

MIRALOMAS MUNICIPAL UTILITY DISTRICT

KENDALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2017

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

MIRALOMAS MUNICIPAL UTILITY DISTRICT

KENDALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET	7
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION	8
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	9
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES	10
NOTES TO THE FINANCIAL STATEMENTS	11-19
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	21
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	23-25
GENERAL FUND EXPENDITURES	26
INVESTMENTS	27
TAXES LEVIED AND RECEIVABLE	28-29
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND - ONE YEAR	30
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	31-32

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Miralomas Municipal Utility District
Kendall County, Texas

We have audited the accompanying financial statements of the governmental activities and the major fund of Miralomas Municipal Utility District (the "District"), as of and for the year ended March 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Member of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of March 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 require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Austin, Texas

August 16, 2017

MIRALOMAS MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2017

Management's discussion and analysis of Miralomas Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2017. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) fund financial statements and government-wide financial statements and (2) notes to the financial statements. The fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide financial statements is the Statement of Net Position. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets, liabilities and deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide Statement of Activities reports how the District's net position changed during the current year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for maintenance taxes, operating costs and general expenditures.

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of current period. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

FUND FINANCIAL STATEMENTS (Continued)

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in the Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$1,436,090 as of March 31, 2017. The following table presents a summary of the Statement of Net Position as of March 31, 2017.

	<u>Summary of the Statement of Net Position 2017</u>
Current Assets	<u>\$ 24,727</u>
Total Assets	<u>\$ 24,727</u>
Due to Developer	\$ 1,386,354
Other Liabilities	<u>74,463</u>
Total Liabilities	<u>\$ 1,460,817</u>
Net Position-	
Unrestricted	<u><u>\$ (1,436,090)</u></u>

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the year ended March 31, 2017. During the current fiscal year, the District's net position decreased by \$216,152.

	Summary of the Statement of Activities <u>2017</u>
Revenues:	
Property Taxes	\$ 12,438
Other Revenues	<u>137</u>
Total Revenues	\$ 12,575
Expenses for Services	437,056
Special Item	<u>208,329</u>
Change in Net Position	\$ (216,152)
Net Position, Beginning of Year	<u>(1,219,938)</u>
Net Position, End of Year	<u>\$ (1,436,090)</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's fund balance as of March 31, 2017, was a negative \$62,166, an increase of \$634,647 from last year. The increase was primarily due to \$863,224 in developer advances and the recognition of a gain of \$208,329 related to the write off of prior year legal invoices.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current year. Actual revenue was \$150 more than budgeted. Actual expenditures were \$9,894 less than budgeted. See the budget to actual comparison.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year 2018 projects no change to the General Fund fund balance. Revenues and developer advances are expected to be \$498,050, an increase of \$51,100 from revenue budgeted for fiscal year 2017.

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Miralomas Municipal Utility District, c/o Allen Boone Humphries Robinson LLP, 1108 Lavaca St., Suite 510, Austin, TX 78701.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
MARCH 31, 2017

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 12,204	\$	\$ 12,204
Investments	93		93
Property Taxes Receivable	<u>12,430</u>	<u></u>	<u>12,430</u>
TOTAL ASSETS	<u><u>\$ 24,727</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 24,727</u></u>
LIABILITIES			
Accounts Payable	\$ 74,463	\$	\$ 74,463
Due to Developer	<u></u>	<u>1,386,354</u>	<u>1,386,354</u>
TOTAL LIABILITIES	<u><u>\$ 74,463</u></u>	<u><u>\$ 1,386,354</u></u>	<u><u>\$ 1,460,817</u></u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	<u>\$ 12,430</u>	<u>\$ (12,430)</u>	<u>\$ -0-</u>
FUND BALANCE			
Unassigned	<u>\$ (62,166)</u>	<u>\$ 62,166</u>	<u>\$ -0-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 24,727</u></u>		
NET POSITION			
Unrestricted		<u><u>\$ (1,436,090)</u></u>	<u><u>\$ (1,436,090)</u></u>

