

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fountainhead Municipal Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fountainhead Municipal Utility District (the "District"), as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the 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.

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 each major fund of the District as of March 31, 2019, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

August 7, 2019

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

Management's discussion and analysis of Fountainhead Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2019.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. 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 financial statements provide 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 Statement of Net Position includes the District's assets, liabilities, and if applicable, 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 is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal 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 three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, tax revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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 funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

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 Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances 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"). 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, assets exceeded liabilities by \$14,746,294 as of March 31, 2019. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of the Statement of Net Position:

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 11,435,562	\$ 11,499,742	\$ (64,180)
Capital Assets (Net of Accumulated Depreciation)	10,823,241	10,544,068	279,173
Total Assets	\$ 22,258,803	\$ 22,043,810	\$ 214,993
Bonds Payable	\$ 6,929,561	\$ 7,510,346	\$ 580,785
Other Liabilities	582,948	455,491	(127,457)
Total Liabilities	\$ 7,512,509	\$ 7,965,837	\$ 453,328
Net Position:			
Net Investment in Capital Assets	\$ 3,953,179	\$ 3,738,131	\$ 215,048
Restricted	987,264	1,089,034	(101,770)
Unrestricted	9,805,851	9,250,808	555,043
Total Net Position	\$ 14,746,294	\$ 14,077,973	\$ 668,321

The following table provides a comparative analysis of the District's operations for the years ended March 31, 2019, and March 31, 2018.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,576,553	\$ 1,551,197	\$ 25,356
Charges for Services	2,222,522	2,141,250	81,272
Other Revenues	185,891	251,037	(65,146)
Total Revenues	\$ 3,984,966	\$ 3,943,484	\$ 41,482
Expenses for Services	3,316,645	3,405,336	88,691
Change in Net Position	\$ 668,321	\$ 538,148	\$ 130,173
Net Position, Beginning of Year	14,077,973	13,539,825	538,148
Net Position, End of Year	\$ 14,746,294	\$ 14,077,973	\$ 668,321

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as March 31, 2019, were \$8,049,080, a decrease of \$119,887 from the prior year.

The General Fund fund balance increased by \$645,155, primarily due to tax and service revenues which exceeded the cost of operating and maintaining the District's facilities.

The Debt Service Fund fund balance decreased by \$100,132, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance decreased by \$664,910, primarily due to capital outlay paid from bond proceeds received in a prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the year. Actual revenues were \$111,046 more than budgeted revenues primarily due to higher than anticipated sales tax revenues, maintenance tax revenues, and investment earnings. Actual expenditures were less than budgeted expenditures by \$109,121 primarily due to lower than anticipated professional and contracted services, purchased services and miscellaneous costs.

LONG-TERM DEBT ACTIVITY

As of March 31, 2019, the District had total bond debt payable of \$6,875,000. Changes in the debt position of the District during the year ended March 31, 2019, are summarized as follows:

Bond Debt Payable, April 1, 2018	\$ 7,445,000
Less: Bond Principal Paid	<u>570,000</u>
Bond Debt Payable, March 31, 2019	<u><u>\$ 6,875,000</u></u>

The District's underlying rating was "A1" by Moody's for the current and prior fiscal years. The Series 2017 bonds carry an "AA" rating by virtue of bond insurance from Build America Mutual Assurance Company. The Series 2013 Refunding and Series 2016 bonds do not carry insured ratings. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The ratings above include all changes, if any, to ratings of bond insurers through March 31, 2019.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

CAPITAL ASSETS

Capital assets totaled \$10,823,241 as of March 31, 2019, and include land as well as the water, wastewater and drainage systems. Construction in progress includes the Northcliffe Sections 1 and 2 sanitary sewer rehabilitation and installation of a generator at Lift Station No. 2.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 754,093	\$ 754,093	\$
Construction in Progress	794,077	54,539	739,538
Capital Assets, Net of Accumulated Depreciation:			
Water System	3,178,894	3,366,048	(187,154)
Wastewater System	3,575,957	3,756,160	(180,203)
Drainage System	2,520,220	2,613,228	(93,008)
Total Net Capital Assets	\$ 10,823,241	\$ 10,544,068	\$ 279,173

CONTACTING THE DISTRICT'S MANAGEMENT

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 information should be addressed to Fountainhead Municipal Utility District, c/o Michael A. Cole, PC, 5120 Bayard Lane, Houston, TX 77006.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2019

