

Management's Discussion and Analysis (Unaudited)

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, 2019. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- In the government-wide financial statements, liabilities and deferred inflows of the District exceeded assets and deferred outflows by \$147.1 million, with unrestricted net position of \$(72.1) million;
- The net investment in capital assets has a deficit of \$75 million due to the fact that the long-term debt exceeds the capital assets net of depreciation. The debt includes unamortized premiums and discounts, 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 \$29.5 million for the year ended September 30, 2019, substantially all of which were property taxes;
- The District's total program revenues were \$6.2 million for the year ended September 30, 2019, of which \$2.0 million were water sales revenue, \$1.6 million were charges for services and \$2.6 million were intergovernmental revenue;
- The total cost of the District's programs decreased 1.0% to \$16.6 million. Governmental activities expenses increased \$486 thousand while business-type activities decreased \$660 thousand. Interest expense decreased \$621 thousand; and
- The fund balance for all governmental funds totaled \$9.8 million. This amount is \$3.1 million higher than September 30, 2018 balance. Excess revenues over expenditures was \$3,118,220.

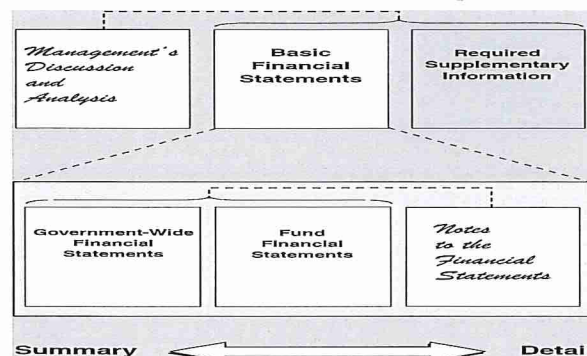
Overview of the Financial Statements

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 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.

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



Proprietary Funds. Proprietary fund statements offer short- and long-term financial information about the activities the District operates like businesses, such as water supply.

Fiduciary Funds. 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.

Notes to the Financial Statements. 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 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.

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

Type of Statements	Fund 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	<ul style="list-style-type: none"> ♦ Statement of net position ♦ Statement of activities 	<ul style="list-style-type: none"> ♦ Balance sheet ♦ Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> ♦ Statement of net position ♦ Statement of revenues, expenses and changes in fund net position ♦ Statement of cash flows 	<ul style="list-style-type: none"> ♦ Statement of fiduciary net position ♦ 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

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; and
- 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, proprietary funds and fiduciary funds.

- **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, 2019 and 2018 for governmental activities and business-type activities was approximately \$(153.3) million and \$6.2 million respectively. (See Table A-1).

Table A-1
The District's Net Position

	Governmental Activities		Total Change	Business-Type Activities		Total
	2019	2018		2019	2018	
Current and other assets	\$ 19.9	\$ 7.8	155.13 %	\$ 4.2	\$ 3.6	16.67 %
Capital assets	38.2	39.5	(3.29)	2.1	2.3	(8.70)
Total assets	58.1	47.3	22.83	6.3	5.9	6.78
Total deferred outflows of resources	5.2	5.5	(5.45)	0.1	0.1	0.00
Current liabilities	25.4	14.9	70.47	0.1	0.2	(50.00)
Long-term liabilities	190.8	209.6	(8.97)	-	-	
Total liabilities	216.2	224.5	(3.70)	0.1	0.2	(50.00)
Total deferred inflows of resources	0.4	0.2	100.00	0.1	0.1	0.00
Net position						
Net investment in capital assets	(74.4)	(75.8)	(1.85)	2.1	2.3	(8.70)
Unrestricted	(78.9)	(96.1)	(17.90)	4.1	3.4	20.59
Total Net Position	\$ (153.3)	\$ (171.9)	(10.82) %	\$ 6.2	\$ 5.7	0.02 %

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 \$153.3 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 \$4.7 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 \$35.7 million. Eighty-one percent of the District's revenue comes from taxes. (See Figure A-3.) Another ten percent relates to charges for services and seven percent relates to intergovernmental revenues.

