	<u>\$ (7,296,743)</u>	<u>\$ (8,621,577)</u>	<u>(54.1)</u>	<u>(56.1)</u>	<u>(59.5)</u>	<u>(72.9)</u>	<u>(86.1)</u>

Midland County Fresh Water Supply District No. 1

TSI-8. Board Members, Key Personnel and Consultants (Unaudited)

For the Fiscal Year Ended September 30, 2019

Complete District Mailing Address: 1700 West Wall Street, Suite 210, Midland, TX 79701

District Business Telephone Number: (432) 681-6199

Submission Date of the most recent District Registration Form

(TWC Sections 36.054 and 49.054): October 4, 2019

Limit on Fees of Office that a Board of Director may receive during a fiscal period: \$ 0

(Set by Board Resolution – TWC Section 49.060)

Board Members	Term of Office (Elected or Appointed)	Fees of Office Paid	Title at Year End
Jose Cuevas	(Elected) 5/4/2019 5/31/2022	-	President
William R. Bain	(Elected) 5/4/2019 5/21/2023	-	Treasurer
Donald W. McClure	(Elected) 5/4/2019 5/31/2022	-	Secretary
Tervis Herd	(Elected) 5/4/2019 5/31/2022	-	Vice President
Keith Valentine	(Appointed) 7/19/2019 5/31/2023	-	Director
Carles Gibson	(Elected) 5/4/2019 7/19/2019	-	Director

Midland County Fresh Water Supply District No. 1

TSI-8. Board Members, Key Personnel, and Consultants (Unaudited) – Continued
For the Fiscal Year Ended September 30, 2019

<u>Consultants</u>	<u>Fees</u>	<u>Type</u>
Arthur Gallagher Risk Mgmt Svcs, Inc.	\$ 1,077	Risk Management Consultants
Beal & Wilkes, PC	15,760	Accounting Firm
Braun Intertec Corporation	99,381	Geotechnical Consulting Firm
Estrada Hinojosa	9,000	Financial Advisor
Harbor Environmental and Safety	8,807	Safety Consultant
Parkhill, Smith & Cooper, Inc.	228,419	Engineering Consultants
PSC Services, LLC	242,808	Management
Rendall Sikes, PLLC	28,393	Legal Counsel
Texas Tech University	110,846	Environmental Consultant
Weaver & Tidwell, LLP	35,000	Accounting Firm
WSP US Inc.	8,153	Engineering/ Hydro Geology Consultant

Internal Control and Compliance Report

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**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Members of the Board of Supervisors of
Midland County Fresh Water Supply District No. 1

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements and the related notes of, the business-type activities of Midland County Fresh Water Supply District No. 1 (the District), as of and for the year ended September 30, 2019, which comprise the District's basic financial statements and have issued our report thereon dated February 6, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify a certain deficiency (2019-001) in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Members of the Board of Supervisors of
Midland County Fresh Water Supply District No. 1

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
February 6, 2020

Midland County Fresh Water Supply District No. 1

Schedule of Findings and Responses

For the Fiscal Year Ended September 30, 2019

Section 1. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

Material Weaknesses in Internal Control over Financial Reporting

Finding 2019-01

Criteria: In order to be reported in accordance with generally accepted accounting principles (GAAP) the District should reconcile and record deferred revenue in the proper period, in the correct amount, and journal entries should be properly supported and reviewed prior to posting.

Condition: The District did not detect an error in deferred revenues in a timely basis.

Cause: Lack of timely review and reconciliation of deferred revenues by management.

Effect: A material adjustment was required to correct deferred revenues.

Recommendation: The District should make timely reviews of manual journal entries and reconcile material deferred revenue accounts.

Views of Responsible Officials: Management of the District is working on corrective action plans to improve and implement controls surrounding deferred revenue during the 2020 fiscal year.

Section 2. Schedule of Prior Audit Findings and Responses

None.