

**VARNER CREEK UTILITY DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2017

**KENNEMER, MASTERS & LUNSFORD, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
8 WEST WAY COURT  
LAKE JACKSON, TEXAS 77566**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# VARNER CREEK UTILITY DISTRICT

*Annual Financial Report  
For the Year Ended December 31, 2017*

Page

## FINANCIAL SECTION

Independent Auditor's Report .....	7-8
Management's Discussion and Analysis .....	9-14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	16
Statement of Activities .....	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	18-19
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Position.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities.....	22
Notes to the Financial Statements.....	24-39
Required Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund .....	43
Supplemental Information Required by Texas Commission on Environmental Quality:	
TSI-1 Services and Rates.....	47-48
TSI-2 General Fund Expenditures.....	49
TSI-3 Schedule of Investments .....	50
TSI-4 Taxes Levied and Receivable.....	51
TSI-5 Long-Term Debt Service Requirements by Years.....	52
TSI-6 Changes in Long-Term Bonded Debt .....	53
TSI-7a Comparative Schedule of Revenues and Expenditures - General Fund - Five Years.....	54-55
TSI-7b Comparative Schedule of Revenues and Expenditures - Debt Service Fund - Five Years.....	56-57
TSI-8 Board Members, Key Personnel and Consultants .....	58-59
Other Schedules:	
Detailed Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types.....	62-63
Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund.....	64

***THIS PAGE LEFT BLANK INTENTIONALLY.***

## **FINANCIAL SECTION**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

**Lake Jackson Office:**  
8 West Way Court  
Lake Jackson, Texas 77566  
979-297-4075

**Angleton Office:**  
2801 N. Velasco Suite C  
Angleton, Texas 77515  
979-849-8297

**El Campo Office:**  
201 W. Webb  
El Campo, Texas 77437  
979-543-6836

**Houston Office:**  
10850 Richmond Ave., Ste 135  
Houston, Texas 77042  
281-974-3416

## Independent Auditor's Report

Board of Directors  
Varner Creek Utility District  
West Columbia, TX 77486

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Varner Creek Utility District (the "District"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

www.kmandl.com – Email: kmkw@kmandl.com

Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,  
Partnering for CPA Practice Success

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America required that the management's discussion and analysis and Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Analysis – General Fund on pages 9 through 14 and 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information required by the Texas Commission on Environmental Quality and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information required by the Texas Commission on Environmental Quality and other schedules 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 supplemental information required by the Texas Commission on Environmental Quality and other schedules are fairly stated in all material respects in related to the basic financial statements as a whole.

*Kennemer, Masters & Hunford, LLC*

Lake Jackson, Texas  
April 10, 2018

## **VARNER CREEK UTILITY DISTRICT, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2017*

As management of the Varner Creek Utility 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 December 31, 2017. We encourage readers to consider this information presented here in conjunction with the District's financial statements, which follow this section.

### **Financial Highlights**

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$ 950,539. Of this amount, \$ 164,052 (unrestricted net position) may be used to meet the government's ongoing obligations.
- The District's total net position decreased by \$ 108,904.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 1,002,645. 14.43% of this total amount, \$ 144,697 (unassigned fund balance) is available for use within the District's fund designation.
- At the end of the current fiscal year, fund balance for the general fund was \$ 147,439. Of this amount, \$ 2,742 is non-spendable leaving an unassigned balance of \$ 144,697. The unassigned fund balance represents 18.86% of current general fund expenditures.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

## **VARNER CREEK UTILITY DISTRICT, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2017*

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes. The *governmental activities* of the District include service operations.

The government-wide financial statements can be [found on pages 16 and 17](#) of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service, and Capital Projects funds; all of which are considered to be major funds.

The fund financial statements can be found on pages 18 through 22 of this report.

**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 on [pages 24 through 39 of this report](#).

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget vs actual schedule for the General Fund. Required supplementary information can be found [on page 43 of this report](#).

## VARNER CREEK UTILITY DISTRICT, TEXAS

Management's Discussion and Analysis  
For the Year Ended December 31, 2017

In addition this report also presents supplementary information required by the Texas Commission on Environmental Quality, which can be found on [pages 45 through 59 of this report](#).

This report also contains other schedules, which are provided for additional analysis. These schedules can be [found on pages 62 through 63](#) of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$ 950,539 of December 31, 2017.

A large portion of the District's net position (-196.62%) reflects its negative investments in capital assets (e.g., land, water production and distribution facilities, wastewater collection and treatment facilities, drainage facilities and construction in progress), less any debt used to acquire those assets that is still outstanding. The District uses capital assets to provide service to citizens; consequently these assets are not available for future spending.

#### VARNER CREEK UTILITY DISTRICT'S NET POSITION

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 2,060,361	\$ 2,123,409
Capital assets	<u>5,240,855</u>	<u>5,460,547</u>
Total assets	<u>7,301,216</u>	<u>7,583,956</u>
Deferred outflows of resources	<u>205,281</u>	<u>                    </u>
Current liabilities	238,914	104,974
Long-term liabilities	<u>7,329,032</u>	<u>7,428,463</u>
Total liabilities	<u>7,567,946</u>	<u>7,533,437</u>
Deferred inflows of resources	<u>889,090</u>	<u>892,154</u>
Net Position:		
Net investment in capital assets	( 1,868,990)	( 1,752,312)
Restricted	754,399	725,082
Unrestricted	<u>164,052</u>	<u>185,595</u>
Total net position	\$( <u>950,539</u> )	\$( <u>841,365</u> )

An additional portion of the District's net position of \$ 754,399 (79.37%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$ 164,052 (17.26%) and may be used to meet the government's ongoing obligations to citizens and creditors.

## VARNER CREEK UTILITY DISTRICT, TEXAS

Management's Discussion and Analysis  
For the Year Ended December 31, 2017

**Analysis of the District's Operations.** Overall the District had a decrease in net position of \$ 108,904.

Total revenues for governmental activities were \$ 1,540,413 comprised of program and general revenues. Components of revenues were charges for services of \$ 612,662 (39.77%), property taxes of \$ 902,337 (58.58%), investment income of \$ 10,226 (0.66%), and miscellaneous income of \$ 15,188 (0.99%).

The following table provides a summary of the District's operations for the years ended December 31, 2017 and 2016.

### VARNER CREEK UTILITY DISTRICT'S CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 612,662	\$ 553,578
General Revenues:		
Property taxes	902,337	937,891
Investment income	10,226	6,765
Miscellaneous	<u>15,188</u>	<u>2,152</u>
Total revenues	<u>1,540,413</u>	<u>1,500,386</u>
Expenses:		
Service operations	1,080,347	966,107
Interest on long-term debt	317,309	390,176
Bond issuance costs and fees	<u>251,661</u>	<u>          </u>
Total expenses	<u>1,649,317</u>	<u>1,356,283</u>
Change in net position	( 108,904)	144,103
Net position - beginning	<u>( 841,635)</u>	<u>( 985,738)</u>
Net position - ending	<u><u>\$ ( 950,539)</u></u>	<u><u>\$ ( 841,635)</u></u>

### Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

## VARNER CREEK UTILITY DISTRICT, TEXAS

Management's Discussion and Analysis  
For the Year Ended December 31, 2017

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 1,002,645. 14.43% of this total amount \$ 144,697 constitutes *unassigned fund balance*. The remainder of the fund balance is *non-spendable or restricted* to indicate that it is not available for spending because it has already been classified for 1) prepaid expenditures \$ 2,742, 2) debt service \$ 841,300, and 3) capital projects \$ 13,906.