The total cost of all programs and services was \$16.5 million; 33.3% of these costs are for interest expense.

Governmental Activities. Property tax rates decreased 13.77 cents to \$1.1113 while the total tax base increased to over \$4.2 billion, resulting in an increase of tax revenue to \$29.0 million.

Figure A-3
District Sources of Revenue for Fiscal Year 2019

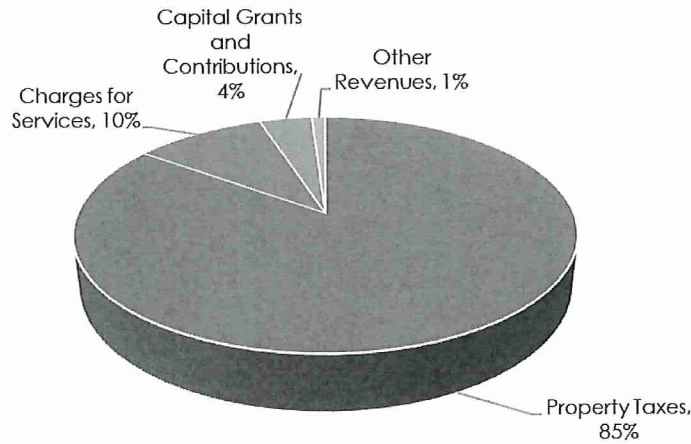


Table A-2
Changes in the District's Net Position
(in millions of dollars)

	Governmental Activities		Total % Change	Business-Type Activities		Total % Change
	2019	2018		2019	2018	
Revenues						
Program revenues:						
Charges for services	\$ 1.7	\$ 1.5	13.33 %	\$ 1.9	\$ 2.0	(5.00) %
Capital grants and contributions	2.6	1.2	116.67	-	-	-
General revenues:						
Property taxes	29.0	27.8	4.32	-	-	-
Other	0.4	0.2	100.00	0.1	0.1	-
Total revenues	33.7	30.7	9.77	2.0	2.1	(4.76)
Expenses						
General government	0.7	0.6	16.67	-	-	-
Finance and administration	1.0	1.1	(9.09)	-	-	-
Systems maintenance	4.6	4.2	9.52	-	-	-
Reclamation maintenance	-	-	-	-	-	-
Area personal transit system	2.0	2.1	(4.76)	-	-	-
Service center operation	0.2	0.2	-	-	-	-
Rehabilitation	1.0	0.7	42.86	-	-	-
Pension expense	-	(0.7)	(100.00)	-	-	-
Interest expense	5.5	6.7	(17.91)	-	-	-
Raw water supply	-	-	-	1.5	2.2	(31.82)
Total expenses	15.0	14.7	2.04	1.5	2.2	(31.82)
Excess (deficiency) of revenues over expenditures	18.7	16.0	16.88	0.5	(0.1)	(600.00)
Transfers in (out)	-	-	-	-	-	-
Change in net position	18.7	16.0	0.01	0.5	(0.1)	(600.00)
Net position - beginning, as restated	(172.0)	(188.0)	(8.51)	5.7	5.8	(1.72)
Net position - ending	\$ (153.3)	\$ (172.0)	(10.87) %	\$ 6.2	\$ 5.7	8.77 %

Financial Analysis of The District's Funds

Revenues for governmental funds totaled \$34.7 million, up \$3.2 million from the preceding year. Tax revenues increased \$1.3 million from 2018 to 2019 while intergovernmental and other revenues increased \$2.0 million from 2018 to 2019. Property tax collections, the largest source of revenue received by the District, was \$29.1 million. The taxable value of property within the District increased 10% while the tax rate was decreased by \$.1377.

Expenditures for governmental funds totaled \$31,626,075 during 2018-2019 and \$30,567,371 during 2017-2018, a increase of \$1,058,704 from 2017-2018.