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

MIRALOMAS MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2017

Total Fund Balance - Governmental Fund	\$ (62,166)
--	-------------

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

Deferred tax revenues for the 2016 tax levy became part of recognized revenue in the governmental activities of the District.	12,430
---	--------

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund. These liabilities at year end consist of:

Due to Developer	<u>(1,386,354)</u>
------------------	--------------------

Total Net Position - Governmental Activities	<u>\$ (1,436,090)</u>
--	-----------------------

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

MIRALOMAS MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2017

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Taxes	\$ 13	\$ 12,425	\$ 12,438
Penalty and Interest	4		4
Other Revenues	<u>133</u>		<u>133</u>
TOTAL REVENUES	<u>\$ 150</u>	<u>\$ 12,425</u>	<u>\$ 12,575</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 196,126	\$	\$ 196,126
Contracted Services	15,944		15,944
Purchased Water Service	210,757		210,757
Other	<u>14,229</u>		<u>14,229</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 437,056</u>	<u>\$ -0-</u>	<u>\$ 437,056</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES/EXPENSES	\$ (436,906)	\$ 12,425	\$ (424,481)
OTHER FINANCING SOURCES			
Developer Advances	863,224	(863,224)	
SPECIAL ITEM			
Settlement of Legal Invoices	<u>208,329</u>		<u>208,329</u>
NET CHANGE IN FUND BALANCE	\$ 634,647	\$ (634,647)	\$
CHANGE IN NET POSITION		(216,152)	(216,152)
FUND BALANCE (DEFICIT)/NET POSITION - APRIL 1, 2016	<u>(696,813)</u>	<u>(523,125)</u>	<u>(1,219,938)</u>
FUND BALANCE (DEFICIT)/NET POSITION - MARCH 31, 2017	<u><u>\$ (62,166)</u></u>	<u><u>\$ (1,373,924)</u></u>	<u><u>\$ (1,436,090)</u></u>

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

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2017**

Net Change in Fund Balance - Governmental Fund	\$ 634,647
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	12,425
Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.	<u>(863,224)</u>
Change in Net Position - Governmental Activities	<u>\$ (216,152)</u>

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

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 1. CREATION OF DISTRICT

Lerin Hills Municipal Utility District of Kendall County was created effective November 20, 2006, by an Order of the Texas Commission on Environmental Quality (the “Commission”). By Order of the Commission, the Lerin Hills Municipal Utility District of Kendall County changed its name to Miralomas Municipal Utility District (the “District”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District also has received approval from the Commission to finance arterial roadways. In addition, the District has obtained passage of legislation to grant authority to finance all public (not gated) streets in the District.

The District is governed by a five-member Board of Directors which has been elected by District residents or appointed by the Board of Directors. Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The Board of Directors held its first meeting on February 28, 2007.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense in the government-wide Statement of Activities.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statement

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Governmental Fund Balance Sheet and a Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

General Fund - To account for maintenance taxes, operating costs and general expenditures.

As of March 31, 2017, the District's General Fund had a deficit balance of \$62,166 as a result of cumulative expenditures that exceeded revenues due to the District being in the early stage of development. Currently, the developer is funding operations but management believes that as development continues, the District will become self-funded.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in the governmental fund to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current year.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Governmental Fund Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. BOND AUTHORITY

As of March 31, 2017, the District had authorized but unissued bonds in the amount of \$186,577,000 for utility facilities.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. As of March 31, 2017, the carrying amount of the District's deposits was \$12,204 and the bank balance was \$12,358. The District was not exposed to custodial credit risk at year-end.