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 151,209	\$ 257,840
Investments	6,929,968	745,807
Receivables:		
Property Taxes	53,050	42,963
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$10,539)	147,249	
Due from Other Funds	42,621	
Prepaid Costs	71,068	
Due from Other Governmental Units	90,594	
Water Authority Capital Contributions		
Water Authority Chloramine Conversion		
Advance for Water Treatment Plant Operations	11,850	
Advance for Wastewater Treatment Plant Operations	35,000	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 7,532,609	\$ 1,046,610

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 26,149	\$ 435,198	\$	\$ 435,198
140,535	7,816,310		7,816,310
	96,013		96,013
		15,522	15,522
	147,249		147,249
	42,621	(42,621)	
	71,068		71,068
	90,594	20,000	110,594
		2,385,401	2,385,401
		311,357	311,357
	11,850		11,850
	35,000		35,000
		754,093	754,093
		794,077	794,077
		9,275,071	9,275,071
<u>\$ 166,684</u>	<u>\$ 8,745,903</u>	<u>\$ 13,512,900</u>	<u>\$ 22,258,803</u>

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

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2019**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 190,328	\$ 7,488
Accrued Interest Payable		
Due to Other Funds		42,621
Security Deposits	233,188	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 423,516	\$ 50,109
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 53,050	\$ 42,963
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 71,068	\$
Operating Advance	46,850	
Restricted for Authorized Construction		
Restricted for Debt Service		953,538
Unassigned	6,938,125	
TOTAL FUND BALANCES	\$ 7,056,043	\$ 953,538
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,532,609	\$ 1,046,610
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 127,185	\$ 325,001	\$	\$ 325,001
		24,759	24,759
	42,621	(42,621)	
	233,188		233,188
		590,000	590,000
		6,339,561	6,339,561
<u>\$ 127,185</u>	<u>\$ 600,810</u>	<u>\$ 6,911,699</u>	<u>\$ 7,512,509</u>
<u>\$ - 0 -</u>	<u>\$ 96,013</u>	<u>\$ (96,013)</u>	<u>\$ - 0 -</u>
\$	\$ 71,068	\$ (71,068)	\$
	46,850	(46,850)	
39,499	39,499	(39,499)	
	953,538	(953,538)	
	6,938,125	(6,938,125)	
<u>\$ 39,499</u>	<u>\$ 8,049,080</u>	<u>\$ (8,049,080)</u>	<u>\$ - 0 -</u>
<u>\$ 166,684</u>	<u>\$ 8,745,903</u>		
		\$ 3,953,179	\$ 3,953,179
		987,264	987,264
		9,805,851	9,805,851
		<u>\$ 14,746,294</u>	<u>\$ 14,746,294</u>

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

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2019**

Total Fund Balances - Governmental Funds	\$	8,049,080
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Certain receivables are not collectable in the current period and, therefore, are not reported as assets in the governmental funds.		20,000
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Chloramine conversion costs and capital contributions receivable from the North Harris County Regional Water Authority are not current financial resources and, therefore, are not reported as assets in the governmental funds.		2,696,758
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		10,823,241
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		111,535
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Accrued Interest Payable	\$ (24,759)	
Bonds Payable	<u>(6,929,561)</u>	<u>(6,954,320)</u>

Total Net Position - Governmental Activities	\$	<u><u>14,746,294</u></u>
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The accompanying notes to the financial statements are an integral part of this report.

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FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2019

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 893,832	\$ 672,539
Water Service	559,830	
Wastewater Service	407,538	
Sales Tax Revenues	385,515	
Water Authority Fees	667,123	
Penalty and Interest	49,050	16,856
Water Authority Credits	240,026	
Miscellaneous Revenues	144,893	11,230
TOTAL REVENUES	\$ 3,347,807	\$ 700,625
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 126,963	\$ 6,817
Contracted Services	807,080	55,349
Purchased Water Service	815,508	
Purchased Wastewater Service	237,625	
Utilities	89,979	
Repairs and Maintenance	439,322	
Depreciation		
Other	128,716	8,085
Capital Outlay	15,698	
Debt Service:		
Bond Principal		570,000
Bond Interest		153,006
TOTAL EXPENDITURES/EXPENSES	\$ 2,660,891	\$ 793,257
EXCESS (DEFICIENCY) OF REVENUES OVER		
EXPENDITURES/EXPENSES	\$ 686,916	\$ (92,632)
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (41,761)	\$ (7,500)
NET CHANGE IN FUND BALANCES	\$ 645,155	\$ (100,132)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - APRIL 1, 2018	6,410,888	1,053,670
FUND BALANCES/NET POSITION - MARCH 31, 2019	\$ 7,056,043	\$ 953,538