The General Fund fund balance decreased by \$ 11,598, the Debt Service Fund fund balance increased by \$ 318, and the Capital Projects Fund fund balance decreased by \$ 83,056.

### Capital Assets

The District's investment in capital assets for its governmental type activities as of December 31, 2017, amounts to \$ 5,240,855 (net of accumulated depreciation). This investment in capital assets includes land, water production and distribution facilities, waste water collection and treatment facilities and drainage facilities.

Major capital asset events during the current fiscal year included the following:

- Water production pump replacement

#### Capital Assets Net of Accumulated Depreciation

	<u>2017</u>	<u>2016</u>
Land	\$ 794,206	\$ 794,206
Water production and distribution facilities	461,788	493,188
Waste water collection and treatment facilities	3,482,025	3,619,699
Drainage facilities	<u>502,836</u>	<u>553,454</u>
Net capital assets	<u>\$ 5,240,855</u>	<u>\$ 5,460,547</u>

Additional information on the District's capital assets can be found in Note 5 on page 36 of this report.

### Debt Administration

At the end of the current fiscal year, the District had a total bonded debt of \$ 6,836,056. These bonds will be retired with revenues from property taxes.

**VARNER CREEK UTILITY DISTRICT, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2017*

**Varner Creek Utility District  
Bonds Payable and Components of Debt**

	<u>2017</u>	<u>2016</u>
General obligation bonds	\$ 6,836,056	\$ 7,460,000
Components of Debt:		
Premium on bonds	492,976	
Discount on bonds	<u>                    </u>	<u>( 150,179)</u>
Total	<u>\$ 7,329,032</u>	<u>\$ 7,309,821</u>

Additional information of the District's long-term debt can be found in Note 6 on pages 37 through 38.

**Economic Factors and Next Year's Budgets and Rates**

- The District's total 2018 budgeted revenues and expenses are expected to be consistent overall with the previous year at \$ 719,260.
- The District does not expect growth of operations in 2018 and will continue to focus on the completion of major capital improvement projects for the wastewater system.
- Debt service expenditures are expected to be \$ 285,000 for principal and \$ 242,400 for interest in 2018.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Varner Creek Utility District, P.O. Box 265, West Columbia, TX 77486, or call (979) 345-6008.

## **BASIC FINANCIAL STATEMENTS**

# VARNER CREEK UTILITY DISTRICT

## STATEMENT OF NET POSITION

December 31, 2017

	<u>Total Governmental Activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 1,280,885
Investments	416,307
Receivables (net of allowance for uncollectibles):	
Taxes	293,505
Service accounts	29,429
Due from other governments	36,757
Other	736
Prepaid expenses	2,742
Capital Assets:	
Land	794,206
Water production and distribution facilities (net)	461,788
Waste water collection and treatment facilities (net)	3,482,025
Drainage facilities (net)	<u>502,836</u>
Total assets	<u>7,301,216</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred outflows of resources	<u>205,281</u>
Total deferred outflows of resources	<u>205,281</u>
Total assets and deferred outflows of resources	<u>\$ 7,506,497</u>
<b>LIABILITIES:</b>	
Accounts and accrued liabilities payable	\$ 149,271
Accrued interest payable	89,643
Noncurrent Liabilities:	
Due within one year	327,418
Due in more than one year	<u>7,001,614</u>
Total liabilities	<u>7,567,946</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred inflows of resources – property taxes	<u>889,090</u>
Total deferred inflows of resources	<u>889,090</u>
<b>NET POSITION:</b>	
Net investment in capital assets	( 1,868,990)
Restricted For:	
Debt service	751,657
Other purposes	2,742
Unrestricted	<u>164,052</u>
Total net position	<u>( 950,539)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,506,497</u>

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

# VARNER CREEK UTILITY DISTRICT

## STATEMENT OF ACTIVITIES

For the Year December 31, 2017

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes In Net Position
		Charges For Services	Total Governmental Activities
Primary Government:			
Governmental Activities:			
Service operations	\$ 1,080,347	\$ 612,662	\$( 467,685)
Interest on long-term debt	<u>568,970</u>	<u>                    </u>	<u>( 568,970)</u>
Total governmental activities	<u>\$ 1,649,317</u>	<u>\$ 612,662</u>	<u>( 1,036,655)</u>
General Revenues:			
Property taxes			902,337
Investment earnings			10,226
Miscellaneous			<u>15,188</u>
Total general revenues			<u>927,751</u>
Change in net position			( 108,904)
Net position – beginning			<u>( 841,635)</u>
Net position – ending			<u>\$( 950,539)</u>

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

**VARNER CREEK UTILITY DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

December 31, 2017

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Assets:				
Cash and cash equivalents	\$ 276,178	\$ 997,830	\$ 6,877	\$ 1,280,885
Investments	75,413	340,894		416,307
Receivables (net of allowance for uncollectibles):				
Taxes	44,179	249,326		293,505
Service accounts	14,051			14,051
Standby fees	15,378			15,378
Due from other governments	5,654	31,103		36,757
Other	736			736
Due from other funds	8,024		7,029	15,053
Prepaid expenditures	2,742			2,742
	442,355	1,619,153	13,906	2,075,414
Total assets				
Deferred Outflows of Resources:				
Deferred outflows of resources				-0-
	-0-	-0-	-0-	-0-
Total deferred outflows of resources				
	-0-	-0-	-0-	-0-
Total assets and deferred outflows of resources				
	\$ 442,355	\$ 1,619,153	\$ 13,906	\$ 2,075,414

(continued)

**VARNER CREEK UTILITY DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS - Continued**

December 31, 2017

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts and accrued liabilities payable	\$ 92,939	\$ 8,024	\$ -	\$ 92,939
Due to other funds	7,029	8,024	-	15,053
Customer deposits	<u>56,332</u>	<u>          </u>	<u>          </u>	<u>56,332</u>
Total liabilities	<u>156,300</u>	<u>8,024</u>	<u>-0-</u>	<u>164,324</u>
<b>Deferred Inflows of Resources:</b>				
Deferred inflows of resources-property taxes	<u>138,616</u>	<u>769,829</u>	<u>          </u>	<u>908,445</u>
Total deferred inflows of resources	<u>138,616</u>	<u>769,829</u>	<u>-0-</u>	<u>908,445</u>
<b>Fund Balances:</b>				
<b>Non-spendable:</b>				
Prepaid expenditures	2,742	-	-	2,742
<b>Restricted:</b>				
Debt service	-	841,300	-	841,300
Capital projects	-	-	13,906	13,906
Unassigned	<u>144,697</u>	<u>          </u>	<u>          </u>	<u>144,697</u>
Total fund balances	<u>147,439</u>	<u>841,300</u>	<u>13,906</u>	<u>1,002,645</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 442,355</u>	<u>\$ 1,619,153</u>	<u>\$ 13,906</u>	<u>\$ 2,075,414</u>