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of March 31, 2017, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturity of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	<u>\$ 93</u>	<u>\$ 93</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2017, the District's investment in TexPool was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 5. MAINTENANCE TAX

On May 12, 2007, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. During the year ended March 31, 2017, the District levied an ad valorem maintenance tax rate of \$1.00 per \$100 of assessed valuation, which resulted in a tax levy of \$12,438 on the adjusted taxable valuation of \$1,243,690 for the 2016 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District. The District's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 6. UNREIMBURSED COSTS

The District has executed an amended Development Financing Agreement (the "Financing Agreement") with the Developer within the District. The agreement calls for the Developer to fund costs associated with water, wastewater and drainage facilities until such time as the District can sell bonds to reimburse the Developer. The District has recorded no liability as of March 31, 2017 related to water, wastewater and drainage facilities due to the Developer.

In accordance with the terms of the Financing Agreement, the Developer has advanced monies to the District's General Fund in order for the District to meet its ongoing financial obligations. To date, the Developer has advanced a total of \$1,386,354 to cover the operating deficits. The District plans to use future bond proceeds or surplus maintenance tax revenues to reimburse the Developer for these advances.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 7. GUADALUPE-BLANCO RIVER AUTHORITY

On September 18, 2009, the District entered into an agreement with the Guadalupe-Blanco River Authority (the “Authority”) for the wholesale supply of treated and raw water. The Authority charges the District an annual fee per acre-foot based on treated and raw water to be supplied for use within the District. On July 29, 2016, the agreement was amended to allow the District to sell purchased but unused water to Kendall West Utility, LLC. As of March 31, 2017, the treated water rate was \$475 per acre-foot for 225 acre-feet per year, and the raw water rate was \$142 per acre-foot for 750 acre-feet per year. The term of this agreement expires on December 31, 2036. During the current fiscal year, the District recorded expenditures of \$210,757 in relation to this agreement.

NOTE 8. CAPACITY AND CONSTRUCTION AGREEMENT

On July 26, 2016, the District entered into a Capacity and Construction Agreement with Kendall-West Utility, LLC (“KWU”) for sharing costs to construct water lines to receive water from the Authority. The costs are divided between the District and KWU based on the amount of capacity each entity will receive. Until the District has sufficient funding, the Developer will pay for costs on behalf of the District. The table below reflects the capacity expected for each project and the estimated costs each will be responsible for.

	Segment A	Segment B	Segment C	Segment D
<u>Capacity (acre-feet):</u>				
District	750	770	752	N/A
KWU	<u>3,250</u>	<u>1,430</u>	<u>83</u>	<u>N/A</u>
Total	<u>4,000</u>	<u>2,200</u>	<u>835</u>	<u>N/A</u>
<u>Estimated Cost (dollars):</u>				
District	\$ 900,000	\$ 385,000	\$ 1,845,000	\$ 14,000
KWU	<u>3,900,000</u>	<u>715,000</u>	<u>205,000</u>	<u>21,000</u>
Total	<u>\$ 4,800,000</u>	<u>\$ 1,100,000</u>	<u>\$ 2,050,000</u>	<u>\$ 35,000</u>
<u>Percentage of Capacity and Cost:</u>				
District	18.75%	35.00%	90.00%	40.00%
KWU	<u>81.25%</u>	<u>65.00%</u>	<u>10.00%</u>	<u>60.00%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

MIRALOMAS MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 9. WATER TRANSPORT AND SUPPLY AGREEMENT

On July 26, 2016, the District entered into a Water Supply and Transport Agreement with KWU. This agreement sets forth the terms and conditions in which KWU will receive and transport potable water for the District using facilities in which the District owns capacity and supply potable water to the District. KWU is also permitted to purchase excess water from the District. The District will pay a monthly water transport charge to KWU at an initial rate of \$0.65 per 1,000 gallons of water purchased by the District from the GBRA. The rate may be increased beginning January 2018. The District will be charged for any supplemental potable water purchased from KWU at the standard rate in effect for water supplied by KWU to its retail customers. KWU agrees to compensate the District for surplus water taken by KWU based upon the terms of the District's rate order applicable to volume purchases. The agreement has a term of unlimited duration.

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omission, and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage and no settlements in the past three years.

