# DALLAS COUNTY UTILITY

# AND RECLAMATION DISTRICT

**Basic Financial Statements**
**and Supplemental Schedules**
**For the Year Ended September 30, 2016**
**and Independent Auditor's Report**

**850 East Las Colinas Blvd.**
**Irving, Texas 75014**

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# *Dallas County Utility and Reclamation District*

*Basic Financial Statements*
*and Supplemental Schedules*
*for the Year Ended September 30, 2016 and*
*Independent Auditor's Report*

# DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

## BASIC FINANCIAL STATEMENTS
## AND SUPPLEMENTAL SCHEDULES

## FOR THE FISCAL YEAR ENDED
## SEPTEMBER 30, 2016

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Dallas County Utility and Reclamation District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Dallas County Utility and Reclamation District (the District) as of and for the year ended September 30, 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 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 financial statements are free from material misstatement.

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

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

AN INDEPENDENT MEMBER OF
BAKER TILLY INTERNATIONAL

WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

12221 MERIT DRIVE, SUITE 1400, DALLAS, TX 75251
P: 972.490.1970 F: 972.702.8321

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Dallas County Utility and Reclamation District as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-11, the Budgetary Comparison Schedule on page 50, the Schedule of Changes in Net Pension Liability and Related Ratios Multiyear on page 51 and the Schedule of Contributions on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

*Supplementary 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 combining internal service fund financial statements and the schedule of Debt Service Requirements to Maturity are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**Dallas County Utility and Reclamation District**
**Management's Discussion and Analysis (Unaudited)**
**For The Year Ended September 30, 2016**

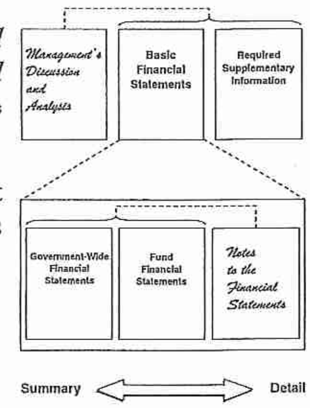
As management of the Dallas County Utility and Reclamation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

## Financial Highlights

- In the government-wide financial statements, liabilities of the District exceeded assets and deferred outflows by $198.1 million, with unrestricted net position of $(128.7) million.
- The net investment in capital assets has a deficit of $70.2 million due to the fact that the long-term debt exceeds the capital assets net of depreciation. The debt includes unamortized premiums, discounts, and capitalized interest in addition to the original cost of the capital assets. The capital assets are mainly infrastructure in nature and were constructed to entice development within the District. Financing instruments, such as capital appreciation bonds, were used in order to defer the repayment of the debt until a sufficient tax base was developed to support the debt payments.
- The District's total general revenues were $27.7 million for the year ended September 30, 2016, substantially all of which were property taxes.
- The District's total program revenues were $4.4 million for the year ended September 30, 2016, of which $1.6 million were water sales revenue, 1.8 million were changes for services and $1.0 million were intergovernmental revenue.
- The total cost of the District's programs increased 0.6% to $22.0 million. General government expenses increased $118,138 while business-type activities increased $13 thousand. Interest expense decreased $659 thousand due to reduction of outstanding debt.
- The fund balance for all governmental funds totaled $5.4 million. This amount is $1.3 million higher than September 30, 2015 balance due to the increase in fund balance of $0.5 million to replenish unrestricted fund balance to normal levels. This had been reduced in the prior year due to settlement of property owner disputes over taxable value of property, which reduced values greater than anticipated. Also reductions in expenditures of $0.8 million due mainly to deferral of flood control projects for weather related delays.

## Overview of the Financial Statements

**Figure A-1. Required Components of the District's Annual Financial Report**




This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.

The combining internal service fund financial statements and the debt service requirements to maturity are the responsibility of management and were derived from and relate 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 combining internal service fund financial statements and the debt service requirements to maturity are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 12, 2017

- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the District operates *like businesses*, such as water supply.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements**

| | | Fund Statements | | |
|---|---|---|---|---|
| *Type of Statements* | Government-wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| *Scope* | Entire District's government (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary | Activities the district operates similar to private businesses: self insurance | Instances in which the district is the trustee or agent for someone else's resources |
| *Required financial statements* | • Statement of net position<br>• Statement of activities | • Balance sheet<br>• Statement of revenues, expenditures & changes in fund balances | • Statement of net position<br>• Statement of revenues, expenses and changes in fund net position<br>• Statement of cash flows | • Statement of fiduciary net position<br>• Statement of changes in fiduciary net position |
| *Accounting basis and measurement focus* | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| *Type of asset/liability information* | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can |
| *Type of inflow/outflow information* | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Government-wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and deferred outflows and liabilities and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how it has changed. Measuring net position, the difference between the District's assets and deferred outflows and liabilities and deferred inflows, is one way to analyze the District's financial health or *position.*

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as flood control, maintenance of lakes and channels, operation of the transit system, and general administration. Property taxes finance most of these activities. The government-wide financial statements also include *Business-type activities*, which is the District's raw water supply function.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant *funds*, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes.

Funds of the District can be classified in three categories:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them. The District maintains two governmental funds, the General Fund and Debt Service Fund.
- *Proprietary funds*—The District maintains two types of proprietary funds: enterprise funds and internal service funds. Services for which the District charges customers a fee are generally reported in enterprise funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The District uses *internal service funds* to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self Insurance Fund and Vehicle Maintenance Fund.
- *Fiduciary funds*—The District is the trustee, or *fiduciary,* for certain funds. The District reports the employee pension plan in a pension trust fund. The District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**Notes to the Financial Statements**—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other Information**—In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to the employees and certain budgetary comparison schedules. Required supplemental information can be found after the notes to the financial statements.

The combining statements referred to earlier are presented following the required supplementary information.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net position.** The District's net position at September 30, 2016 and 2015 for governmental activities and business-type activities was approximately $(203.8) million and $5.7 million and $(214.1) million and $5.8 million respectively. (See Table A-1).

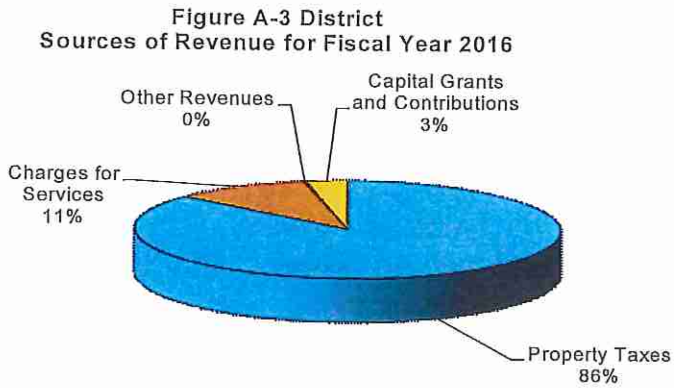
**Table A-1**
**The District's Net Position**
*(in millions of dollars)*

| | Governmental Activities | | Total % Change | Business-Type Activities | | Total % Change |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 | |
| Current and Other Assets | $ 6.6 | $ 5.7 | (16 %) | $ 3.2 | $ 3.1 | 3 % |
| Capital Assets | 42.5 | 44.4 | (4%) | 2.6 | 2.8 | (7%) |
| **Total Assets** | 49.1 | 50.1 | (2%) | 5.8 | 5.9 | (2%) |
| **Deferred Outflows** | 2.3 | 2.2 | (5 %) | - | - | 0 % |
| Current Liabilities | 13.2 | 12.1 | 9 % | 0.1 | 0.1 | 0 % |
| Long Term Liabilities | 242.1 | 254.2 | (5%) | - | - | 0 % |
| **Total Liabilities** | 255.3 | 266.3 | (4%) | 0.1 | 0.1 | 0 % |
| **Deferred Inflows** | - | - | 100 % | - | - | 0 % |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | (72.9) | (71.0) | (3%) | 2.6 | 2.8 | (7%) |
| Restricted | 0.8 | 0.8 | 100 % | - | - | (0 %) |
| Unrestricted | (131.7) | (143.9) | 8 % | 3.1 | 3.0 | (3 %) |
| **Total Net Position** | $ (203.8) | $ (214.1) | 5 % | $ 5.7 | $ 5.8 | (2%) |

The unrestricted net position represents obligations that will be funded by the programs of the District in future years.

The District's liabilities and deferred inflows for government activities exceed its assets and deferred outflows resulting in a deficit of $203.8 million. The main reason for the deficit is the interest accretion on capital appreciation bonds. The District was created to construct certain infrastructure in an undeveloped area in order to entice development within the District. Financing instruments, such as capital appreciation bonds, were used in order to defer the repayment of the debt until after sufficient tax base was developed to support the debt payments. That has in fact occurred as the tax base within the District now exceeds $3.7 billion. The District expects to pay off the debt from collection of future property tax levies.

**Changes in net position.** The District's total revenues were $32.1 million. Eighty-six percent of the District's revenue comes from taxes. (See Figure A-3.) Another eleven percent relates to charges for services and three percent relates to intergovernmental revenues.




The total cost of all programs and services was \$22.0 million; 53% of these costs are for interest expense.

## Governmental Activities

Property tax rates decreased 39.3 cents to \$1.59 while the total tax base increased to over \$3.2 billion, resulting in an decrease of tax revenue to \$27.6 million.