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

## VARNER CREEK UTILITY DISTRICT

### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION

December 31, 2017

Total fund balances – governmental funds balance sheet	\$ 1,002,645
 <b>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 11,590,072 in assets less \$ 6,349,217 in accumulated depreciation.	5,240,855
Property taxes receivable unavailable to pay for the current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 1,833 and \$ 17,522, respectively.	19,355
Other long-term assets are not available to pay for current year expenditures and, therefore, are not reported in the funds. This is the bond refunding costs, which is amortized over the life of the refunding bonds, or the refunded bonds, whichever is shorter. Net bond refunding costs were \$ 205,281 (bond refunding costs of \$ 220,718 less accumulated amortization of \$ 15,437)	205,281
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term liabilities in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 492,976. (Premium on bonds issued of \$ 524,354 less accumulated amortization of \$ 31,378).	( 492,976)
Payables for bond principal and other long-term debt are not reported in the funds	( 6,836,056)
Payables for bond interest are not reported in the funds.	<u>89,643</u> )
 Net position of governmental activities – statement of net position.	 \$( <u>950,539</u> )

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

## VARNER CREEK UTILITY DISTRICT

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 126,887	\$ 785,395	\$	\$ 912,282
Water service	232,825			232,825
Sewer service	206,830			206,830
Standby fees	48,915			48,915
Tap connection and inspection fees	107,900			107,900
Penalty and interest	16,192			16,192
Investment earnings	743	9,063	420	10,226
Other	<u>15,188</u>			<u>15,188</u>
Total revenues	<u>755,480</u>	<u>794,458</u>	<u>420</u>	<u>1,550,358</u>
Expenditures:				
Service operations	767,078	10,101	83,476	860,655
Debt Service:				
Principal		475,000		475,000
Interest and fiscal charges		283,077		283,077
Bond issuance costs and fees		<u>251,661</u>		<u>251,661</u>
Total expenditures	<u>767,078</u>	<u>1,019,839</u>	<u>83,476</u>	<u>1,870,393</u>
Deficiency of revenues overs expenditures	( <u>11,598</u> )	<u>225,381</u>	( <u>83,045</u> )	( <u>320,035</u> )
Other Financing Sources (Uses):				
Proceeds from the sale of bonds		6,810,000		6,810,000
Premium on issuance of bonds		524,354		524,354
Payment to escrow agent		( <u>7,108,655</u> )		( <u>7,108,655</u> )
Total other financing sources	<u>-0-</u>	<u>225,699</u>	<u>-0-</u>	<u>225,699</u>
Net change in fund balance	( 11,598 )	318	( 83,056 )	( 94,336 )
Fund balances – beginning	<u>159,037</u>	<u>840,982</u>	<u>96,962</u>	<u>1,096,981</u>
Fund balances – ending	<u>\$ 147,439</u>	<u>\$ 841,300</u>	<u>\$ 13,906</u>	<u>\$ 1,002,645</u>

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

## VARNER CREEK UTILITY DISTRICT

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Net change in fund balances – total governmental funds	\$( 94,336)
--	-------------

**Amounts reported for *governmental activities* in the statement of activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation \$ 219,692 exceeded capital outlays \$ -0-in the current period.	( 219,692)
--	------------

Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund decreased by \$ 65 and the debt service fund decreased by \$ 9,880.	( 9,945)
--	----------

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt of \$ 475,000.	475,000
---	---------

Premium on the issuance of bonds provides current financial resources to the governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 496,112 (Premiums on bonds issued of \$ 523,354 less current amortization of \$ 31,378 plus current discount amortization of \$ 3,136).	( 496,112)
---	------------

Long-term debt proceeds provide current financial resources to government funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term debt proceeds from bonds were \$ 6,180,000.	( 6,810,000)
---	--------------

Deferred refunding costs is another use in the governmental funds, but the costs increase long-term assets in the statement of net position. This amount is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. The payments to the escrow agent of \$ 7,108,655, less the bond principal refunded and other reacquisition costs is the deferred refunding costs, less current amortization of \$ 20,719.	7,093,218
---	-----------

Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activity but is not reported in governmental funds.	( 76,036)
---	-----------

Some expenses 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. This is the change in accrued interest on long-term debt.	<u>28,999</u>
---	---------------

Change in net position of governmental activities	\$( <u><u>108,904</u></u> )
---	-----------------------------

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

**VARNER CREEK UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**INDEX**

Note	Page
1. Summary of Significant Accounting Policies .....	24
2. Deposits, Investments and Derivatives.....	31
3. Receivables, Uncollectible Accounts, Deferred Inflows of Resources and Unearned Revenues.....	34
4. Interfund Receivables/Payables and Transfers.....	35
5. Capital Assets.....	36
6. Long-Term Debt .....	37
7. Groundwater Conservation District.....	38
8. Operation of Regional Facilities.....	38
9. Risk Pool Participation.....	38
10. Evaluation of Subsequent Events.....	39

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Varner Creek Utility District (the "District") was created by enactment of the Legislature of the State of Texas in 1971. This District operates under Chapter 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the "TCEQ"). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and service to the customers of the District. In 2006, the District was granted the power to repair or maintain streets on a one time basis.

The accounting and reporting policies of the District relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State And Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

#### Reporting Entity

The Board of the District is elected by the public; has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 61, *"The Financial Reporting Entity."* There are no component units included within the reporting entity.

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net assets) report financial information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The District does not have any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

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 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 provider have been met.

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and the unrestricted resources as needed.

The District has presented the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *Debt Service Fund* accounts for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest and other costs. The primary source of revenue is property taxes.

The *Capital Projects Fund* accounts for the financial resources to construct or acquire capital facilities and improvements. Such resources are derived principally from proceeds of the sale of bonds.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB 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 Statements 67 and 68" was issued June 2015. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued June 2015. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2017.

GASB No. 80 "Blending Requirements for Certain Component Units and amendment of GASB No. 14" was issued in January 2016. This standard was implemented and did not have a material effect on the financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 81 "Irrevocable Split-Interest Agreements" was issued in March 2016. This standard was implemented and did not have a material effect on the financial statements. The requirements of this Statement are effective for periods beginning after December 15, 2016.

GASB No. 82 "Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73" was issued in March 2016. This standard was implemented and did not have a material effect on the financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2016.

GASB No. 83 "Certain Asset Retirement Obligations" was issued in November 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 "Fiduciary Activities" was issued in January 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2018.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - Continued

GASB No. 85 "Omnibus 2017" was issued in March 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 86 "Certain Debt Extinguishment Issues" was issued in May 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 87 "Leases" was issued in June 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2019.

#### Budgetary Data

The original annual appropriated budgets are adopted by the Board of Directors in December of the preceding year. Expenses are budgeted substantially on the modified accrual basis of accounting. Tax collections are budgeted based upon 100% of the tax levied in October of the year preceding the budget year (i.e. 2017 budgeted tax revenue is based upon the October, 2016 tax levy). Accordingly there are no material differences between the financial reporting and budget basis of accounting.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Board. Line item and department budgets may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Appropriations not exercised in the current year lapse at the end of the year.

The District adopts annual budgets for the general fund only.