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,566,371	\$ 10,182	\$ 1,576,553
	559,830		559,830
	407,538		407,538
	385,515		385,515
	667,123		667,123
	65,906	(5,407)	60,499
	240,026	(98,009)	142,017
9,768	165,891	20,000	185,891
<u>\$ 9,768</u>	<u>\$ 4,058,200</u>	<u>\$ (73,234)</u>	<u>\$ 3,984,966</u>
\$	\$ 133,780	\$	\$ 133,780
	862,429		862,429
	815,508		815,508
	237,625		237,625
	89,979		89,979
	439,322		439,322
		460,365	460,365
99	136,900		136,900
723,840	739,538	(739,538)	
	570,000	(570,000)	
	153,006	(12,269)	140,737
<u>\$ 723,939</u>	<u>\$ 4,178,087</u>	<u>\$ (861,442)</u>	<u>\$ 3,316,645</u>
<u>\$ (714,171)</u>	<u>\$ (119,887)</u>	<u>\$ 788,208</u>	<u>\$ 668,321</u>
<u>\$ 49,261</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ (664,910)	\$ (119,887)	\$ 119,887	\$
		668,321	668,321
704,409	8,168,967	5,909,006	14,077,973
<u>\$ 39,499</u>	<u>\$ 8,049,080</u>	<u>\$ 6,697,214</u>	<u>\$ 14,746,294</u>

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

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$	(119,887)
Amounts reported for governmental activities in the Statement of Activities are different because:		
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.		10,182
Governmental funds report penalty and interest revenue on delinquent property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		(5,407)
The principal portion of payments to be received from the North Harris County Regional Water Authority for chloramine conversion and capital construction costs reduce long-term receivables in the Statement of Net Position.		(98,009)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(460,365)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. This adjustment also includes a capital contribution which is anticipated to be received in the upcoming fiscal year.		759,538
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments decrease long-term liabilities.		570,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		<u>12,269</u>
Change in Net Position - Governmental Activities	\$	<u><u>668,321</u></u>

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

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 1. CREATION OF DISTRICT

Fountainhead Municipal Utility District of Harris County, Texas (the “District”) was created effective October 27, 1972, by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). 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, construction of parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on November 8, 1972, and the first bonds were sold on August 29, 1973.

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 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”).

The 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:

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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 to obtain net total revenues and expenses of the government-wide Statements of Activities.

Fund Financial Statements

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

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, tax revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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 revenue reported in governmental funds 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 inflows of resources related to property 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.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2019, the Debt Service Fund owed the General Fund \$42,621 for maintenance tax collections. During the current year, the District recorded transfers between the Capital Projects Fund, General Fund and Debt Service Fund to clear up interfund liabilities that were recorded in prior years.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Water System	10-45
Wastewater System	10-45
Drainage System	10-45

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 fiscal year.

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 wages subject to federal income tax withholding for payroll purposes only.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Funds 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.

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.

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 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.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

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. LONG-TERM DEBT

	Series 2013 Refunding	Series 2016	Series 2017
Amount Outstanding – March 31, 2019	\$625,000	\$3,550,000	\$2,700,000
Interest Rates	3.00%	1.15% - 2.25%	2.00% - 3.00%
Maturity Dates – Serially Beginning/Ending	August 1, 2019/2020	August 1, 2019/2030	August 1, 2021/2032
Interest Payment Dates	August 1/ February 1	August 1/ February 1	August 1/ February 1
Callable Dates	Non-callable	August 1, 2024*	August 1, 2024*

* At the option of the District, in whole or in part, at par plus accrued interest to the date of redemption. Series 2016 Term bonds maturing August 1, 2030 are subject to mandatory redemption beginning August 1, 2029.

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2019:

	2018	Additions	Retirements	2019
Bonds Payable	\$ 7,445,000	\$	\$ 570,000	\$ 6,875,000
Unamortized Premiums	65,346		10,785	54,561
Bonds Payable, Net	<u>\$ 7,510,346</u>	<u>\$ -0-</u>	<u>\$ 580,785</u>	<u>\$ 6,929,561</u>
		Amount Due Within One Year		\$ 590,000
		Amount Due After One Year		6,339,561
		Bonds Payable, Net		<u>\$ 6,929,561</u>

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

As of March 31, 2019, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 590,000	\$ 142,250	\$ 732,250
2021	585,000	129,575	714,575
2022	525,000	118,933	643,933
2023	525,000	109,406	634,406
2024	525,000	98,906	623,906
2025-2029	2,625,000	335,578	2,960,578
2030-2033	1,500,000	66,938	1,566,938
	<u>\$ 6,875,000</u>	<u>\$ 1,001,586</u>	<u>\$ 7,876,586</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The District has authorized but unissued tax bonds totaling \$3,195,000 for water, sewer and drainage purposes and for the purpose of refunding any outstanding bonds of the District.