**Table A-2**
**Changes in the District's Net Position**
*(in millions of dollars)*

| | Governmental Activities | | Total % Change | Business-Type Activities | | Total % Change |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 | |
| **Revenues** | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 1.8 | \$ 1.4 | 29 % | \$ 1.6 | \$ 1.6 | 0 % |
| Capital Grants and Contributions | 1.0 | 1.3 | (23%) | - | - | 0 % |
| General Revenues | | | | | | |
| Property Taxes | 27.6 | 29.3 | (6%) | - | - | 0 % |
| Other | 0.1 | - | 0 % | - | - | 0 % |
| **Total Revenues** | 30.5 | 32.0 | (5%) | 1.6 | 1.6 | 0 % |
| **Expenses** | | | | | | |
| General Government | 0.6 | 0.5 | 20 % | - | - | 0 % |
| Finance and Administration | 1.1 | 1.0 | 10 % | - | - | 0 % |
| Systems Maintenance | 4.2 | 4.0 | 5 % | - | - | 0 % |
| Reclamation Maintenance | - | - | 0 % | - | - | 0 % |
| Area Personal Transit System | 1.9 | 1.8 | 6 % | - | - | 0 % |
| Service Center Operation | 0.2 | 0.1 | 100 % | - | - | 0 % |
| Rehabilitation | 0.5 | 0.2 | 150 % | - | - | 0 % |
| Interest Expense | 11.7 | 12.4 | (6%) | - | - | 0 % |
| Raw Water Supply | - | - | 0 % | 1.8 | 1.8 | 0 % |
| **Total Expenses** | 20.2 | 20.0 | 1 % | 1.8 | 1.8 | 0 % |
| **Excess (Deficiency) of Revenues Over Expenditures** | 10.3 | 12.0 | (14%) | (0.2) | (0.2) | 0 % |
| Transfers In (Out) | - | - | 0% | - | - | 0 % |
| **Change in Net Position** | 10.3 | 12.0 | (14%) | (0.2) | (0.2) | 0 % |
| **Beginning Net Position** | (214.1) | (226.1) | 5 % | 5.8 | 6.0 | (3%) |
| **Restatement due to GASB 68** | - | - | 0 % | - | - | 0 % |
| **Ending Net Position** | \$ (203.8) | \$ (214.1) | 5 % | \$ 5.6 | \$ 5.8 | 0 % |

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues for general governmental functions totaled $31.3 million, down $1.3 million from the preceding year. Tax revenues decreased $1.9 million from 2015 to 2016 while intergovernmental and other revenues increased $0.1 million from 2015 to 2016. Property tax collections, the largest source of revenue received by the District, was $27.9 million. The taxable value of property within the District increased 13% while the tax rate was decreased by $0.393.

Expenditures for general governmental operations totaled $30,005,377 during 2015-2016 and 29,996,231 during 2014-2015, an increase of $9,146 from 2014-2015.

The governmental funds reported a combined fund balance of $5,355,809, an increase of $1,299,953. The net increase of the combined fund balances was comprised of fund balance increase in the General Fund of $1.4 million, and fund balance decrease in the Debt Service Fund of $70,719. The increase was budgeted to replenish fund balances following payment of an unexpected tax refund due from fiscal year 2013. Out of the combined fund balances, $3,286,274 constitutes unassigned fund balance. The remainder of the fund balances of $752,212, $21,531 and $1,295,792 is restricted for payment of principal and interest on the District's general obligation debt, nonspendable, and assigned for capital projects, respectively.

The General Fund is the primary operating fund of the District. At September 30, 2016, unassigned fund balance of the General Fund was $3,286,274. This fund balance represents 45.8% of the total General Fund expenditures. The fund balance of the General Fund increased during the current fiscal year by $1.4 million.

The Debt Service Fund had a total fund balance of $752,212, all of which is restricted for the payment of debt service. The District makes semi-annual debt service interest payments and principal payments in February of each year. Debt service payments for the year ended September 30, 2016, included all scheduled payments.

**Proprietary Funds** – The District maintains both enterprise and internal service funds. Information is presented separately in the proprietary fund statement of net position and in the proprietary fund statement of revenues, expenses, and changes in net position for the Raw Water Supply Fund, which is considered to be a major fund. Net position in the Raw Water Supply Fund as of September 30, 2016, was $5,682,872. Of this amount, $2,646,546 represented the net investment in capital assets. Net position for the fiscal year decreased by $161,805.

### General Fund Budgetary Highlights

The District revised its budget once during the year. Actual expenditures were $794,376 below final budget amounts while resources available were $220,093 below the final budgeted amount. Budgeted final taxable values were near expectations following taxpayer protest and appraisal review board hearings resulting in taxes collected of $16,544 less than budgeted. The lower than budgeted expenditures were due mainly to delayed rehabilitation projects due to weather circumstances.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2016, the District had invested $130.5 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-3.) This amount is increased $700,000 from last year.

**Table A-3**
**District's Capital Assets**
*(in millions of dollars)*

| | Governmental Activities 2016 | Governmental Activities 2015 | Total % Change | Business-Type Activities 2016 | Business-Type Activities 2015 | Total % Change |
|---|---|---|---|---|---|---|
| Land | $ 16.6 | $ 16.6 | 0 % | $ - | $ - | 0 % |
| Buildings and improvements | 4.1 | 4.1 | 0 % | - | - | 0 % |
| Vehicles, Furniture and Equipment | 1.6 | 1.5 | 7 % | 0.7 | 0.7 | 0 % |
| Flood Control System | 47.9 | 47.9 | 0 % | - | - | 0% |
| Area Personal Transit System | 38.6 | 38.6 | 0 % | - | - | 0% |
| Engineering Fees | 11.5 | 11.5 | 0 % | - | - | 0% |
| Water and Sewer Systems | 2.4 | 2.4 | 0 % | 7.1 | 7.1 | 0 % |
| Totals at historical cost | 122.7 | 122.6 | 0 % | 7.8 | 7.8 | 0 % |
| Total accumulated depreciation | (80.2) | (78.2) | (3 %) | (5.2) | (5.0) | (4 %) |
| Net capital assets | $ 42.5 | $ 44.4 | (4 %) | $ 2.6 | $ 2.8 | (7 %) |

The District's fiscal year 2017 capital budget projects spending another $418,000 for capital projects, principally for replacement vehicles and equipment. More detailed information about the District's capital assets is presented in Note 6 to the financial statements.

### Long-Term Debt

**Table A-4**
**District's Long Term Debt**
*(in millions of dollars)*

| | Governmental Activities 2016 | Governmental Activities 2015 | Total % Change |
|---|---|---|---|
| Bonds payable (including bond premium) | $252.5 | $263.9 | (4%) |
| Total bonds payable | $252.5 | $263.9 | (4%) |

At year-end the District had $252.5 million in bonds and notes outstanding as shown in Table A-4. More detailed information about the District's debt is presented in Note 7 to the Financial Statements.

Except for the $1.6 million Series 2008 bonds, the District's bonds are covered by municipal bond insurance. The District's underlying ratings are as follows: Moody's Investor Services "A2", Standard & Poors "A", and Fitch "AA-".

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Appraised value used for the 2017 budget preparation increased $390 million, or 12% from 2016. The increase in appraised values is primarily the result of increased taxable value of Class A commercial office buildings within the District. The taxable values are escalating due to market conditions resulting from recent sales in the area. Occupancy rates remained steady at about 85% during the year while leasing rates are up 2.4% from 2015 to 2016.

New development continues in the District mainly in the residential market. Three projects of single-family homes are under development and three multi-family for lease development were started during the fiscal year ended September 30, 2016. In addition, a $175 million entertainment, restaurant and office complex, a $100 million hotel and a $10 million boutique hotel are planned for development in 2017.

These indicators were taken into account when adopting the operating budget for 2017. The general fund budget for 2017 is $8.0 million, which is $800,000 more than the final 2016 actual. This increase is due in part to budgeted capital asset purchases of $418,000. Property taxes will decrease approximately $681,000. A 12% increase in tax values and decreasing the tax rate from $1.59 to $1.295 will create this decrease which will maintain the District's fund balance at 2015-2016 amounts.

Expenditures are budgeted to be $8.0 million. If these estimates are realized, the District's budgetary general fund balance will remain constant at the close of 2017.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance and Accounting Department.

## BASIC FINANCIAL STATEMENTS

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| ASSETS: | | | |
| Cash and investments | $ 6,129,532 | $ 2,973,580 | $ 9,103,112 |
| Accounts receivable (net of allowance of $46,066) | 345,716 | 186,133 | 531,849 |
| Accrued interest receivable | 574 | 1,934 | 2,508 |
| Internal balances | 7,373 | (7,373) | - |
| Inventory | 21,531 | - | 21,531 |
| Capital assets not being depreciated | 16,578,594 | - | 16,578,594 |
| Capital assets being depreciated—net | 25,920,264 | 2,646,456 | 28,566,720 |
| Other assets | 119,000 | 75 | 119,075 |
| Total assets | 49,122,584 | 5,800,805 | 54,923,389 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | |
| Related to pension plan | 535,807 | 67,860 | 603,667 |
| Deferred loss on refunding | 1,792,699 | - | 1,792,699 |
| Total deferred outflows of resources | 2,328,506 | 67,860 | 2,396,366 |
| LIABILITIES: | | | |
| Accounts payable and accrued liabilities | 467,856 | 95,131 | 562,987 |
| Net pension liability | 715,851 | 90,662 | 806,513 |
| Accrued interest payable | 1,597,823 | - | 1,597,823 |
| Noncurrent liabilities | | | |
| Due within one year | 10,345,000 | - | 10,345,000 |
| Due in more than one year | 242,151,702 | - | 242,151,702 |
| Total liabilities | 255,278,232 | 185,793 | 255,464,025 |
| NET POSITION: | | | |
| Net investment in capital assets | (72,886,142) | 2,646,456 | (70,239,686) |
| Restricted for debt service | 752,212 | - | 752,212 |
| Unrestricted | (131,693,214) | 3,036,416 | (128,656,798) |
| Total net position | $ (203,827,142) | $ 5,682,872 | $ (198,144,270) |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | | Program Revenues | | Net (Expense) Revenue and Changes in Fund Net Position Primary Government | | |
|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities: | | | | | | |
| General government | $ 626,794 | $ 121,730 | $ 972,654 | $ 467,590 | $ | $ 467,590 |
| Finance and administration | 1,096,179 | 670,292 | - | (425,887) | - | (425,887) |
| Systems maintenance | 4,201,555 | 625,180 | 46,743 | (3,529,632) | - | (3,529,632) |
| Reclamation maintenance | 3,447 | 2,737 | - | (710) | - | (710) |
| Area personal transit system | 1,851,579 | - | - | (1,851,579) | - | (1,851,579) |
| Service center operations | 154,864 | 345,671 | - | 190,807 | - | 190,807 |
| Rehabilitation | 529,097 | - | - | (529,097) | - | (529,097) |
| Pension Expense | 39,958 | - | - | (39,958) | - | (39,958) |
| Interest expense | 11,702,321 | - | - | (11,702,321) | - | (11,702,321) |
| Total Governmental Activities | 20,205,794 | 1,765,610 | 1,019,397 | (17,420,787) | - | (17,420,787) |
| Business-type activities: | | | | | | |
| Raw water supply | 1,773,187 | 1,598,831 | - | - | (174,356) | (174,356) |
| Total Business-Type Activities | 1,773,187 | 1,598,831 | - | - | (174,356) | (174,356) |
| Total Primary Government | $ 21,978,981 | $ 3,364,441 | $ 1,019,397 | $ (17,420,787) | (174,356) | (17,595,143) |
| General revenues: | | | | | | |
| Taxes | | | | 27,614,024 | - | 27,614,024 |
| Unrestricted investment earnings | | | | 40,649 | 12,551 | 53,200 |
| Gain on sale of property | | | | 20,024 | - | 20,024 |
| Total general revenues and transfers | | | | 27,674,697 | 12,551 | 27,687,248 |
| Change in net position | | | | 10,253,910 | (161,805) | 10,092,105 |
| Net position - beginning | | | | (214,081,052) | 5,844,677 | (208,236,375) |
| Net position - ending | | | | $ (203,827,142) | $ 5,682,872 | $ (198,144,270) |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