#### Encumbrance Accounting

The District does not employ a complete purchase order system for all expenditures and therefore does not utilize encumbrance accounting. Appropriations generally lapse at the end of the fiscal year.

#### Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the District. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Property Taxes

Property taxes are levied by October 1 on the taxable value listed as of January 1 for all real and business property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

In the government funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2017, property taxes receivable and taxes collected in advance have been recorded in the governmental funds. In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

The taxable value of the property tax roll on October 1, 2017, upon which the levy for the 2018 year was based, was \$ 136,732,952. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended December 31, 2017, to finance general fund operations were \$ 0.100000 per \$ 100 valuation and \$ 0.550000 for the debt service fund.

As of December 31, 2017, the District had collected \$ 612,475 of the 2017 levy (levied October 1, 2017), which is unearned and has been set aside for 2018 operations. Additionally, property taxes receivable of \$ 276,615 and \$ 20,240 from the 2017 levy and prior year levies, respectively, are recorded as deferred inflows of resources, net of an allowance for uncollectible taxes of \$ 3,350. Allowances for uncollectible taxes are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

#### Standby Fees

In the governmental funds, standby fees are recorded when billed with the uncollected balance recorded as a receivable. Revenues are recorded as levied. In the government-wide statement of net position, standby fees are considered earned in the period they are levied.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Capital Assets

Capital assets, which include property, plant, equipment, are reported in the governmental activities columns in the government-wide financial statement. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$ 5,000 or more and over one year of useful life. Depreciation, which is an allocation of cost over an asset's estimated service life, has been determined using the straight-line method over the following years:

Water production and distribution facilities	10-45
Waste water collection and treatment facilities	10-45
Drainage facilities	10-45

#### Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

#### Long-Term Obligations

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 and discounts are unearned and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. 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.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Fund Equity

The Board of Directors meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Directors. Fund Balance of the District may be committed for a specific source by formal action of the Board of Directors. Amendments or modifications of the committed fund balance must also be approved by formal action by the Board of Directors. When it is appropriate for fund balance to be assigned, the Board of Directors has delegated authority to the Contract Administrator. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

The District has implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

*Non-spendable Fund Balance* - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

*Restricted Fund Balance* - Constraints placed on the use of these resources are either externally imposed by creditors (such as through covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

*Committed Fund Balance* - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

*Assigned Fund Balance* - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

*Unassigned Fund Balance* - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

As of December 31, 2017, non-spendable fund balances include \$ 2,742 for prepaid expenditures in the general fund. Restricted fund balances include \$ 841,300 for debt service and \$ 13,906 for capital projects. Unassigned fund balance includes \$ 144,697 in the general fund.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Net Position

Net position represent the differences between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net position, as presented in the government-wide Statement of Net Position, are reported when constraints placed on the use of net position are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

#### Use of 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 could differ from those estimates.

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a cash equivalent is one that, when purchased had a maturity date of three months or less. Cash and cash equivalents as reported on the government-wide Statement of Net Position at December 31, 2017 are as follows:

	<u>Total</u>
Cash and Cash Equivalents:	
Financial institution deposits:	
Demand deposits	\$ 283,396
Local Government Investment Pool:	
Texpool	<u>997,489</u>
Total cash and cash equivalents	<u>\$ 1,280,885</u>
Investments:	
Certificates of deposits	<u>\$ 416,307</u>
Total investments	<u>\$ 416,307</u>

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At December 31, 2017, the carrying amount of the District's deposits totaled \$ 699,703, while the financial institution balances totaled \$ 727,670. Of the financial institution balances, \$ 727,670 of the checking accounts and certificates of deposits was FDIC insured.

#### Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Directors. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield.

Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA) and the Texas Commission on Environmental Quality (TCEQ). The District's management believes it complied with the requirements of the PFIA and the District's investment policy.

The District's Administrator submits an investment report each quarter to the Board of Directors. The report details the investment positions of the District and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations, including letters of credit, of the U.S. or its agencies and instrumentalities.
2. Certificates of deposit issued by a depository institution that has its main or a branch office in the State and that are guaranteed by the Federal Deposit Insurance Corporation or the National Credit Union Share insurance Fund or its successor that are secured by the obligations in which the Association may invest under the Investment Act.
3. TexPool, an investment pool, provided that it complies with the Investment Act.
4. TexStar, an investment pool, provided that it complies with the Investment Act.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

The District invests in TexPool to provide its liquidity needs. TexPool was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. TexPool is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At December 31, 2017 TexPool had a weighted average maturity of 33 days. Although TexPool portfolios had a weighted average maturity of 33 days, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

As of December 31, 2017, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local Government Investment Pool:		
Certificates of Deposit	\$ 416,307	36
Texpool	997,488	33
Total	\$ 1,413,795	34

**Credit Risk** - As of December 31, 2017, TexPool (which represents 70.55% of the investment portfolio) is rated AAAM by Standard and Poor's; therefore, the District is exposed to minimal credit risk. The certificates of deposits (which represent 29.45% of the investment portfolio) are fully insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to credit risk.

**Interest rate Risk** - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities of the general fund, debt service fund and capital projects fund not exceed one year.

**Fair Value** – The District categorizes its fair value measurements within the fair value hierarchy established by GASB No 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). As of December 31, 2017, the District had no assets or liabilities within the fair value hierarchy established by GASB No. 72.

#### Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended December 31, 2017, and holds no direct investments in derivatives at December 31, 2017.

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUES

#### Receivables and Allowances

Receivables as of December 31, 2017, for the District, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Total
Receivables:			
Property taxes	\$ 44,651	\$ 252,204	\$ 296,855
Due from other governments	5,654	31,103	36,757
Service accounts	14,051		14,051
Standby fees	41,075		41,075
Other	736		736
Gross receivables	106,167	283,307	389,474
Less Allowance for Uncollectibles			
Property taxes	472	2,878	3,350
Standby fees	25,697		25,697
Net total receivable	\$ 79,998	\$ 280,429	\$ 360,427

#### Deferred Inflows of Resources and Unearned Revenues

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer the revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of December 31, 2017, the various components of deferred inflows of resources reported in the governmental funds were as follows:

	General Fund	Debt Service Fund	Deferred Inflows of Resources (Unavailable)
Current property taxes collected (October 1, 2017 Levy)	\$ 94,227	\$ 518,248	\$ 612,475
Current property taxes receivable (October 1, 2017 Levy)	42,556	234,059	276,615
Delinquent property taxes receivable (October 1, 2016 and prior)	1,833	17,522	19,355
Total deferred inflows of resources (unavailable)	\$ 138,616	\$ 769,829	\$ 908,445

As of December 31, 2017, there were no unearned revenues reported.

**VARNER CREEK UTILITY DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

**NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUES - Continued**

**Governmental Activities**

Governmental activities defer the recognition of pension expense for contributions made from the measurement date (December 31, 2016) to the current year-end of December 31, 2017 and report these as deferred outflows of resources. Governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of December 31, 2017, the various components of deferred inflows of resources reported in the governmental activities were as follows:

<u>Governmental Activities</u>	<u>Deferred Inflows of Resources</u>
Current property taxes collected (October 1, 2017 Levy)	\$ 612,475
Current property taxes receivable (October 1, 2017 Levy)	<u>276,615</u>
	<u>\$ 889,090</u>

There was no unearned revenue reported in the governmental funds was also reported in the governmental activities as of December 31, 2017.