During the year ended March 31, 2019, the District levied an ad valorem debt service tax rate of \$0.24 per \$100 of assessed valuation, which resulted in a tax levy of \$690,725 on the adjusted taxable valuation of \$287,803,434 for the 2018 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy. The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to the certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 5. 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, 2019, the carrying amount of the District’s deposits was \$435,198 and the bank balance was \$456,350. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2019, as listed below:

	Cash
GENERAL FUND	\$ 151,209
DEBT SERVICE FUND	257,840
CAPITAL PROJECTS FUND	26,149
TOTAL DEPOSITS	\$ 435,198

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.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 5. 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. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

All investments are recorded at cost which the District considers to be fair value. 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 measures 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, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 year
<u>GENERAL FUND</u>		
TexPool	\$ 6,929,968	\$ 6,929,968
<u>DEBT SERVICE FUND</u>		
TexPool	745,807	745,807
<u>CAPITAL PROJECTS FUND</u>		
TexPool	140,535	140,535
TOTAL INVESTMENTS	\$ 7,816,310	\$ 7,816,310

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2019, 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.

Restrictions

All cash and investments of the Debt Service Fund are restricted for payment of debt service and cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2019 is as follows:

	April 1, 2018	Increases	Decreases	March 31, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 754,093	\$	\$	\$ 754,093
Construction in Progress	54,539	739,538		794,077
Total Capital Assets Not Being Depreciated	<u>\$ 808,632</u>	<u>\$ 739,538</u>	<u>\$ - 0 -</u>	<u>\$ 1,548,170</u>
Capital Assets Subject to Depreciation				
Water System	\$ 7,231,547	\$	\$	\$ 7,231,547
Wastewater System	7,492,061			7,492,061
Drainage System	4,452,292			4,452,292
Total Capital Assets Subject to Depreciation	<u>\$ 19,175,900</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 19,175,900</u>
Accumulated Depreciation				
Water System	\$ 3,865,499	\$ 187,154	\$	\$ 4,052,653
Wastewater System	3,735,901	180,203		3,916,104
Drainage System	1,839,064	93,008		1,932,072
Total Accumulated Depreciation	<u>\$ 9,440,464</u>	<u>\$ 460,365</u>	<u>\$ - 0 -</u>	<u>\$ 9,900,829</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 9,735,436</u>	<u>\$ (460,365)</u>	<u>\$ - 0 -</u>	<u>\$ 9,275,071</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,544,068</u>	<u>\$ 279,173</u>	<u>\$ - 0 -</u>	<u>\$ 10,823,241</u>

NOTE 7. MAINTENANCE AND OPERATIONS TAX

On February 2, 2002, the voters of the District authorized an operation and maintenance tax on all taxable property within the District at a rate not to exceed \$0.35 per \$100 assessed valuation. The District levied an ad valorem maintenance tax rate of \$0.32 per \$100 of assessed valuation, which resulted in a tax levy of \$920,967 on the adjusted taxable valuation of \$287,803,434 for the 2018 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

NOTE 8. WASTEWATER DISPOSAL JOINT VENTURE

On August 3, 1977, the District and Harris County Water Control and Improvement District No. 109 ("District No. 109") executed an agreement whereby the District acquired a total of 1,037,000 gallons per day (gpd) capacity in District No. 109's wastewater treatment plant. On June 3, 1991, the agreement was amended to provide for the construction of a new wastewater treatment plant with a total capacity of 2,760,000 gpd.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 8. WASTEWATER DISPOSAL JOINT VENTURE (Continued)

On July 12, 1993, this agreement was amended providing for the total constructed capacity of the plant to be 3,000,000 gpd of rated capacity. The agreement specified procedures for allocation of the operating cost of the wastewater treatment plant based on the operating budget each year. The agreement specifies that a reasonable operating reserve consisting of not more than three months' estimated expenses and a reasonable contingency reserve for ordinary and extraordinary repairs or betterments be established. The agreement specifies that should extraordinary repairs and improvements to the plant be necessary, the District would share these costs based on its ownership interest in the plant.

On October 1, 2003, the Second (named) Amendment to the Water Disposal Agreement was executed. Under the Second Amendment, the districts will be billed for their pro-rata share of total operating costs for each month based upon their pro-rata share of active connections for the quarter. On March 14, 2011, the District approved an amendment to the agreement which extends the term to June 1, 2031.