| ASSETS | General | Debt Service | Total Governmental Funds |
|---|---|---|---|
| Cash and investments | $ 4,762,708 | $ - | $ 4,762,708 |
| Restricted cash and cash equivalents | - | 752,212 | 752,212 |
| Accounts receivable (net of allowance of $46,066) | 345,716 | - | 345,716 |
| Inventory | 21,531 | - | 21,531 |
| Other assets | 42,042 | - | 42,042 |
| Due from other funds | 31,784 | - | 31,784 |
| TOTAL ASSETS | $ 5,203,781 | $ 752,212 | $ 5,955,993 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | | | |
| LIABILITIES: | | | |
| Accounts payable and accrued liabilities | $ 455,440 | $ - | $ 455,440 |
| Total liabilities | 455,440 | - | 455,440 |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Unavailable revenue | 144,744 | - | 144,744 |
| Total deferred inflows of resources | 144,744 | - | 144,744 |
| FUND BALANCE: | | | |
| Non-Spendable | 21,531 | - | 21,531 |
| Restricted for debt service | - | 752,212 | 752,212 |
| Assigned for capital projects | 1,295,792 | - | 1,295,792 |
| Unassigned | 3,286,274 | - | 3,286,274 |
| Total fund balance | 4,603,597 | 752,212 | 5,355,809 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | $ 5,203,781 | $ 752,212 | $ 5,955,993 |

See notes to basic financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

| | | |
|---|---|---|
| Total fund balances--governmental funds | $ | 5,355,809 |
| Amounts reported for governmental *activities* in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | | 42,498,858 |
| Certain receivables will be collected next year, but are not available soon enough to pay for current year expenditures, and therefore are reported as unavailable revenues in the funds. | | 144,744 |
| Deferred outflows of resources related to loss on debt refunding and pension plan are not reported in the governmental funds | | 2,328,506 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | | |
| Bonds payable | | (252,496,702) |
| Accrued interest on the bonds | | (1,597,823) |
| Net pension liability | | (715,851) |
| Internal service funds are used by management to charge the costs of various services to individual funds. The assets and liabilities of the internal service funds are included with governmental activities. This amount represents net position of internal service funds net of capital assets of $117,406 | | 655,317 |
| Total net position --governmental activities | $ | (203,827,142) |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | General Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|---|
| REVENUES: | | | |
| Taxes | $ 27,860,226 | | $ 27,860,226 |
| Investment income | 26,844 | $ 12,233 | 39,077 |
| Leases | 254,401 | - | 254,401 |
| Maintenance fees | 91,270 | - | 91,270 |
| Intergovernmental revenue | 1,019,397 | - | 1,019,397 |
| Other | 2,040,959 | - | 2,040,959 |
| Total | 31,293,097 | 12,233 | 31,305,330 |
| EXPENDITURES: | | | |
| Current: | | | |
| General government | 667,410 | - | 667,410 |
| Finance and administration | 1,127,493 | - | 1,127,493 |
| Systems maintenance | 3,049,825 | - | 3,049,825 |
| Reclamation maintenance | 7,047 | - | 7,047 |
| Area personal transit system | 1,317,404 | - | 1,317,404 |
| Service center operations | 329,454 | - | 329,454 |
| Rehabilitation | 604,597 | - | 604,597 |
| Debt service | - | - | |
| Principal | - | 10,005,000 | 10,005,000 |
| Interest and fees | - | 12,827,916 | 12,827,916 |
| Capital outlays | 69,231 | - | 69,231 |
| Total | 7,172,461 | 22,832,916 | 30,005,377 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 24,120,636 | (22,820,683) | 1,299,953 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in | - | 22,749,964 | 22,749,964 |
| Transfers (out) | (22,749,964) | - | (22,749,964) |
| Total | (22,749,964) | 22,749,964 | - |
| CHANGE IN FUND BALANCE | 1,370,672 | (70,719) | 1,299,953 |
| FUND BALANCE, SEPTEMBER 30, 2015 | 3,232,925 | 822,931 | 4,055,856 |
| FUND BALANCE, SEPTEMBER 30, 2016 | $ 4,603,597 | $ 752,212 | $ 5,355,809 |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | | |
|---|---|---|
| Net change in fund balances--total governmental funds | | $ 1,299,953 |
| Amounts reported for *governmental activities* in the statement of activities are different because: | | |
| Governmental funds report capital outlays and other capitalizable costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays and other transactions that impact capital assets in the current period | | |
| Capital Outlay Expenditures | 69,231 | |
| Depreciation Expense | (2,060,707) | |
| Net Adjustment | (1,991,476) | (1,991,476) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (246,201) |
| Bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | 10,005,000 |
| Some revenues and expenses reported in the fund level financials are deferred in the government-wide financials | | 1,383,770 |
| Some expenses, such as accrued interest and pension expense, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | (298,132) |
| Internal service funds are used by management to charge the costs of vehicle maintenance, and insurance services to individual funds. The change in net position of $100,996 of internal service funds is reported with governmental activities. | | 100,996 |
| Change in net position of governmental activities | | $ 10,253,910 |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
SEPTEMBER 30, 2016

| | Business-Type Activities - Major Fund Raw Water Supply | Governmental Activities - Internal Service Funds |
|---|---|---|
| ASSETS: | | |
| Current Assets: | | |
| Cash and investments | $ 2,973,580 | $ 614,612 |
| Accounts receivable | 186,133 | - |
| Accrued interest receivable | 1,934 | 574 |
| Total Current Assets | 3,161,647 | 615,186 |
| Non-Current Assets: | | |
| Capital assets - being depreciated | 2,646,456 | 117,406 |
| Other assets | 75 | 76,958 |
| Total Non-Current Assets | 2,646,531 | 194,364 |
| TOTAL ASSETS | 5,808,178 | 809,550 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension contributions after measurement date | 67,860 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 67,860 | - |
| LIABILITIES: | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 95,131 | 12,416 |
| Due to other funds | 7,373 | 24,411 |
| Total Current Liabilities | 102,504 | 36,827 |
| NET PENSION LIABILITY | 90,662 | - |
| TOTAL LIABILITIES | 193,166 | 36,827 |
| NET POSITION: | | |
| Net Investment in capital assets | 2,646,456 | 117,406 |
| Unrestricted | 3,036,416 | 655,317 |
| TOTAL NET POSITION | $ 5,682,872 | $ 772,723 |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Business Type Activities Major Fund - Raw Water Supply | Governmental Activities - Internal Service Funds |
|---|---|---|
| OPERATING REVENUES: | | |
| Water sales | $ 1,595,384 | $ - |
| Insurance premiums | - | 167,230 |
| Vehicle usage charges | - | 169,000 |
| Other income | 3,447 | - |
| Total | 1,598,831 | 336,230 |
| OPERATING EXPENSES: | | |
| Purchased water | 574,076 | - |
| Salaries, wages and benefits | 332,947 | - |
| Purchased and contracted services | 50,238 | 14,672 |
| Professional fees | 300,216 | 8,295 |
| Supplies and materials | 35,756 | 36,295 |
| Depreciation and amortization | 183,672 | 19,387 |
| Insurance premiums | 12,000 | 173,385 |
| Claims paid | - | 3,800 |
| Other recurring operating expenses | 284,282 | 996 |
| Total | 1,773,187 | 256,830 |
| NET OPERATING INCOME (LOSS) | (174,356) | 79,400 |
| NON-OPERATING REVENUE/EXPENSE: | | |
| Investment income | 12,551 | 1,572 |
| Gain on sale of assets | - | 20,024 |
| Total nonoperating revenue | 12,551 | 21,596 |
| CHANGE IN NET POSITION | (161,805) | 100,996 |
| NET POSITION - OCTOBER 1, 2015 | 5,844,677 | 671,727 |
| NET POSITION - SEPTEMBER 30, 2016 | $ 5,682,872 | $ 772,723 |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Business-Type Activities | Governmental Activities - |
|---|---|---|
| | Major Fund - Raw Water Supply | Internal Service Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers and users | $ 1,689,757 | $ 335,908 |
| Payments to suppliers | (1,322,181) | (214,169) |
| Payments to employees | (238,874) | - |
| Net cash provided by operating activities | 128,702 | 121,739 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchases of capital assets | - | (74,867) |
| Gain on Sale of Assets | - | 20,024 |
| Net cash used in capital and related activities | - | (54,843) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest on investments | 12,551 | 1,572 |
| Purchases of investments | (3,113,172) | 381,026 |
| Sales of investments | 2,701,701 | (382,000) |
| Net cash provided by (used in) investing activities | (398,920) | 598 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (270,218) | 67,494 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 320,091 | 164,559 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 49,873 | $ 232,053 |
| CASH AND CASH EQUIVALENTS | $ 49,873 | $ 232,054 |
| INVESTMENTS | 2,923,707 | 382,558 |
| CASH AND INVESTMENTS END OF YEAR | $ 2,973,580 | $ 614,612 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Net operating income (loss) | $ (174,356) | $ 79,400 |
| Adjustments to reconcile net operating income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 183,672 | 19,387 |
| Pension expense | 2,677 | - |
| Changes in operating assets and liabilities: | - | - |
| (Increase) decrease in accounts receivable | 91,920 | - |
| (Increase) decrease in accrued interest receivable | (994) | (322) |
| (Increase) decrease in other assets | - | 5,796 |
| Increase (decrease) in due to other funds | 34,367 | 15,865 |
| Increase (decrease) in accounts payable | (8,584) | 1,613 |
| Net cash provided by operating activities | $ 128,702 | $ 121,739 |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF NET POSITION - PENSION TRUST FUND
SEPTEMBER 30, 2016

| | | |
|---|---|---|
| ASSETS - Cash and investments | $ | 5,738,743 |
| NET POSITION - Held in trust for pension benefits | $ | 5,738,743 |