NOTE 11. ECONOMIC DEPENDENCY

Since inception, the District has been dependent upon its major Developer for operating advances. The Developer continues to own a substantial portion of the taxable property within the District. The Developer's willingness to make advances in future years will directly affect the District's ability to meet its future financial obligations.

NOTE 12. SPECIAL ITEM

In December 2016, the District negotiated a settlement regarding the payment of outstanding invoices for legal services. As a result, the accrued but unpaid legal fees from prior years totaling \$208,329 were written off.

THIS PAGE INTENTIONALLY LEFT BLANK

MIRALOMAS MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2017

MIRALOMAS MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2017

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$	\$ 13	\$ 13
Penalty and Interest		4	4
Miscellaneous Revenues		133	133
TOTAL REVENUES	<u>\$ -0-</u>	<u>\$ 150</u>	<u>\$ 150</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 182,000	\$ 196,126	\$ (14,126)
Contracted Services	10,150	15,944	(5,794)
Purchased Water Service	235,000	210,757	24,243
Other	19,800	14,229	5,571
TOTAL EXPENDITURES	<u>\$ 446,950</u>	<u>\$ 437,056</u>	<u>\$ 9,894</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	\$ (446,950)	\$ (436,906)	\$ 10,044
OTHER FINANCING SOURCES			
Developer Advances	446,950	863,224	416,274
SPECIAL ITEM			
Settlement of Legal Invoices		208,329	208,329
NET CHANGE IN FUND BALANCE	\$ -0-	\$ 634,647	\$ 634,647
FUND BALANCE/(DEFICIT) - APRIL 1, 2016	<u>(696,813)</u>	<u>(696,813)</u>	
FUND BALANCE/(DEFICIT) - MARCH 31, 2017	<u>\$ (696,813)</u>	<u>\$ (62,166)</u>	<u>\$ 634,647</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

MARCH 31, 2017

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1½"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>N/A</u></u>	<u><u>N/A</u></u>		<u><u>N/A</u></u>
Total Wastewater Connections	<u><u>N/A</u></u>	<u><u>N/A</u></u>	x 1.0	<u><u>N/A</u></u>

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

Gallons pumped into system:	N/A	Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	N/A	<u>N/A</u>

See accompanying independent auditor's report.

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ☐ No ☒

Does the District have Operation and Maintenance standby fees? Yes ☐ No ☒

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Kendall County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

Is the District Located within a city's extraterritorial jurisdiction?

Entirely ☐ Partly ☐ Not at all ☒

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2017

PROFESSIONAL FEES:	
Engineering	\$ 21,945
Legal	174,180
Delinquent Tax Attorney	<u>1</u>
TOTAL PROFESSIONAL FEES	<u>\$ 196,126</u>
 PURCHASED SERVICES FOR RESALE-	
Purchased Water Service	<u>\$ 210,757</u>
 CONTRACTED SERVICES:	
Appraisal District/Tax Assessor	\$ 189
Bookkeeping	<u>15,755</u>
TOTAL CONTRACTED SERVICES	<u>\$ 15,944</u>
 ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 4,650
Insurance	2,992
Legal Notices	203
Office Supplies and Postage	3,194
Payroll Taxes	356
Travel and Meetings	1,457
Other	<u>1,377</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 14,229</u>
 TOTAL EXPENDITURES	<u><u>\$ 437,056</u></u>

See accompanying independent auditor's report.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
INVESTMENTS
MARCH 31, 2017

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	<u>\$ 93</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

MIRALOMAS MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017

	<u>Maintenance Taxes</u>	
TAXES RECEIVABLE -		
APRIL 1, 2016	\$ 5	
Adjustments to Beginning		
Balance	<u> </u>	\$ 5
Original 2016 Tax Levy	\$ 12,438	
Adjustment to 2016 Tax Levy	<u> </u>	<u>12,438</u>
TOTAL TO BE		
ACCOUNTED FOR		\$ 12,443
TAX COLLECTIONS:		
Prior Years	\$ 5	
Current Year	<u>8</u>	<u>13</u>
TAXES RECEIVABLE -		
MARCH 31, 2017		<u>\$ 12,430</u>
TAXES RECEIVABLE BY		
YEAR:		
2016		<u>\$ 12,430</u>

See accompanying independent auditor's report.