The governmental funds reported a combined fund balance of \$9,776,234, an increase of \$3,118,220. The net increase of the combined fund balances was comprised of fund balance increase in the General Fund of \$3,117,639, and fund balance increase in the Debt Service Fund of \$581. Out of the combined fund balances, \$7,627,466 constitutes unassigned fund balance. The remainder of the fund balances of \$35,430, \$33,325 and \$2,080,013 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, 2019, unassigned fund balance of the General Fund was \$7,627,466. This fund balance represents 83.9% of the total General Fund expenditures. The fund balance of the General Fund increased during the current fiscal year by \$3,117,639.

The Debt Service Fund had a total fund balance of \$35,430, 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, 2019, 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, 2019, was \$6,193,629. Of this amount, \$2,117,380 represented the net investment in capital assets. Net position for the fiscal year increased by \$488,029.

General Fund Budgetary Highlights

The District did not revise its budget during the year. Actual expenditures were \$1,364,177 below final budget amounts while revenues were \$1,216,638 above the final budgeted amount. Budgeted final taxable values were slightly above expectations following taxpayer protest and appraisal review board hearings resulting in taxes collected of \$263,465 more than budgeted. The lower than budgeted expenditures were due mainly to deferred dredging projects and capital projects in the amount of \$411,650 and \$692,445 respectively. Two projects for emergency generators and APT System upgrades will be continued in fiscal year 2020.

Capital Assets and Debt Administration

Capital Assets. At the end of 2019, the District had invested \$132.0 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-3.) This amount is increased \$611,620 from last year.

**Table A-3
District's Capital Assets**

	Governmental			Total % Change	Business-Type		
	Activities		2019		Activities		Total % Change
	2019	2018			2019	2018	
Land	\$ 16.6	\$ 16.6	-	% \$ -	\$ -	-	%
Buildings and improvements	4.1	4.1	-	-	-	-	-
Vehicles, furniture and equipment	2.0	1.7	17.65	0.8	0.8	-	-
Flood control system	48.4	48.4	-	-	-	-	-
Area personal transit system	38.8	38.8	-	-	-	-	-
Engineering fees	11.5	11.5	-	-	-	-	-
Water and sewer systems	2.7	2.4	12.50	7.1	7.1	-	-
Totals at historical cost	124.1	123.5	0.49	7.9	7.9	-	-
Total accumulated depreciation	(85.9)	(84.0)	2.26	(5.8)	(5.6)	3.57	3.57
Net capital assets	<u>\$ 38.2</u>	<u>\$ 39.5</u>	<u>(3.29)</u>	<u>% \$ 2.1</u>	<u>\$ 2.3</u>	<u>(8.70)</u>	<u>%</u>

The District's fiscal year 2020 capital budget projects spending another \$13,196,200 for capital projects, principally, emergency generator for flood control pump station, for APT system upgrades, 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. At year-end the District had \$205.1 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.

**Table A-4
District's Long Term Debt**

	Governmental		Total % Change
	Activities		
	2019	2018	
Bonds payable (including bond premium)	\$ 205.1	\$ 222.7	(0.08) %
Total bonds payable	<u>\$ 205.1</u>	<u>\$ 222.7</u>	<u>(0.08) %</u>

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 2020 budget preparation increased \$428 million, or 10% from 2019. 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 fell slightly to about 83% during the year while leasing rates continue to rise from 2018 to 2019.

New development continues in the District in a variety of markets. Several single-family neighborhoods continue to build out. A warehouse development valued at \$3 million and two multi-family residential developments valued at a total of \$57 million were completed in late 2018. During 2019, two hotel properties were started with completion expected in 2020.

These indicators were taken into account when adopting the operating budget for 2020. The general fund budget for 2020 is \$16.8 million, which is \$7.7 million more than the final 2019 actual. This increase is due mainly to budgeted capital asset purchases of \$11,127,700. Property taxes will increase approximately \$800 thousand. An 10% increase in tax values and decreasing the tax rate from \$1.1113 to \$.9856 will create this increase which will maintain the District's fund balance at 2018-2019 amounts.

Expenditures are budgeted to be \$16.8 million. If these estimates are realized, the District's budgetary general fund balance will remain constant at the close of 2020.

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.