See notes to basic financial statements.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

STATEMENT OF CHANGES IN NET POSITION - PENSION TRUST FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | |
|---|---|
| ADDITIONS: | |
| Employer contributions | $ 135,839 |
| Net investment income | 585,733 |
| Total additions | 721,572 |
| DEDUCTIONS: | |
| Administration | (39,373) |
| Benefit payments | (74,147) |
| Total deductions | (113,520) |
| INCREASE IN NET POSITION HELD IN TRUST FOR PENSION BENEFITS | 608,052 |
| NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR | 5,130,691 |
| NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR | $ 5,738,743 |

See notes to basic financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Dallas County Utility and Reclamation District ("District") conform to accounting principles generally accepted in the United States of America, as applicable to governments. The following is a summary of the more significant policies:

REPORTING ENTITY - The District was created on June 27, 1972 as Dallas County Municipal Utility District No. 1 under the provision of Article XVI, Section 59, of the Constitution of Texas and Chapter 54 of the Texas Water Code to provide control, storage and restoration of the purity and sanitary condition of water within the District. The District is comprised of acreage within the area known as Las Colinas which is located wholly within the City of Irving, Texas ("City").

Effective February 1, 1984, the District was reorganized, converted and confirmed as a conservation, utility and reclamation district operating under the Senate Bill No. 963 as adopted by the Legislature of the State of Texas ("Legislature") in the 1983 Regular Session. At that time, the District was renamed as the Dallas County Utility and Reclamation District. Under House Bill No. 2421 adopted by the Legislature in the 1985 Regular Session, effective August 26, 1985, the District was also empowered to design, build and construct streets and roads.

The accompanying financial statements present all activities for which the District is considered to be financially accountable. The District has one component unit, North Central Texas Energy Aggregation, Inc. ("NCTEA"), a not-for-profit operated by the District and designed to aggregate the bargaining power of certain District-area businesses in order to achieve better energy rates from providers. The District's governing body appoints persons to serve on the NCTEA Board. Currently two District employees, its General Manager and Chief Financial Officer, serve on the NCTEA Board. NCTEA did not have any business activity for the year. As of September 30, 2016, there were no active contracts with customers. The most recent contracts terminated in February 2007.

The District provides services related to flood control, water supply, land reclamation, transportation, and water conservation.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been substantially removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers or applicants for goods, services, or privileges provided. Program revenues included in the Statement of Activities reduce the cost of the function to be financed from General Revenues. Taxes and other items not properly identified as program revenues are reported instead as general revenues.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense to each function.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. In accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, the fiduciary funds are excluded from the government-wide financial statements because the assets of those funds are not available to fund the operations of the District. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements—The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements—Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of the fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recognized in the current fiscal period only for debt service principal and interest payments due within thirty days in the subsequent fiscal period.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the District.

The Proprietary Funds and the Pension Trust Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net position) is segregated into net investment in capital assets, restricted and unrestricted components. The Proprietary Funds' operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

The Proprietary Funds and the Pension Trust Fund are accounted for on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. For the enterprise funds, the District applies all GASB pronouncements.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

FUND ACCOUNTING - The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or net position, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the basic financial statements into generic fund types as follows:

The government reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The government reports the following major proprietary fund:

Raw Water Supply Fund – The Raw Water Supply Fund is used to account for the sale of raw water.

Additionally, the District reports the following funds:

Internal Service Funds - The Internal Service Funds are used to account for the financing of services provided by one department to other departments of the District on a cost-reimbursement basis.

The District's self-insurance program is accounted for in an internal service fund. The liability reported in this fund at September 30, 2016, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The District's vehicle maintenance program is also accounted for as an internal service fund.

Pension Trust Fund - The Pension Trust Fund is used to account for assets held by the District in a trustee capacity. The District's pension trust fund is used to account for the District's retirement plan. It is accounted for using the accrual basis of accounting.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's Retirement Plan and additions to/deductions from the Retirement Plan's fiduciary net position have been determined on the same basis as they're reported by the Retirement Plan. For this purpose, benefits payments and refunds are recognized when due and payable in accordance with the benefit terms. The District's contributions are recognized when due and a formal commitment to provide the contributions has been made. Investments are reported at fair value.

CAPITAL ASSETS - Capital assets, which include land, buildings, water system, equipment, furniture and fixtures, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold is a unit cost of $5,000. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Contributed assets are recorded at fair value on date of contribution.

Capital assets of the District, excluding land, are depreciated using the straight-line method beginning in the month after they are placed in service. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Buildings, personal transit, flood control, water and sewage system, engineering fees | 40 years |
| Equipment | 5 years |
| Furniture and fixtures | 4-5 years |
| Vehicles | 5 years |

LONG-TERM LIABILITIES - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums, discounts, and refunding losses are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs are expensed as incurred. Bonds payable are reported net of applicable bond premium or discount.

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

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES – In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has the following items that qualify for reporting in this category.

- Deferred charges on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. The difference in projected and actual earnings on pension plan investments is deferred and amortized over a closed five year period.

CASH AND CASH EQUIVALENTS – For the purpose of cash flow statements, the District considers cash and cash equivalents to be all unrestricted cash and highly liquid investments with original maturities of three months or less.

INVESTMENTS - Investments are stated at cost as of the purchase date. The District's investment portfolio contains only investments with a maturity date at time of purchase of one year or less. The District considers investments in Pools and money market accounts as investments.

INVENTORY - Inventory is recorded when purchased and is valued at the lower of cost (specific identification) or market. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventory in the general fund consists primarily of retail sales items and supplies and is accounted for using the consumption method.

GOVERNMENTAL FUND BALANCES

The District reports governmental fund balances per GASB statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* as follows:

*Fund Balance Classification* – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-Spendable fund balance – assets that will never convert to cash, such as inventory and prepaid items.

Restricted fund balance – the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions imposed by parties outside the District at September 30, 2016.

Committed fund balance – the portion of fund balance that reflects resources that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. At September 30, 2016, the District does not have any funds committed by formal action of the Board of Directors.

Assigned fund balance – the portion of fund balance that reflects resources intended for a specific purpose. Intent is expressed or authorized by the Board of Directors.

Unassigned fund balance – the portion of fund balances in excess of non-spendable, restricted, committed, and assigned. This classification includes the residual fund balance for the General Fund.

*Spending Prioritization in Using Available Resources* – when both restricted and unrestricted (i.e. committed, assigned, and unassigned) resources are available to be used for the same purpose, the District considers the restricted resources to be expended first. When all categories of unrestricted fund balance are available, the flow assumption is as follows: the committed resources get expended first, the assigned resources get expended second, and the unassigned resources get expended last.

NET POSITION – The District excludes accreted interest on capital appreciation bonds that was subsequently refunded by term bonds from its calculation of the net investment in capital assets.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS

**GASB Statement No. 72:** ***Fair Value Measurement and Application.*** **Statement 72** was issued in February 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard became effective for the District in fiscal year 2016.

**GASB Statement No. 73:** ***Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*** **Statement 73** was issued in June 2015. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. This standard becomes effective for the District in fiscal year 2017. The District has not yet determined the impact of this statement.

***GASB Statement No. 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Statement 74*** was issued in June 2015. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This standard becomes effective for the District in fiscal year 2017. The District has not yet determined the impact of this statement.

**GASB Statement No. 75:** ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*** **Statement 75** was issued in June 2015. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This standard becomes effective for the District in fiscal year 2018. The District has not yet determined the impact of this statement.

**GASB Statement No. 76:** ***The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*****. Statement 76** was issued in June 2015. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP Hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This standard became effective for the District in fiscal year 2016. The implementation had no significant effect on the District's financial statements.

**GASB Statement No. 77:** ***Tax Abatement Disclosures*****. Statement** 77 was issued in August 2015. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients

2. The gross dollar amount of taxes abated during the period

3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This standard becomes effective for the District in fiscal year 2017. The District has not yet determined the impact of this statement.

***GASB Statement No. 78: Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. Statement 78*** was issued in December 2015. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This standard becomes effective for the District in fiscal year 2017. The District has not yet determined the impact of this statement.

**GASB Statement No. 79:** ***Certain External Investment Pools and Pool Participants.*** **Statement 79** was issued in December 2015. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement were effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The implementation had no significant effect on the District's financial statements.

**GASB Statement No. 80:** ***Blending Requirements for Certain Component Units – on amendment of GASB Statement No. 14.*** **Statement 80** was issued in January 2016. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This standard becomes effective for the District in fiscal year 2017. The District has not yet determined the impact of this statement.

**GASB Statement No. 81:** ***Irrevocable Split-Interest Agreements.*** **Statement 81** was issued in March 2016. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This standard becomes effective for the District in fiscal year 2018. The District has not yet determined the impact of this statement.

**GASB Statement No. 82:** ***Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.*** **Statement 82** was issued in March 2016. This Statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This standard becomes effective for the District in fiscal year 2017. The District has not yet determined the impact of this statement.

## 2. PROPERTY TAXES

Property taxes, which attach as an enforceable lien on property as of January 1, are due October 1 and become delinquent on February 1. At elections held in 1972 and 1973 the District's voters authorized the levy and collection of an unlimited annual maintenance tax for the purpose of providing funds for the maintenance of the District's work facilities and other improvements, and for paying the costs of proper service, engineering, legal fees, organization and administrative expenses and required debt service. The

District's tax rate for fiscal year 2015-2016 is $1.59 ($1.2968 for debt service and $0.2932 for maintenance and operations) per $100 of assessed valuation. According to the Dallas Central Appraisal District, the total taxable assessed value of District land, property and improvements net of supplemental adjustments totaled $3,253,536,682 for the tax year ended September 30, 2016.