**NOTE 4 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

Interfund receivables and payables at December 31, 2017 were as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General:		
Debt service	\$ 8,024	\$
Capital projects	<u>                    </u>	<u>7,029</u>
	<u>8,024</u>	<u>7,029</u>
Debt Service Fund:		
General	<u>-0-</u>	<u>8,024</u>
Capital Projects Fund:		
General	<u>7,029</u>	<u>-0-</u>
Total	<u>\$ 15,053</u>	<u>\$ 15,053</u>

Interfund receivables and payables represent short term borrowing primarily for cash flow purposes.

There were no interfund transfers for the year ended December 31, 2017.

## VARNER CREEK UTILITY DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

#### NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance 01-01-17	Additions	Retirements/Re- classifications	Balance 12-31-17
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and land improvements	\$ <u>794,206</u>	\$ _____	\$ _____	\$ <u>794,206</u>
Total capital assets, not being depreciated	<u>794,206</u>	-0-	-0-	<u>794,206</u>
Capital Assets, Being Depreciated:				
Water production and distribution facilities	2,362,225			2,362,225
Wastewater collection and treatment facilities	6,567,397			6,567,397
Drainage facilities	<u>1,866,244</u>	_____	_____	<u>1,866,244</u>
Total capital assets, being depreciated	<u>10,795,866</u>	-0-	-0-	<u>10,795,866</u>
Less Accumulated Depreciation For:				
Waste production and distribution facilities	1,869,037	31,400		1,900,437
Wastewater collection and treatment facilities	2,947,698	137,674		3,085,372
Drainage facilities	<u>1,312,790</u>	<u>50,618</u>	_____	<u>1,363,408</u>
Total accumulated depreciation	<u>6,129,525</u>	<u>219,692</u>	-0-	<u>6,349,217</u>
Governmental activities capital assets, net	<u>\$ 5,460,547</u>	<u>\$ ( 219,692)</u>	<u>\$ -0-</u>	<u>\$ 5,240,855</u>

Depreciation expense of \$ 219,692 was charged to governmental activities in 2017.

The District had no existing contract commitments for construction as of December 31, 2017.

**VARNER CREEK UTILITY DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

**NOTE 6 - LONG-TERM DEBT**

**General Long-Term Debt**

General long-term debt consists of general obligation bonds maturing serially.

The following is a summary of the District's general obligation bond debt at December 31, 2017:

	Interest Rates %	Series Dates			Bonds Outstanding 12/31/17
		Issued	Maturity	Callable	
General Obligation Bonds Series 2017 Refunding	2.00 - 4.00	2017	2029		<u>6,836,056</u>
					<u>\$ 6,836,056</u>

General obligation bond transactions for the year ended December 31, 2017 are as follows:

Bonds outstanding, December 31, 2016	\$ 7,460,000
Refunded	( 7,035,000)
Issued	6,810,000
Maturities	( 475,000)
Accretion	<u>76,056</u>
Bonds outstanding, December 31, 2017	<u>\$ 6,836,056</u>

On April 5, 2017, the District issued a refunding bond issue, the Unlimited Tax Refunding Bonds, Series 2017 in the amount of \$ 6,815,000. This bond will provide funds to advance refund of the Unlimited Tax Bonds 2007 and Unlimited Tax Bonds 2008 in the amounts of \$ 3,460,000 and \$ 3,555,000, respectively. The advance funding occurred on the call date of August 15, 2017. This refunding bond is calculated to provide cash flow savings of \$ 570,543 and an economic gain (net present value of savings) of \$ 460,512.

Presented below is a summary of general obligation bond requirements to maturity:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 285,000	\$ 242,400	\$ 527,400
2019	520,000	231,400	751,400
2020	535,000	221,000	756,000
2021	560,000	204,950	764,950
2022	580,000	188,150	768,150
2023-2027	3,305,000	625,750	3,930,750
2028-2029	<u>1,115,000</u>	<u>58,800</u>	<u>1,173,800</u>
Total	<u>\$ 6,900,000</u>	<u>\$ 1,772,450</u>	<u>\$ 8,672,450</u>

# VARNER CREEK UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

### NOTE 6 - LONG-TERM DEBT - Continued

The difference between bonds payable and the future principal payments is due to \$ 63,944 of accretion, which will occur in future years prior to payment.

### Changes in Outstanding Debt

Transactions for the year ended December 31, 2017 are summarized as follows:

	<u>Balance</u> 1-01-17	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12-31-17	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
General obligation bonds	\$ 7,460,000	\$ 6,886,056	\$ 7,510,000	\$ 6,836,056	\$ 285,000
Premium on bonds	524,354	31,378	492,976		42,418
Discount on bonds	( 150,179)	_____	( 150,179)	-0-	-0-
Total governmental activities	<u>\$ 7,309,821</u>	<u>\$ 7,410,410</u>	<u>\$ 7,391,199</u>	<u>\$ 7,329,032</u>	<u>\$ 327,418</u>

### NOTE 7 - GROUNDWATER CONSERVATION DISTRICT

The District is within the boundaries of the Brazoria County Groundwater Conservation District (the Conservation District). The Conservation District regulates groundwater withdrawal. As of December 31, 2017, the Conservation District was billing the District \$ 0.03 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

### NOTE 8 - OPERATION OF REGIONAL FACILITIES

On December 10, 1975, the District entered into an agreement with the City of West Columbia (the City) to share the costs of constructing and operating a wastewater treatment plant within the City. The City has oversight responsibilities and holds title for the benefit of the participants. Construction costs were shared based on pro rata share of capacity acquired. The District acquired 50 percent or 500,000 gallons per day of a total 1,000,000 gallons-per-day capacity.

On November 18, 1987, The District and the City agreed to expand the plant's capacity from 1,000,000 gallons per day to 1,600,000 gallons per day, and to extend the agreement for a 30-year period. The District's expanded capacity is 650,000 gallons per day or 40.625 percent ownership of total capacity.

The operating costs are shared based on the percentage of the plant's capacity used. During the current year, the District incurred operating costs of \$ 159,031 under the terms of this contract.

### NOTE 9 - RISK POOL PARTICIPATION

The District is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of group liability, property and worker's compensation claims. The District pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Therefore, the District's exposure for claims is designated to be limited to their deductible.

**VARNER CREEK UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS**

This District has evaluated subsequent events through April 10, 2018, the date which the financial statements were available to be issued.