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017**

	<u>2016</u>
PROPERTY VALUATIONS:	
Land	\$ 26,241,350
Improvements	872,080
Exemptions	<u>(25,869,740)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 1,243,690</u>
TAX RATES PER \$100 VALUATION:	
Maintenance	\$ <u>1.00</u>
ADJUSTED TAX LEVY*	<u>\$ 12,438</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>0.070 %</u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on May 12, 2007.

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - ONE YEAR**

	<u>Amounts</u> <u>2017</u>	<u>Percentage of</u> <u>Total Revenues</u> <u>2017</u>
REVENUES		
Property Taxes	\$ 13	8.7 %
Penalty and Interest	4	2.7
Miscellaneous Revenues	<u>133</u>	<u>88.6</u>
TOTAL REVENUES	<u>\$ 150</u>	<u>100.0 %</u>
EXPENDITURES		
Professional Fees	\$ 196,126	130,750.7 %
Contracted Services	15,944	10,629.3
Purchased Water Service	210,757	140,504.7
Other	<u>14,229</u>	<u>9,486.0</u>
TOTAL EXPENDITURES	<u>\$ 437,056</u>	<u>291,370.7 %</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	\$ (436,906)	<u>(291,270.7) %</u>
OTHER FINANCING SOURCES		
Developer Advances	863,224	
SPECIAL ITEM		
Settlement of Legal Invoices	<u>208,329</u>	
NET CHANGE IN FUND BALANCE	\$ 634,647	
BEGINNING FUND BALANCE/(DEFICIT)	<u>(696,813)</u>	
ENDING FUND BALANCE/(DEFICIT)	<u>\$ (62,166)</u>	
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>N/A</u>	

See accompanying independent auditor's report.

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2017**

District Mailing Address - Miralomas Municipal Utility District
c/o Allen Boone Humphries Robinson LLP
1108 Lavaca St., Suite 510
Austin, TX 78701

District Telephone Number - (512) 518-2424

Board Members:	Term of Office (Elected or Appointed)	Fees of office for the year ended March 31, 2017	Expense reimbursements for the year ended March 31, 2017	Title
William Fry	11/2015 05/2018 (Appointed)	\$ 1,350	\$ 752	President
Elizabeth Schnell	11/2015 05/2018 (Appointed)	\$ 1,050	\$ 123	Vice President
Ryan Everett	12/2016 05/2020 (Appointed)	\$ 600	\$ -0-	Assistant Vice President
Danni Springfield	11/2015 05/2018 (Appointed)	\$ 750	\$ 27	Secretary
Kelly Climer	09/2016 05/2020 (Appointed)	\$ 900	\$ 21	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
June 21, 2017.

The limit on Fees of Office that a Director may receive during a fiscal year is the maximum amount allowed by law as set by Board Resolution (TWC Section 49.060) on February 28, 2007. Fees of Office are the amounts actually paid to a Director during the District's current year.

See accompanying independent auditor's report.

**MIRALOMAS MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2017**

Consultants:	<u>Date Hired</u>	<u>Fees/ Compensation for the year ended March 31, 2017</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	02/28/07	\$ 164,020	General Counsel
McCall Gibson Swedlund Barfoot PLLC	02/15/17	\$ -	Auditor
Municipal Accounts & Consulting, L.P.	03/01/14	\$ 16,740	Bookkeeper
Stantec Consulting Services, Inc.	05/23/16	\$ 6,803	Engineer
Robert W. Baird & Co. Incorporated	05/23/16	\$ -	Financial Advisor
Autumn Phillips and Mark Burton	03/01/14	\$ -	Investment Officers
Terry Kramer	03/28/07	\$ 189	Tax Assessor/ Collector

See accompanying independent auditor's report.