Taxes levied by the District against real property are a first lien and are superior to the perfected security interest of a mortgagee. Where real property is jointly and severally owned, all parties owning an interest in the real property are responsible for the total amount of taxes related thereto. The District aggressively pursues its tax revenue accounts and its historical collection rate is in excess of 99%.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, property taxes are considered an imposed non-exchange transaction. Assets from imposed non-exchange transactions are recorded when the entity has an enforceable legal claim to the asset, or when the entity receives resources, whichever comes first. The enforceable legal claim date for property taxes is the assessment date. The assessment date has been designated in the enabling legislation as the first day of the fiscal year to which they relate (October 1). Therefore, the District has not recorded a receivable for future taxes at year-end because the assessment date had not yet occurred as of fiscal year-end.

## 3. DEPOSITS AND INVESTMENTS

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments, except for the investment pools, for the District are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost.

The pension trust fund investments are the District's share in common trust funds of Westwood Holding Group, Inc.

*Cash Deposits:* The District's funds are required to be deposited and invested according to State statue and an adopted District Investment Policy which includes depository and custodial contract provisions. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are in compliance with the Texas Government Code, Chapter 2257 "Collateral for Public Funds".

*Investments:* The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, no-load money market mutual funds, certain municipal securities, repurchase agreements, banker's acceptances, commercial paper or investment pools.

For fiscal year 2016, the District invested in U.S. Government Agency securities, U.S. Treasuries, commercial paper, Texas CLASS, and TexSTAR. Texas CLASS is organized under the Sixth Amended and Restated Trust Agreement in accordance with all the requirements contained in section 2256.016 of the Act. Texas CLASS is administered by Public Trust Advisors, LLC and all funds are held by the custodial agent, Wells Fargo N.A. Texas CLASS may invest in obligations of the U.S. or its agencies and instrumentalities; repurchase agreements; SEC-registered money market funds rated in the highest rating category by at least one NRSRO; and commercial paper rated A-1, P-1 or equivalent by two nationally recognized rating agencies. TexSTAR: J.P. Morgan Investment Management Inc. and First Southwest Company serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. J.P. Morgan Investment Management Inc. provides investment management services, and First Southwest Company provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan

Investor Services Co. TexSTAR is Texas Short Term Asset Reserve Program organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet participants' needs, diversification to avoid unreasonable or avoidable risks, and yield.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District has recurring fair value measurements as presented in the table below. The District's investment balances and weighted average maturity of such investments (excluding the Non-TRS Pension Trust Fund) are as follows:

| | | Fair Value Measurements Using | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) | Percent of Total Investments | Weighted Average Maturity (Days) |
| ***Investments not Subject to Fair Value:*** | | | | | | |
| **Investment Pools:** | | | | | | |
| Texas CLASS | $ 5,099,252 | $ - | $ - | $ - | 59.91% | 56 |
| TexSTAR | 817,076 | - | - | - | 9.60% | 41 |
| ***Investments by Fair Value Level:*** | | | | | | |
| **U.S. Government Agency Securities:** | | | | | | |
| U.S. Treasury Bill | 736,101 | 736,101 | - | - | 8.65% | 135 |
| Federal National Mortgage Assn | 768,638 | - | 768,638 | - | 9.03% | 314 |
| Federal Home Loan Bank | 1,060,372 | - | 1,060,372 | - | 12.46% | 309 |
| Money Market accounts | 30,689 | - | 30,689 | - | 0.36% | 1 |
| Total Value | $ 8,512,128 | $ 736,101 | $ 1,859,699 | $ - | | |

*Investment Pools* are measured at amortized cost and are exempt for fair value reporting.

*U.S. Government Agency Securities* classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

*Commercial Paper* classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The Texas CLASS investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of $1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texas CLASS have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The TexStar investment pools are external investment pools measured at their net asset value. TexStar's strategy are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to the investment pools. TexStar have a redemption notice period of one day and may redeem daily. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 275 days (9 months), diversification, and by holding securities to maturity. In addition, the District shall not directly invest in an individual security maturing more than three years from the date of purchase.

*Custodial Credit Risk:* The District's agent holds securities in the District's name; therefore, the District is not exposed to custodial credit risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker/dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that the investments of the District shall be secured through third-party custodial and safekeeping procedures as designated by the District.

*Credit Risk:* The District's Investment policy is to apply the "prudent investor" standard: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." As of September 30, 2016, the Texas Class local government investment pool was rated AAAm and the TexStar local government investment pool was rated AAAm both by Standard and Poor's. Both local government investment pools were managed as SEC 2a-7 like funds. The Federal Home Loan Mortgage

Corp., Federal Home Loan Bank discount notes and US Treasury Bills were issued or guaranteed by the US Federal Government, which is rated AA

*Concentration of Credit Risk:* The District's investment policy places no limit on the amount the District may invest in any one issuer. However, the District's investment policy calls for portfolio diversification by avoiding over-concentration in a specific maturity sector or specific instruments. The District's portfolio is 9% in U.S. Treasury Bills, 12% in Federal Home Loan Bank Notes and 9% in Federal National Mortgage Association Discount Notes as of September 30, 2016. The remainder (70%) of the District's investments is invested in government pools and money market funds.

The fair value of the investments in U.S. Government Agency securities is based on quoted market prices. The investments are reported by the District at book value. The amount of increase in the fair value of these investments during the year ended September 30, 2016, is not included in investment earnings.

| | |
|---|---|
| Investment Earnings | $ 52,300 |
| Net Increase in Fair Value of Investments | 3,008 |
| ***Total Investment Earnings*** | $ 55,308 |

*Pension Trust Fund:* The Pension Trust Fund maintains a separate investment policy. The Plan shall invest in common trust funds of Westwood Holding Group, Inc. The plan document grants the authority to establish and amend the Plan to the employer through a plan administrator.

## 4. ACCOUNTS RECEIVABLE

Receivables at September 30, 2016, were as follows:

| | Governmental Activities and Governmental Funds | Business-Type Activities |
|---|---|---|
| Property taxes | $ 186,797 | $ - |
| Other receivables | 204,985 | 186,133 |
| Total receivables | 391,782 | 186,133 |
| Less allowance for uncollectible amount | (46,066) | - |
| Total receivables, net of allowance | $ 345,716 | $ 186,133 |

## 5. INTERFUND TRANSACTIONS

Interfund balances at September 30, 2016, consist of the following individual fund receivables and payables:

| Fund | Receivables | Payables |
|---|---|---|
| General Fund: | | |
| Raw Water Supply - Enterprise Fund: | $ 7,373 | $ - |
| Internal Service Fund | 24,411 | - |
| Raw Water Supply - Enterprise Fund: | | |
| General Fund | - | 7,373 |
| Internal Service Fund: | | |
| General Fund | - | 24,411 |
| Total | $ 31,784 | $ 31,784 |

All interfund receivables and payables arise for general operating purposes and are paid in full from one fiscal year to the next.

Interfund transfers in and out consist of the following:

| | ***Transfers In:*** Debt Service |
|---|---|
| ***Transfers Out:*** | |
| General Fund | $ 22,749,964 |
| ***Total*** | $ 22,749,964 |

Transfer from General Fund to Debt Service Fund is to transfer an amount sufficient to pay debt service (principal, interest and paying agent fees) on outstanding general obligation bonds. Transfers are made based on the actual property tax collected during the year plus any additional amounts required to make principal and interest payments.

## 6. CAPITAL ASSETS

A summary of capital assets activity during the fiscal year ended September 30, 2016:

| Governmental activities: | Balance October 1, 2015 | Transfers/ Additions | Transfers/ Deletions | Balance September 30, 2016 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 16,578,594 | $ - | $ - | $ 16,578,594 |
| Total capital assets not being depreciated | 16,578,594 | - | - | 16,578,594 |
| Capital assets being depreciated: | | | | |
| Buildings | 4,125,094 | - | - | 4,125,094 |
| Flood control system | 47,866,521 | - | - | 47,866,521 |
| Water system | 1,817,610 | - | - | 1,817,610 |
| Sewage system | 542,462 | - | - | 542,462 |
| Area personal transit system | 38,691,368 | - | - | 38,691,368 |
| Furniture and equipment | 826,494 | 69,231 | (7,822) | 887,903 |
| Capitalized system engineering fees | 11,472,529 | - | - | 11,472,529 |
| Vehicles | 702,075 | 74,868 | (48,769) | 728,174 |
| Total capital assets being depreciated | 106,044,153 | 144,099 | (56,591) | 106,131,661 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,890,800 | 103,018 | - | 2,993,818 |
| Flood control system | 31,631,815 | 1,191,790 | - | 32,823,605 |
| Water system | 1,812,847 | 297 | - | 1,813,144 |
| Sewage system | 542,462 | - | - | 542,462 |
| Area personal transit system | 31,774,809 | 467,694 | - | 32,242,503 |
| Furniture and equipment | 800,406 | 11,508 | (7,822) | 804,092 |
| Capitalized system engineering fees | 8,094,605 | 286,400 | - | 8,381,005 |
| Vehicles | 640,150 | 19,387 | (48,769) | 610,768 |
| Total accumulated depreciation | 78,187,894 | 2,080,094 | (56,591) | 80,211,397 |
| Capital assets being depreciated, net | 27,856,259 | (1,935,995) | - | 25,920,264 |
| Governmental activities capital assets, net | $ 44,434,853 | $ (1,935,995) | $ - | $ 42,498,858 |

Included in capital assets above are internal service fund capital assets with original cost of $728,174 and accumulated depreciation of $610,768.

| Business-type activities: | Balance October 1, 2015 | Transfers/ Additions | Transfers/ Deletions | Balance September 30, 2016 |
|---|---|---|---|---|
| Capital assets being depreciated: | | | | |
| Water systems | $ 7,132,237 | $ - | $ - | $ 7,132,237 |
| Vehicles, furniture and equipment | 731,598 | - | - | 731,598 |
| Total capital assets being depreciated | 7,863,835 | - | - | 7,863,835 |
| Less accumulated depreciation for: | | | | |
| Water systems | 4,317,915 | 178,306 | - | 4,496,221 |
| Vehicles, furniture and equipment | 715,792 | 5,366 | - | 721,158 |
| Total accumulated depreciation | 5,033,707 | 183,672 | - | 5,217,379 |
| Capital assets being depreciated, net | $ 2,830,128 | $ (183,672) | $ - | $ 2,646,456 |

Depreciation expense related to governmental activities was charged to governmental functions as follows:

| | |
|---|---|
| General government | $ 8,386 |
| Finance and administration | 8,386 |
| Systems maintenance | 1,509,887 |
| Area personal transit system | 534,175 |
| Service center operations | 19,260 |
| | $ 2,080,094 |

## 7. LONG-TERM DEBT

The District issued $116,951,490 Unlimited Ad Valorem Tax Refunding Bonds, Series 1986 A ("Series 1986 A Bonds") in August 1986 to refund all District's outstanding bonds and bond anticipation notes payable for the purpose of restructuring and consolidating the debt payments of the District. The proceeds of Series 1986 A Bonds, together with other available funds of the District, were used to refund

Unlimited Tax Bonds, Series 1973, Unlimited Ad Valorem Tax Bonds, Series 1984, 1984 A, and 1985, and Bond Anticipation Notes, Series 1986.