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**REQUIRED SUPPLEMENTARY INFORMATION**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

## VARNER CREEK UTILITY DISTRICT

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 125,000	\$ 130,000	\$ 126,887	\$( 3,113)
Water service	257,000	257,000	232,825	( 24,175)
Sewer service	238,000	238,000	206,830	( 31,170)
Standby fees	51,260	51,260	48,915	( 2,345)
Tap connection and inspection fees	30,000	75,000	107,900	32,900
Penalty and interest	17,500	17,500	16,192	( 1,308)
Investment earnings	500	500	743	243
Other			15,188	15,188
	<u>719,260</u>	<u>769,260</u>	<u>755,480</u>	<u>( 13,780)</u>
Total revenues				
Expenditures:				
Service Operations	650,460	680,060	767,078	( 87,018)
Capital outlay	68,800	89,200		89,200
	<u>719,260</u>	<u>769,260</u>	<u>767,078</u>	<u>2,182</u>
Total expenditures				
Net change in fund balance	-0-	-0-	( 11,598)	( 11,598)
Fund balance – beginning	159,037	159,037	159,037	-0-
Fund balance – ending	<u>\$ 159,037</u>	<u>\$ 159,037</u>	<u>\$ 147,439</u>	<u>\$( 11,598)</u>

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

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**SUPPLEMENTAL INFORMATION  
REQUIRED BY TEXAS COMMISSION ON  
ENVIRONMENTAL QUALITY**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# VARNER CREEK UTILITY DISTRICT

## TSI-1 SERVICES AND RATES

Year Ended December 31, 2017

1. Services Provided by the District:

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

2. Retail Service Providers

a. Retail rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water	\$ 13.50	2,000	Y	\$ 3.30	2,000 to No Limit
Wastewater	\$ 13.50	2,000	Y	3.30 0.28	2,000-10,000 10,001 to No Limit
Regional Water Fee	\$ -0-				

Does the District employ winter averaging for wastewater usage? No

Total charges per 10,000 gallons usage (including fees): Water \$ 39.90 Wastewater \$ 39.90

b. Water and wastewater retail connections:

	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active EFSC</u>
Less than or equal to 3/4"	765	749	X 1.0	749
1"	30	30	X 2.5	75
2"	10	10	X 8.0	80
Total Water	805	789		789
Total Wastewater	757	745	X 1.0	745

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	58,052
Gallons billed to customers:	50,387
Water accountability ratio (gallons billed/gallons pumped):	86.80%

**VARNER CREEK UTILITY DISTRICT**

TSI-1  
SERVICES AND RATES

For the Year Ended December 31, 2017

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees: Yes \_\_\_\_\_ No  X

If yes, date of the most recent Commission Order: \_\_\_\_\_

Does the District have Operation and Maintenance standby fees: Yes  X  No \_\_\_\_\_

If yes, date of the most recent Commission Order:  December 15, 2017

5. Location of District:

County(ies) in which District is located.  Brazoria  \_\_\_\_\_

Is the District located entirely within one county? Yes  X  No \_\_\_\_\_

Is the District located within a city? Entirely \_\_\_\_\_ Partly \_\_\_\_\_ Not at all  X

City(ies) in which District is located. \_\_\_\_\_

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

Entirely \_\_\_\_\_ Partly  X  Not at all \_\_\_\_\_

ETJ's in which District is located.  West Columbia  \_\_\_\_\_

Are Board members appointed by an office outside the District?

Yes \_\_\_\_\_ No  X

If Yes, by whom? \_\_\_\_\_

# VARNER CREEK UTILITY DISTRICT

## TSI-2 GENERAL FUND EXPENDITURES

Year Ended December 31, 2017

Personnel Expenditures:		
Total personnel expenditures		\$ -0-
Professional Fees:		
Auditing		12,000
Legal		14,504
Engineering		<u>40,417</u>
		<u>66,921</u>
Purchased services for resale		<u>159,031</u>
Contracted Services:		
Bookkeeping		43,068
Service account billing and collection		34,999
Security		<u>4,129</u>
		<u>82,196</u>
Utilities		<u>23,851</u>
Repairs and maintenance		<u>410,664</u>
Administrative Expenditures:		
Director's fees		7,200
Office expenses		5,894
Insurance		4,433
Bank service charge		<u>1,910</u>
		<u>19,437</u>
Other Expenditures		<u>4,978</u>
Total expenditures		<u><u>\$ 767,078</u></u>

Number of persons employed by the District: -0- Full-Time, -0- Part-Time

**VARNER CREEK UTILITY DISTRICT**

TSI-3  
SCHEDULE OF INVESTMENTS

December 31, 2017

	Identification or Certification Number	Interest Rate	Maturity Date	Balance at Year End	Accrued Interest Receivable at End of Year
				<u>          </u>	<u>          </u>
<b>General Fund</b>					
Certificates of Deposit	6000001381	0.60%	02/06/18	\$ <u>75,413</u>	\$ <u>          </u>
<b>Total</b>				<u>75,413</u>	<u>-0-</u>
<b>Debt Service Fund</b>					
Certificates of Deposit	6000001380	0.60%	02/03/18	\$ 95,523	\$
Certificates of Deposit	120000037	0.75%	02/06/18	245,371	
Texpool	00201200001	0.03%	Demand	<u>990,659</u>	<u>          </u>
<b>Total</b>				<u>1,331,553</u>	<u>-0-</u>
<b>Capital Projects Fund</b>					
Texpool	00201200002	0.03%	Demand	3,059	
Texpool	00201200004	0.03%	Demand	2,829	
Texpool	00201200006	0.03%	Demand	<u>941</u>	<u>          </u>
<b>Total</b>				<u>6,829</u>	<u>-0-</u>
<b>Total – All Funds</b>				<u>\$ 1,413,795</u>	<u>\$ -0-</u>

## VARNER CREEK UTILITY DISTRICT

### TSI-4 TAXES LEVIED AND RECEIVABLE

December 31, 2017

	Maintenance Taxes	Debt Service Taxes		
Taxes Receivable, Beginning of Year	\$ 59,018	\$ 369,452		
2017 Original Tax Levy, net of current year adjustments	136,742	752,347		
Adjustments (prior years)	( 79)	( 786)		
Total to be accounted for	195,681	1,121,013		
<b>Tax Collections:</b>				
Current year	94,227	518,248		
Prior years	56,803	350,561		
Total collections	151,030	868,809		
Taxes Receivable, End of Year	\$ 44,651	\$ 252,204		
<b>Taxes Receivable, By Years</b>				
2017	\$ 42,556	\$ 234,059		
Prior years	2,095	18,145		
Less allowance for uncollectibles	( 472)	( 2,878)		
Taxes Receivable (Net), End of Year	\$ 44,179	\$ 249,326		
	2017	2016	2015	2014
<b>Property Valuations:</b>				
Land	\$ 16,123,240	\$ 16,156,750	\$ 19,381,542	\$ 20,168,421
Improvements	124,110,886	115,132,529	99,324,229	93,142,138
Personal property & minerals	3,290,370	2,935,140	2,784,030	2,670,370
Exemptions & adjustments	( 6,791,544)	( 8,581,961)	( 5,625,137)	( 5,250,500)
Total Property Valuations	\$ 136,732,952	\$ 125,642,458	\$ 115,864,664	\$ 110,730,429
<b>Tax Rates Per \$100 Valuation:</b>				
Debt service tax rates	0.550000	0.610000	0.690000	0.760000
Maintenance tax rates	0.100000	0.100000	0.070000	0.070000
Other district tax rates	None	None	None	None
Total Tax Rates Per \$100 Valuation	\$ 0.650000	\$ 0.710000	\$ 0.760000	\$ 0.830000
Original Tax Levy:	\$ 889,089	\$ 892,155	\$ 880,370	\$ 919,070
<b>Percent of Taxes Collected to Taxes Levied*</b>	68.89%	99.06%	99.60%	99.75%

\* Calculated as taxes collected in current and previous years divided by tax levy.

## VARNER CREEK UTILITY DISTRICT

### TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS

December 31, 2017

Due During Fiscal Years Ending December 31,	Series 2017 Refunding			Annual Requirements for All Series		
	Principal Due August 15	Interest Due February 15, August 15	Total	Principal Due August 15	Interest Due February 15, August 15	Total
2018	\$ 285,000	\$ 242,400	\$ 527,400	\$ 285,000	\$ 242,400	\$ 527,400
2019	520,000	231,400	751,400	520,000	231,400	751,400
2020	535,000	221,000	756,000	535,000	221,000	756,000
2021	560,000	204,950	764,950	560,000	204,950	764,950
2022	580,000	188,150	768,150	580,000	188,150	768,150
2023	605,000	170,750	775,750	605,000	170,750	775,750
2024	625,000	152,600	777,600	625,000	152,600	777,600
2025	660,000	127,600	787,600	660,000	127,600	787,600
2026	690,000	101,200	791,200	690,000	101,200	791,200
2027	725,000	73,600	798,600	725,000	73,600	798,600
2028	760,000	44,600	804,600	760,000	44,600	804,600
2029	<u>355,000</u>	<u>14,200</u>	<u>369,200</u>	<u>355,000</u>	<u>14,200</u>	<u>369,200</u>
Total	<u>\$ 6,900,000</u>	<u>\$ 1,772,450</u>	<u>\$ 8,672,450</u>	<u>\$ 6,900,000</u>	<u>\$ 1,772,450</u>	<u>\$ 8,672,450</u>

**VARNER CREEK UTILITY DISTRICT**

TSI-6  
CHANGES IN LONG-TERM  
BONDED DEBT

December 31, 2017

	BOND ISSUED			Totals
	Series 2007	Series 2008	Series 2017 Refunding	
Interest rates	4.00% - 5.00%	4.00% - 4.65%	2.00%-4.00%	
Dates interest payable	February 15/ August 15	February 15/ August 15	February 15/ August 15	
Maturity Dates	August 15, 2009/2028	August 15, 2010/2029	August 15, 2019/2029	
Bonds outstanding beginning of year	\$ 3,675,000	\$ 3,785,000	\$ -0-,000	\$ 7,460,000
Bonds sold during year (includes accretion)			6,886,056	6,886,056
Retirements, principal	<u>3,675,000</u>	<u>3,785,000</u>	<u>50,000</u>	<u>7,510,000</u>
Bonds outstanding end of current year	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>6,836,056</u>	\$ <u>6,836,056</u>
Interest paid during current year	\$ <u>81,246</u>	\$ <u>116,559</u>	\$ <u>83,922</u>	\$ <u>281,727</u>

Paying agents name and address:

Series 2007 - The Bank of New York Trust Company, N.A., Dallas, Texas  
 Series 2008 - The Bank of New York Trust Company, N.A., Dallas, Texas  
 Series 2017 Refunding - The Bank of New York Trust Company, N.A., Dallas, Texas

## VARNER CREEK UTILITY DISTRICT

### TSI-7a COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND – FIVE YEARS

Five Years Ended December 31, 2017

	AMOUNTS				
	2017	2016	2015	2014	2013
General Fund:					
Revenues:					
Property taxes	\$ 126,887	\$ 88,676	\$ 87,366	\$ 74,664	\$ 61,555
Water service	232,825	225,075	226,057	218,583	233,444
Sewer service	206,830	216,057	216,016	212,949	213,156
Standby fees	48,915	53,225	54,680	55,170	55,400
Tap connection and inspection fees	107,900	42,050	11,300	1,000	2,000
Penalty and interest	16,192	17,171	17,292	19,082	18,997
Investment earnings	743	1,174	137	143	459
Miscellaneous	15,188	2,152	733	8,793	3,962
Total revenues	755,480	645,580	613,581	590,384	588,973
Expenditures:					
Purchased services	159,031	164,706	186,517	187,231	200,956
Professional fees	66,921	56,714	19,825	27,963	37,500
Contracted services	82,196	74,721	71,229	82,412	67,635
Utilities	23,851	23,697	24,486	22,725	24,851
Repairs and maintenance	410,664	328,878	275,324	250,186	231,889
Administrative expenditures	19,437	16,343	12,518	12,521	13,796
Other expenditures	4,978	3,302	24,842	29,509	22,564
Total expenditures	767,078	668,361	614,741	612,547	599,191
Excess revenues over (under) expenditures	\$( 11,598)	\$( 22,781)	\$( 1,160)	\$( 22,163)	\$( 10,218)

PERCENTAGES

2017	2016	2015	2014	2013
16.8%	13.7%	14.2%	12.7%	10.5%
30.8%	34.9%	36.9%	37.0%	39.6%
27.4%	33.5%	35.2%	36.1%	36.2%
6.5%	8.2%	8.9%	9.3%	9.4%
14.3%	6.5%	1.9%	0.2%	0.3%
2.1%	2.7%	2.8%	3.2%	3.2%
0.0%	0.2%	0.0%	0.0%	0.1%
20.0%	0.3%	0.1%	1.5%	0.7%
100.0%	100.0%	100.0%	100.0%	100.0%
21.1%	25.5%	30.4%	31.7%	34.1%
8.9%	8.8%	3.3%	4.7%	6.4%
10.9%	11.6%	11.6%	14.0%	11.5%
3.2%	3.7%	4.0%	3.9%	4.2%
54.4%	50.9%	44.9%	42.4%	39.4%
2.6%	2.5%	2.0%	2.1%	2.3%
0.7%	0.5%	4.0%	5.0%	3.8%
101.5%	103.5%	100.2%	103.8%	101.7%
( 1.5% )	( 3.5% )	( 0.2% )	( 3.8% )	( 1.7% )

## VARNER CREEK UTILITY DISTRICT

### TSI-7b COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - DEBT SERVICE FUND – FIVE YEARS

Five Years Ended December 31, 2017

	AMOUNTS				
	2017	2016	2015	2014	2013
Debt Service Fund:					
Revenues:					
Property taxes	\$ 785,395	\$ 902,682	\$ 981,736	\$ 1,037,347	\$ 919,935
Investment earnings	<u>9,063</u>	<u>5,131</u>	<u>2,417</u>	<u>3,327</u>	<u>4,804</u>
Total revenues	<u>794,458</u>	<u>907,813</u>	<u>984,153</u>	<u>1,040,674</u>	<u>924,739</u>
Expenditures:					
Purchased services	6,601	6,732	6,995	7,330	12,428
Other expenditures	3,500	5,000	3,510		
Principal payments	475,000	400,000	420,000	470,000	640,000
Interest and fiscal charges	283,077	382,994	403,594	428,814	456,874
Bond issuance costs and fees	<u>251,661</u>				
Total expenditures	<u>1,019,839</u>	<u>794,726</u>	<u>834,099</u>	<u>906,144</u>	<u>1,109,302</u>
Excess revenues over (under) expenditures	<u>\$ ( 225,381)</u>	<u>\$ 113,087</u>	<u>\$ 150,054</u>	<u>\$ 134,530</u>	<u>\$ ( 184,563)</u>