The District issued $99,925,000 Unlimited Tax Refunding Bonds, Series 2005 A ("Series 2005 A Bonds") and $99,925,000 Unlimited Tax Refunding Bonds, Series 2005 B ("Series 2005 B Bonds") in February 2005. The proceeds of Series 2005 A and Series 2005 B Bonds were used to refund Unlimited Tax Refunding Bonds, Series 1999 A and Series 1999 B.

The District issued $4,125,000 Unlimited Tax Refunding Bonds, Series 2008 ("Series 2008 Bonds") in June, 2008 to refund certain termination payment obligations of the District related to the termination of interest rate management agreements entered into in connection with the issuance of the District's outstanding Unlimited Tax Refunding Bonds, Series 2005 A and Series 2005 B.

The District issued $31,660,000 Unlimited Tax Refunding Bonds, Series 2012 ("Series 2012 Bonds") in November, 2012 to refund Unlimited Tax Refunding Bonds, Series 2003. The advance refunding resulted in additional principal and interest payments of $7,033,221 over the life of the bonds. This refunding resulted in an economic gain (difference between the present value of the old and new debt service payments) of $6,391,693.

The District issued $34,215,000 Unlimited Tax Refunding Bonds, Series 2013 ("Series 2013 Bonds") in April, 2013 to refund Unlimited Tax Refunding Bonds, Series 2007. The advance refunding resulted in additional principal and interest payments of $10,565,477 over the life of the bonds. This refunding resulted in an economic gain (difference between the present value of the old and new debt service payments) of $7,481,986.

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2016:

| Governmental Activities Bonds: | Balance October 1, 2015 | Additions | Capital Interest Accretion | Retirements | Balance September 30, 2016 | Due Within One Year |
|---|---|---|---|---|---|---|
| Series 1986A Tax Refunding Bonds, 7.85% to 7.95%, maturing in annual installments of $1,140,845 to $1,577,609 from 2012 through 2016 | $ 7,723,010 | $ | $ 306,990 | $ 8,030,000 | $ | |
| Series 2005A Unlimited Tax Refunding Bonds, Variable Rate converted to fixed rates 4% to 5.375% effective June 2008 maturing in annual installments of $145,000 to $15,240,000 from 2006 through 2029 | 90,865,000 | | | 615,000 | 90,250,000 | 1,260,000 |
| Series 2005B Unlimited Tax Refunding Bonds, Variable Rate converted to fixed rates 4% to 5.375% effective June 2008 maturing in annual installments of $145,000 to $15,240,000 from 2006 through 2029 | 90,865,000 | | | 615,000 | 90,250,000 | 1,260,000 |
| Series 2008 Unlimited Tax Refunding Bonds 4.5% to 5%, maturing in annual installments of $240,000 to $440,000 through 2020 | 2,005,000 | | | 365,000 | 1,640,000 | 380,000 |
| Series 2012 Unlimited Tax Refunding Bonds, 5% maturing in annual installments of $7,055,000 to $10,310,000 from from 2017 through 2020 | 30,810,000 | | | | 30,810,000 | 7,055,000 |
| Series 2013 Unlimited Tax Refunding Bonds, 2% to 5% maturing in annual installments of $360,000 to $16,560,000 from 2014 through 2024 | 33,485,000 | | | 380,000 | 33,105,000 | 390,000 |
| | 255,753,010 | | 306,990 | 10,005,000 | 246,055,000 | 10,345,000 |
| Unamortized Premium | 8,108,393 | | | 1,666,691 | 6,441,702 | |
| Total governmental activities bonds | $ 263,861,403 | | $ 306,990 | $ 11,671,691 | $ 252,496,702 | |
| Deferred loss on refunding | $ (2,075,620) | | | $ (282,921) | $ (1,792,699) | |

| | Governmental Activities Bonds | | |
|---|---|---|---|
| | Principal | Interest | Total |
| Year ending September 30: | | | |
| 2017 | $ 10,345,000 | $ 12,528,427 | $ 22,873,427 |
| 2018 | 11,440,000 | 11,992,672 | 23,432,672 |
| 2019 | 12,560,000 | 11,400,185 | 23,960,185 |
| 2020 | 13,620,000 | 10,750,802 | 24,370,802 |
| 2021 | 16,495,000 | 9,991,233 | 26,486,233 |
| 2022-2026 | 95,795,000 | 36,779,128 | 132,574,128 |
| 2027-2029 | 85,800,000 | 7,120,801 | 92,920,801 |
| Total | $ 246,055,000 | $ 100,563,248 | $ 346,618,248 |

The District is in compliance with all bond resolutions/restrictions as of September 30, 2016.

## 8. COMMITMENTS AND CONTINGENCIES

Trinity River Authority of Texas – The District has contracted with Trinity River Authority of Texas ("TRA"), an agency of the State of Texas, whereby TRA dedicated and pledged to reserve, deliver and sell treated raw water at the point of delivery, to the District and the District agreed to pay TRA for such delivery and reserve of raw water. At the time the contract was signed, the District became obligated to pay to TRA a debt service component which is a percentage of debt service of a certain debt issuance made by TRA to construct project facilities needed to deliver the raw water to the point of delivery. In addition, the District is obligated to make an annual operations and maintenance payment directly attributed to the delivery of water by TRA to the District: a commodity charge - take or pay based on the actual volume of water delivered to the District, and a commodity charge – standby based on 10% of the effective take or pay commodity rate. Total payments made to TRA during the year ended September 30, 2016, amounted to $574,076.

The debt service component of the payment was paid in full in 2016 and no future debt service payments will be required. The debt service payment in 2016 was $194,023

Other Contingencies

There are no claims or lawsuits pending against the District at September 30, 2016. Management is not aware of any contingencies that would have a material effect on the financial statements.

## 9. SELF-INSURANCE PLAN

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Self-Insurance Fund provides coverage for up to a maximum of $500,000 for each worker's compensation claim and $10,000 for each property damage claim. The Self-Insurance Fund provides general liability coverage up to the maximum legal limit of $100,000 per individual and $300,000 per occurrence as determined by the Texas Tort Claim Liability Act. The District purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in three previous fiscal years.

All funds of the District participate in the program and make payments to the Self-Insurance Fund based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The claims liability of $5,000 reported in the Fund at September 30, 2016, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount in fiscal 2015 and 2016 were:

| Fiscal Year | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | End of Fiscal Year Liability |
|---|---|---|---|---|
| 2015 | $ -0- | $14,526 | $ 9,526 | 5,000 |
| 2016 | 5,000 | 19,945 | 19,945 | 5,000 |

## 10. EMPLOYEES RETIREMENT PLANS

Retirement Plan

Plan Description - The District provides pension benefits for substantially all of the employees of the District through a single-employer, noncontributory defined benefit retirement plan ("Retirement Plan"). For the years ended September 30, 2016, 2015, and 2014, the District's payroll for employees covered by the Retirement Plan was $2,094,101, $1,991,614, and $1,956,655, and total payroll was $2,142,712, $2,045,200, and $1,976,972, respectively. The Retirement Plan is administered by the District's Board of Directors. The District hires an outside trustee to manage the investments and make the benefit payments related to the Retirement Plan. The Retirement Plan is considered a part of the District's financial reporting entity and is included in the District's basic financial statements as a pension trust fund.

Benefits Provided - The Retirement Plan provides for retirement, death, and disability benefits. Employees are eligible for participation after one year of service. The normal retirement benefit for participants reaching age 65 is equal to 1.8% of average compensation multiplied by service up to 36.111 years, less 1.5% of Social Security for each year up to 33.333 years. Early retirement benefits are available for participants attaining age 55 and 5 years of service. The benefits and contribution provisions of the Retirement Plan are authorized by the District's Board of Directors.

Employees Covered by Benefit Terms – At January 1, 2014 measurement date, the following employees were covered by the benefit terms:

**Summary of Population Statistics**

| | |
|---|---|
| Inactive Plan Members or Beneficiaries Currently Receiving Benefits | 13 |
| Inactive Plan Members Entitled to But Not Yet Receiving Benefits | 21 |
| Active Plan Members | 28 |
| Total Plan Members | 62 |

Contributions - The contribution requirements of plan members and the District are established and can be amended by the District's Board of Directors. Plan members are not required to contribute to the Retirement Plan. The District is required to contribute at an actuarially determined rate; the current rate is 6.24 percent of annual covered payroll. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates are not legally or contractually limited.

**Net Pension Liability**

The District's Net Pension Liability (NPL) was measured as of January 1, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date and rolled forward from the valuation date to the fiscal year ending September 30, 2015 using generally accepted actuarial principles. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

Actuarial Assumptions – The Total Pension Liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 3.0% |
| Salary Increases | 4.0%, including inflation |
| Investment Rate of Return | 7.0% |

Mortality rates were based on the RP-2000 Tables for males and females projecting out to year 2024.

Cost Method - The Entry Age Normal Cost Method was used in making the actuarial valuation described in this report. Under this method the normal cost is the level percentage of pay contribution that would have been required from age at date of credited service in order to fund the participant's retirement, termination and ancillary benefits if the current plan provisions regarding accrual of benefits had always been in effect. The actuarial accrued liability is the excess of the present value of future benefits over the present value of future normal costs. The present value of future benefits is determined by discounting, to the valuation date, the total future benefits cash flow from the plan to all of the current participants, using the actuarial assumptions. The present value of future normal costs is determined by discounting, to the valuation date, all of the normal costs anticipated to result from future valuation of the benefits to current participants, using the actuarial assumptions.

Provision for the social security supplement payable until age 62 for early retirement with 15 years of service was made by loading the normal cost and actuarial accrued liability by 5% for active participants.

Asset Valuation Method – The investments in the trust fund are valued on the basis of their fair value.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| US Equity - Large Cap | 23.42% | 6.34% |
| US Equity - Small/Mid Cap | 8.27% | 7.17% |
| Non-US Equity - Developed | 14.05% | 7.07% |
| Non-US Equity - Emerging | 4.22% | 9.56% |
| US Corp Bonds - Core | 21.82% | 1.77% |
| US Corp Bonds - High Yield | 7.17% | 4.27% |
| Non-US Debt - Developed | 2.99% | 0.89% |
| US Treasuries (Cash Equivalents) | 0.47% | 0.35% |
| Real Estate | 11.73% | 4.99% |
| Hedge Funds | 5.86% | 3.87% |
| | 100.00% | |

Discount Rate - A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| **Balances at 9/30/2014** | $ 5,502,654 | $ 5,299,943 | $ 202,711 |
| **Changes for the year:** | | | |
| Service Cost | 122,484 | | 122,484 |
| Interest | 386,855 | | 386,855 |
| Differences between expected and actual experience | - | | - |
| Contributions - employer | | 117,820 | (117,820) |
| Contributions - employee | | - | - |
| Net investment income | - | (212,283) | 212,283 |
| Benefit payments, including refunds of employee contributions | (74,788) | (74,788) | - |
| Administrative expense | - | - | - |
| Other changes | - | - | - |
| **Net Changes** | 434,551 | (169,251) | 603,802 |
| **Balances at 9/30/2015** | $ 5,937,205 | $ 5,130,692 | $ 806,513 |

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the District, calculated using the discount rate of 7.0%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

| Decrease (6.0%) | Discount Rate (7.0%) | Increase (8.0%) |
|---|---|---|
| $ 1,119,922 | $ 806,513 | $ (312,940) |

Pension Plan Fiduciary Net Position - The Retirement Plan is considered a part of the District's financial reporting entity and is included in the District's basic financial statements as a pension trust fund. The Pension Trust Fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Pension Trust Fund is accounted for on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The District's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

For the year ended September 30, 2016, the District recognized pension expense of $42,635.

At September 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions after measurement date | $ 135,839 | $ - |
| Net difference between projected and actual earnings on pension plan investments | 467,828 | - |
| **Total** | $ 603,667 | $ - |

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of $135,839 will be recognized as a reduction of the net pension liability for the measurement year ending September 30, 2016 (i.e. recognized in the District's financial statements as of September 30, 2016). Other amount reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| **Measurement Year ended September 30** | |
|---|---|
| 2016 | $ 116,957 |
| 2017 | 116,957 |
| 2018 | 116,957 |
| 2019 | 116,957 |
| Total | $ 467,828 |

Investment Policies - The Board of the plan has elected to engage Westwood Holdings Group to manage the pension fund assets through the utilization of the diversified approach utilizing both mutual funds and common collective trust invested in a variety of asset classes. The authority for establishing and amending the investment policy decisions is the responsibilityty of the board of the plan. There were not significant changes in current year.

The plan assets are invested in diversified mutual funds and common collective trusts with no underlying investment making up more than 5% of the plan's net position. The annual money-weighted rate of return on pension plan investments is 10.17% and expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Annual Required Contribution - The District's annual contribution requirement is actuarially determined by an independent actuary. Six-year trend information is as follows:

| Fiscal Year Ended | | Annual Required Contribution | Percentage Contributed |
|---|---|---|---|
| September 30, 2011 | $ | 149,530 | 100% |
| September 30, 2012 | | 164,475 | 91% |
| September 30, 2013 | | 164,475 | 140% |
| September 30, 2014 | | 111,390 | 451% |
| September 30, 2015 | | 111,390 | 105% |
| September 30, 2016 | | 114,760 | 114% |

The District's actuarial required contributions for all years were made in accordance with plan provisions, therefore, the annual pension cost is equal to the annual required contribution (ARC), except for fiscal year 2012 when only 91% of ARC was contributed to the plan and fiscal year 2013 when 140% was contributed to the plan . In fiscal year 2014, an additional contribution over the required contribution was made in the amount of $334,000 to reduce the unfunded actuarial accrued liability.

**Schedule of the Net Pension Liability Multiyear**

| FY Ending September 30, | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Position as a % of Total Pension Liability | Covered Payroll | Net Pension Liability as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 2014 | $ 5,502,654 | $ 5,299,942 | $ 202,711 | 96.32% | $ 1,956,655 | 10.36% |
| 2015 | $ 5,937,205 | $ 5,130,692 | $ 806,513 | 86.42% | $ 1,991,614 | 40.50% |

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Westwood Trust. The Plan, available to all full-time, regular employees of the District who have completed one year of service, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or disability.

## 11. GAS WELL LEASE

In April 2007, the District entered into an Oil and Gas Lease (the Lease) with Trinity East Energy, LLC (formerly EurEnergy Texas, LLC). The Lease provides for subsurface use of certain District properties for development of oil and gas production. The District properties subject to the Lease total approximately 627 acres. The signing bonus for the Primary Lease Term was $4,200 per acre. The District received approximately 50% of the Signing Bonus in June 2007 and the balance in August 2007. The Lease provides that the District will receive a royalty of 25.5% of oil and gas production from the District properties. The District did not receive revenues in fiscal year 2016 under this lease.

## 12. SUBSEQUENT EVENTS

On November 17, 2016 the District issued Unlimited Tax Refunding Bonds, Series 2016 in the amount of $155,885,000. The proceeds will be used to refund the District's currently outstanding Series 2005A, 2005B and 2008 bonds in the amount of $182,140,00 and pay cost of issuance. The refunding is being undertaken to lower the District's debt service payments and will result in a present value savings to the District. Interest is payable February 15 and August 15 of each year. The interest rates on the bonds range from 2.0% to 5.0% and have a final maturity date of February 15, 2028.

* * * * * *

## REQUIRED SUPPLEMENTARY INFORMATION
## (UNAUDITED)

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budgeted Amounts | | | Variance - |
|---|---|---|---|---|
| | Original | Final | Actual | Positive (Negative) |
| REVENUES: | | | | |
| Taxes | $ 27,139,610 | $ 27,876,770 | $ 27,860,226 | $ (16,544) |
| Interest on deposits | 6,800 | 6,800 | 26,844 | 20,044 |
| Leases | 249,663 | 231,163 | 254,401 | 23,238 |
| Maintenance fees | 107,000 | 134,000 | 91,270 | (42,730) |
| Intergovernmental revenue | 1,249,420 | 1,249,420 | 1,019,397 | (230,023) |
| Other | 1,513,137 | 2,015,037 | 2,040,959 | 25,922 |
| Total | 30,265,630 | 31,513,190 | 31,293,097 | (220,093) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 679,630 | 679,630 | 667,410 | 12,220 |
| Finance and administration | 1,086,930 | 1,086,930 | 1,127,043 | (40,113) |
| Systems maintenance | 3,185,840 | 3,233,440 | 3,049,825 | 183,615 |
| Reclamation maintenance | 7,047 | 7,047 | 7,047 | - |
| Area personal transit system | 1,404,520 | 1,404,520 | 1,317,404 | 87,116 |
| Service center operations | 386,850 | 386,850 | 329,454 | 57,396 |
| Rehabilitation | 1,040,920 | 1,040,920 | 604,597 | 436,323 |
| Capital outlays | 127,500 | 127,500 | 69,681 | 57,819 |
| Total | 7,919,237 | 7,966,837 | 7,172,461 | 794,376 |
| EXCESS OF REVENUES OVER EXPENDITURES | 22,346,393 | 23,546,353 | 24,120,636 | 574,283 |
| OTHER FINANCING (USES): | | | | |
| Transfers out | (22,135,000) | (23,057,200) | (22,749,964) | 307,236 |
| Total | (22,135,000) | (23,057,200) | (22,749,964) | 307,236 |
| CHANGE IN FUND BALANCE | 211,393 | 489,153 | 1,370,672 | 881,519 |
| FUND BALANCE, OCTOBER 1, 2015 | 3,232,925 | 3,232,925 | 3,232,925 | - |
| FUND BALANCE, SEPTEMBER 30, 2016 | $ 3,444,318 | $ 3,722,078 | $ 4,603,597 | $ 881,519 |

See notes to Required Supplementary Information.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

Schedule of Changes in Net Pension Liability and Related Ratios Multiyear (Unaudited)

| Measurement Year | | 2015 | | 2014 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service Cost | $ | 122,484 | $ | 108,603 |
| Interest on the Total Pension Liability | | 386,855 | | 358,036 |
| Benefit Changes | | - | | - |
| Difference between Expected and Actual Experience | | - | | - |
| Assumption Changes | | - | | - |
| Benefit Payments | | (74,788) | | (49,956) |
| Refunds | | - | | - |
| **Net Change in Total Pension Liability** | | 434,551 | | 416,683 |
| **Total Pension Liability - Beginning** | | 5,502,654 | | 5,085,971 |
| **Total Pension Liability - Ending (a)** | $ | 5,937,205 | $ | 5,502,654 |
| **Plan Fiduciary Net Position** | | | | |
| Employer Contributions | $ | 117,820 | $ | 503,180 |
| Employee Contributions | | - | | - |
| Pension Plan Net Investment Income | | (212,283) | | 419,891 |
| Benefit Payments | | (74,788) | | (49,956) |
| Refunds | | - | | - |
| Pension Plan Administrative Expense | | - | | - |
| Other | | - | | - |
| **Net Change in Plan Fiduciary Net Position** | | (169,251) | | 873,115 |
| **Plan Fiduciary Net Position - Beginning** | | 5,299,943 | | 4,426,828 |
| **Plan Fiduciary Net Position - Ending (b)** | $ | 5,130,692 | $ | 5,299,943 |
| **Net Pension Liability - Beginning** | | 202,711 | | 659,143 |
| **Net Pension Liability - Ending (a) - (b)** | | 806,513 | | 202,711 |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | | 88.42% | | 96.32% |
| **Covered Employee Payroll** | $ | 1,991,614 | $ | 1,765,767 |
| **Contributions as a % of Covered Payroll** | | | | 28.5% |
| **Net Pension Liability as a Percentage of Covered Employee Payroll** | | 40.50% | | 11.48% |
| **Actuarially Determined Contribution** | $ | 114,760 | $ | 111,390 |
| **Percent Contributed** | | 118% | | 451% |
| **Annual Money-Weighted Rate of Return** | | 10.59% | | 10.17% |

As of September 30

Note: Ten years of data not available.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT
Schedule of Contributions (Unaudited)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|---|---|---|
| Actuarially determined contribution | $ 114,760 | $ 111,390 |
| Contributions in relation to the actuarially determined contribution | 135,839 | 117,820 |
| Contribution deficiency (excess) | $ (21,079) | $ (6,430) |
| Covered-employee payroll | $ 2,094,101 | $ 1,991,614 |
| Contributions as a percentage of covered employee payroll | 6.5% | 6.0% |

Note: Ten years of data not available

BUDGETS AND BUDGETARY ACCOUNTING - The District maintains control over operating expenditures by the establishment of an annual operating budget which includes the General Fund, Debt Service Fund, Enterprise Fund and Internal Service Fund. The annual operating budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budget, as formally adopted by the Board of Directors, establishes the maximum authorization of operating funds to be expended by any fund. Any subsequent amendment thereto must be approved by the President of the Board of Directors and/or the Board of Directors. All unused budget authorizations lapse at the end of the year.