PERCENTAGES

2017	2016	2015	2014	2013
98.9%	99.4%	99.8%	99.7%	99.5%
<u>1.1%</u>	<u>0.6%</u>	<u>0.2%</u>	<u>0.3%</u>	<u>0.5%</u>
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
0.8%	0.7%	0.7%	0.7%	1.3%
0.4%	0.6%	0.4%		
59.8%	44.1%	42.7%	45.2%	69.2%
35.6%	42.2%	41.0%	41.2%	49.4%
<u>31.7%</u>				
<u>128.4%</u>	<u>87.5%</u>	<u>84.8%</u>	<u>87.1%</u>	<u>120.0%</u>
<u>( 28.4% )</u>	<u>12.5%</u>	<u>15.2%</u>	<u>12.9%</u>	<u>( 20.0% )</u>

## VARNER CREEK UTILITY DISTRICT

### TSI-8 BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

December 31, 2017

Complete District Mailing Address: PO Box 265  
West Columbia, Texas 77486

District Business Telephone Number: (979) 345-6008

Submission Date of the most recent District Registration Form  
(TWC Sections 36.054 and 49.054): 10-24-16

Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200

<u>Name &amp; Addresses</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees 12-31-17</u>	<u>Expense Reimbursements 12-31-17</u>	<u>Title at Year End</u>	<u>Resident of District?</u>
<i>Board Members:</i>					
Gene Pell 11 Evergreen Lane West Columbia, TX 77486	10/07-present	1,700	-0-	Vice-President/ Financial Officer	Yes
Wayne Pollard 352 N. Amherst West Columbia, TX 77486	5/06-present	1,400	-0-	Assistant Secretary/ Treasurer	Yes
Allan Sassin 14 Evergreen Lane West Columbia, TX 77486	1/13-present	1,600	-0-	President	Yes
Becky Carroll 235 South Amherst Drive West Columbia, TX 77486	10/13-present	1,500	-0-	Secretary/ Treasurer	Yes
Ray Sauer 2133 Riverside West Columbia, TX 77486	10/16-present	1,300	-0-	Director	Yes

## VARNER CREEK UTILITY DISTRICT

TSI-8  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS - Continued

December 31, 2017

<u>Name &amp; Addresses</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees 12-31-17</u>	<u>Expense Reimbursements 12-31-17</u>	<u>Title at Year End</u>	<u>Resident of District?</u>
<i>Consultants:</i>					
Kennemer, Masters & Lunsford, LLC	02/09	\$ 12,000	\$	Auditor	No
Baker & Lawson, Inc.	8/02	41,913		Engineers	No
Debra Lanehart	2/07	44,372		Administrator	Yes
Brazoria County Appraisal District		6,181		Tax Appraisers	No
Bracewell Law, LLP	02/12	17,124		Attorney	No
Ryder & Co.	12/03	379,081		Operator	No

***THIS PAGE LEFT BLANK INTENTIONALLY.***

## **OTHER SCHEDULES**

## VARNER CREEK UTILITY DISTRICT

### DETAILED COMBINED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES

Year Ended December 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenue:				
Property taxes	\$ 126,887	\$ 785,395	\$	\$ 912,282
Water service	232,825			232,825
Sewer service	206,830			206,830
Standby fees	48,915			48,915
Tap connection and inspection fee	107,900			107,900
Penalty and interest	16,192			16,192
Investment earnings	743	9,063	420	10,226
Other	15,188			15,188
Total revenues	755,480	794,458	420	1,550,358
Expenditures:				
Current Expenditures:				
Service Operations:				
Purchased services	159,031			159,031
Professional fees	66,921			66,921
Contracted services	82,196	6,601		88,797
Utilities	23,851			23,851
Repairs and maintenance	410,664		74,540	485,204
Administrative expenditures	19,437			19,437
Other expenditures	4,978	3,500	8,936	17,414
Total service operations	767,078	10,101	83,476	860,655
Capital Outlay:				
Capital expenditures	-0-	-0-	-0-	-0-
Debt Service:				
Principal		475,000		475,000
Interest and fiscal charges		283,077		283,077
Bond issuance costs		251,661		251,661
Total debt service	-0-	1,009,738	-0-	1,009,738
Total expenditures	767,078	1,019,839	83,476	1,870,393
Excess (deficiency) of revenues over operations	( 11,598)	( 225,381)	( 83,056)	( 320,035)

## VARNER CREEK UTILITY DISTRICT

### DETAILED COMBINED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES - Continued

Year Ended December 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Other Financing Sources:				
Proceeds from the sale of bonds	\$	\$ 6,810,000	\$	\$ 6,810,000
Premium on the issuance of bonds		524,354		524,354
Payment to escrow agent		( 7,108,655)		( 7,108,655)
Total other financing sources	-0-	225,699	-0-	225,699
Net change in fund balances	( 11,598)	318	( 83,056)	( 94,336)
Fund Balance, beginning	159,037	840,982	96,962	1,096,981
Fund Balance, ending	\$ 147,439	\$ 841,300	\$ 13,906	\$ 1,002,645

## VARNER CREEK UTILITY DISTRICT

### DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenue:				
Property taxes	\$ 125,000	\$ 130,000	\$ 126,887	\$( 3,113)
Water service	257,000	257,000	232,825	( 24,175)
Sewer service	238,000	238,000	206,830	( 31,170)
Standby fees	51,260	51,260	48,915	( 2,345)
Tap connection and inspection fees	30,000	75,000	107,900	32,900
Penalty and interest	17,500	17,500	16,192	( 1,308)
Investment earnings	500	500	743	243
Other	<u>          </u>	<u>          </u>	<u>15,188</u>	<u>15,188</u>
Total revenues	<u>719,260</u>	<u>769,260</u>	<u>755,480</u>	<u>( 13,780)</u>
Expenditures:				
Current Expenditures:				
Service Operations:				
Purchased services	155,260	162,060	159,031	3,029
Professional fees	62,200	62,000	66,921	( 4,921)
Contracted services	91,500	90,500	82,196	8,304
Utilities	25,000	25,000	23,851	1,149
Repairs and maintenance	304,800	328,600	410,664	( 82,064)
Administrative expenditures	8,900	8,900	19,437	( 10,537)
Other expenditures	<u>3,000</u>	<u>3,000</u>	<u>4,978</u>	<u>( 1,978)</u>
Total service operations	650,460	680,060	767,078	( 87,018)
Capital Outlay:				
Capital expenditures	<u>68,800</u>	<u>89,200</u>	<u>-0-</u>	<u>89,200</u>
Total expenditures	<u>719,260</u>	<u>769,260</u>	<u>767,078</u>	<u>2,182</u>
Net changes in fund balances			( 11,598)	( 11,598)
Fund Balance, beginning	<u>159,037</u>	<u>159,037</u>	<u>159,037</u>	<u>-0-</u>
Fund Balance, ending	<u>\$ 159,037</u>	<u>\$ 159,037</u>	<u>\$ 147,439</u>	<u>\$( 11,598)</u>