The General Fund fund balance is above the budget by $881,519. This variance is due mainly to a budgeted project in the Rehabilitation department for waterway wall repairs being delayed due to heavy rains. Expenditures for this project were $436,323 under budget. The project began in September, 2015 and is scheduled to be completed in fiscal year 2017. Finance and administration expenditures exceeded budget by $40,113 due to an accrual for health reimbursement account liabilities that exceeded budget. The accrual was based on the average of actual expenses over a four year period.

SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates are calculated as of October 1, which is 12 months prior to the beginning of the fiscal year in which they are contributed.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | 30 years level dollar as a Maximum, employer has historically contributed more than the minimum. |
| Remaining Amortization Period | 30 years level dollar as a Maximum, employer has historically contributed more than the minimum. |
| Asset Valuation Method | Market Value |
| Inflation | 3.00% |
| Salary Increases | 4.00% including inflation |
| Investment Rate of Return | 7.00% |
| Retirement Age | It was assumed that participants will retire upon becoming eligible for normal retirement. |
| Mortality | The RP-2000 tables for males and females projecting out to year 2024. |

## OTHER SUPPLEMENTARY INFORMATION

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2016

| | Insurance* | Vehicle Maintenance | Total |
|---|---|---|---|
| ASSETS: | | | |
| Current Assets: | | | |
| Cash and investments | $ 393,842 | $ 220,770 | $ 614,612 |
| Accrued interest receivable | 574 | - | 574 |
| Non-Current Assets: | | | |
| Property, plant and equipment, net | - | 117,406 | 117,406 |
| Other assets | 76,958 | - | 76,958 |
| Total assets | 471,374 | 338,176 | 809,550 |
| LIABILITIES: | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities | 9,976 | 2,440 | 12,416 |
| Due to other funds | 24,411 | - | 24,411 |
| Total liabilities | 34,387 | 2,440 | 36,827 |
| NET POSITION: | | | |
| Net investment in capital assets | - | 117,406 | 117,406 |
| Unrestricted | 436,987 | 218,330 | 655,317 |
| TOTAL NET POSITION | $ 436,987 | $ 335,736 | $ 772,723 |

* This fund accounts for property, casualty and workers compensation coverage.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2016

| | Insurance* | Vehicle Maintenance | Total |
|---|---|---|---|
| REVENUES: | | | |
| Insurance premiums | $ 167,230 | $ - | $ 167,230 |
| Vehicle usage charges | - | 169,000 | 169,000 |
| Total revenues | 167,230 | 169,000 | 336,230 |
| EXPENSES: | | | |
| Purchased and contracted services | - | 14,672 | 14,672 |
| Professional fees | 8,295 | - | 8,295 |
| Supplies and materials | - | 36,295 | 36,295 |
| Depreciation | - | 19,387 | 19,387 |
| Insurance premiums | 172,385 | 1,000 | 173,385 |
| Claims paid | 3,800 | - | 3,800 |
| Other recurring operating expenses | 518 | 478 | 996 |
| Total expenses | 184,998 | 71,832 | 256,830 |
| NET OPERATING INCOME (LOSS) | (17,768) | 97,168 | 79,400 |
| NON-OPERATING INCOME: | | | |
| Interest income | 1,298 | 274 | 1,572 |
| Gain on sale of assets | $ - | 20,024 | 20,024 |
| Total nonoperating revenue | 1,298 | 20,298 | 21,596 |
| CHANGE IN NET POSITION | (16,470) | 117,466 | 100,996 |
| NET POSITION - OCTOBER 1, 2015 | 453,457 | 218,270 | 671,727 |
| NET POSITION - SEPTEMBER 30, 2016 | $ 436,987 | $ 335,736 | $ 772,723 |

* This fund accounts for property, casualty and workers compensation coverage.

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2016

| | Insurance | Vehicle Maintenance | Total |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from quasi-external transactions | $ 166,908 | $ 169,000 | $ 335,908 |
| Payments to suppliers | (161,291) | (52,878) | (214,169) |
| Net cash provided by operating activities | 5,617 | 116,122 | 121,739 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Purchase of capital assets | - | (74,866) | (74,866) |
| Gain on Sale of Assets | - | 20,024 | 20,024 |
| Net cash used for capital and related financing activities | - | (54,842) | (54,842) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest on investments | 1,298 | 274 | 1,572 |
| Sale of investments | 381,026 | - | 381,026 |
| Purchase of investments | (382,000) | - | (382,000) |
| Net cash provided by investing activities | 324 | 274 | 598 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 5,941 | 61,554 | 67,495 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 5,343 | 159,216 | 164,559 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 11,284 | $ 220,770 | $ 232,054 |
| CASH AND CASH EQUIVALENTS | $ 11,284 | $ 220,770 | $ 232,054 |
| INVESTMENTS | 382,558 | - | 382,558 |
| CASH AND INVESTMENTS | $ 393,842 | $ 220,770 | $ 614,612 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Net operating income (loss) | $ (17,768) | $ 97,168 | $ 79,400 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | - | 19,387 | 19,387 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in other assets | 5,796 | - | 5,796 |
| (Increase) decrease in accrued interest receivable | (322) | - | (322) |
| Increase (decrease) in due to other funds | 15,865 | - | 15,865 |
| Increase (decrease) in accounts payable | 2,046 | (433) | 1,613 |
| Net cash provided by operating activities | $ 5,617 | $ 116,122 | $ 121,739 |

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
SEPTEMBER 30, 2016
(UNAUDITED)

| Fiscal Year | Unlimited Ad Valorem Tax Refunding Bonds Series 2005A | | Unlimited Ad Valorem Tax Refunding Bonds Series 2005B | | Unlimited Ad Valorem Tax Refunding Bonds Series 2008 | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | 1,260,000 | 4,742,911 | 1,260,000 | 4,742,911 | 380,000 | 71,130 |
| 2018 | 2,035,000 | 4,660,536 | 2,035,000 | 4,660,536 | 400,000 | 52,600 |
| 2019 | 2,425,000 | 4,549,036 | 2,425,000 | 4,549,036 | 420,000 | 32,500 |
| 2020 | 1,220,000 | 4,457,301 | 1,220,000 | 4,457,301 | 440,000 | 11,000 |
| 2021 | 8,025,000 | 4,219,548 | 8,025,000 | 4,219,548 | | |
| 2022 | 8,715,000 | 3,788,493 | 8,715,000 | 3,788,493 | | |
| 2023 | | 3,564,081 | | 3,564,081 | | |
| 2024 | | 3,564,081 | | 3,564,081 | | |
| 2025 | 11,245,000 | 3,268,900 | 11,245,000 | 3,268,900 | | |
| 2026 | 12,425,000 | 2,639,797 | 12,425,000 | 2,639,797 | | |
| 2027 | 13,350,000 | 1,947,094 | 13,350,000 | 1,947,094 | | |
| 2028 | 14,310,000 | 1,203,732 | 14,310,000 | 1,203,732 | | |
| 2029 | 15,240,000 | 409,575 | 15,240,000 | 409,575 | | |
| TOTAL | $ 90,250,000 | $ 43,015,085 | $ 90,250,000 | $ 43,015,085 | $ 1,640,000 | $167,230 |

DALLAS COUNTY UTILITY AND RECLAMATION DISTRICT

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
SEPTEMBER 30, 2016
(UNAUDITED)

| Fiscal Year | Unlimited Ad Valorem Tax Refunding Bonds Series 2012 | | Unlimited Ad Valorem Tax Refunding Bonds Series 2013 | | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | | |
| 2017 | $ 7,055,000 | 1,364,125 | 390,000 | 1,607,350 | 10,345,000 | 12,528,427 |
| 2018 | 6,570,000 | 1,023,500 | 400,000 | 1,595,500 | 11,440,000 | 11,992,672 |
| 2019 | 6,875,000 | 687,375 | 415,000 | 1,582,238 | 12,560,000 | 11,400,185 |
| 2020 | 10,310,000 | 257,750 | 430,000 | 1,567,450 | 13,620,000 | 10,750,802 |
| 2021 | | | 445,000 | 1,552,138 | 16,495,000 | 9,991,234 |
| 2022 | | | 460,000 | 1,536,300 | 17,890,000 | 9,113,286 |
| 2023 | | | 14,005,000 | 1,178,125 | 14,005,000 | 8,306,287 |
| 2024 | | | 16,560,000 | 414,000 | 16,560,000 | 7,542,162 |
| 2025 | | | | | 22,490,000 | 6,537,800 |
| 2026 | | | | | 24,850,000 | 5,279,594 |
| 2027 | | | | | 26,700,000 | 3,894,188 |
| 2028 | | | | | 28,620,000 | 2,407,464 |
| 2029 | | | | | 30,480,000 | 819,150 |
| TOTAL | $30,810,000 | $3,332,750 | $33,105,000 | $11,033,101 | $246,055,000 | $ 100,563,251 |