The District's advance for operations and maintenance of the regional wastewater treatment plant is \$35,000. The District recorded total expenditures of \$237,625 as its share of the operating costs of the plant for the current year. The participating districts' pro-rata shares of capacity in the joint wastewater treatment plant are as follows:

	<u>Capacity (gpd)</u>	<u>Percentage of Total Capacity</u>
Harris County Water Control and Improvement District No. 109	2,220,000	74.00%
Fountainhead Municipal Utility District	780,000	26.00%
TOTAL	3,000,000	100.00%

The following summary financial data of the regional wastewater treatment plant is presented for the fiscal year ended December 31, 2018. Separate financial statements are available upon request from District No. 109 care of Schwartz, Page and Harding, 1300 Post Oak Blvd., Suite 1400, Houston, TX 77056.

	<u>Joint Venture</u>
Total Assets	\$ 175,170
Total Liabilities	105,170
Total Fund Balance	\$ 70,000
Total Revenues	\$ 667,789
Total Expenditures	667,789
Net Change in Fund Balance	\$ - 0 -
Beginning Fund Balance	70,000
Ending Fund Balance	\$ 70,000

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 9. WATER SUPPLY AGREEMENTS

On February 11, 1976, the District and District No. 109 entered into an emergency water supply agreement. On September 6, 1995, the District executed and submitted an amended contract with District No. 109. The amended contract provides for the District to purchase water on an emergency basis at a rate of \$0.75 per thousand gallons; provided, however, such rate may be changed from time to time in the event District No. 109 reasonably determines its cost to produce and supply water has increased. In the event either district converts to surface water the rate to be charged shall not be less than the supplying district’s actual cost. The District incurred no costs under this contract for the current fiscal year.

On January 2, 1980, the District and Northwest Harris County Municipal Utility District No. 21 (“District No. 21”) entered into a water interconnect agreement. That contract is revised by the water supply agreement and amendment to water interconnect contract executed on April 15, 1998. The contract was further clarified by a Memorandum of Understanding on April 15, 2009. The term of the amended agreement is 35 years from its date of execution. The District entered into the water supply agreement to secure a supply of water to serve an approximate 36-acre tract of land within Fountainhead. Commensurate with the agreement, the District purchased an interest in the existing water distribution system equal to 19.75% of District No. 21’s undivided 47.2% interest for which the District paid \$165,242. During the current fiscal year, the District paid \$98,284 for water purchased from District No. 21.

The North Harris County Regional Water Authority (the “Authority”) required the water plant jointly owned by District No. 21 and District No. 22 to convert its water system to chloramine disinfection for as long as it is connected to the Authority’s system. The District’s portion of the cost of this conversion was \$36,165. The Authority calculated the reimbursement at 6% interest over a 30-year period. The jointly owned water plant began receiving chloramine conversion credits on the January 2012, Authority billing, which were passed along to the District beginning with the March 2012, joint water plant billing. Total credits received in the current fiscal year were \$2,678. Of this amount, \$724 was a return of principal with the balance being applicable to interest. The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 768	\$ 1,910	\$ 2,678
2021	814	1,864	2,678
2022	863	1,815	2,678
2023	915	1,763	2,678
2024	969	1,709	2,678
2025-2029	5,793	7,598	13,391
2030-2034	7,752	5,638	13,390
2035-2039	10,374	3,016	13,390
2040-2041	3,589	248	3,837
	<u>\$ 31,837</u>	<u>\$ 25,561</u>	<u>\$ 57,398</u>

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 9. WATER SUPPLY AGREEMENTS (Continued)

On April 15, 2009, the District executed an Agreement with Bammel Utility District (“Bammel”). The First and Second Addendums to the water supply agreement were approved on October 16, 2013, and February 17, 2016, respectively. In accordance with the agreement, the District purchased capacity in a previously constructed water plant for \$520,000 to serve 250 ESFCs. Fountainhead paid \$350,000 during a prior fiscal year and the developer paid \$170,000. Bammel owns legal title to the facilities for the benefit of both districts. This agreement is for a term of 50 years.

Each district is required to pay its pro-rata share of operation and maintenance expenses of the water plant. Bammel will be responsible for operating the water plant. The District’s advance for operations and maintenance of the regional wastewater treatment plant is \$10,000.

If Fountainhead takes any water during any month in an amount that is in excess of the maximum Fountainhead quantity, Fountainhead will pay to Bammel, in addition to all other amounts due under the terms of this agreement, \$2.00 per 1,000 gallons for the amount of water supplied during the month in excess of its’ maximum quantity of 216,000 gallons per day. The District recorded total expenditures of \$134,524 as its share of the operating costs of the plant for the current year.

NOTE 10. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the “Act”), as passed by the 75th Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements. The District purchases surface water from the Authority at a rate of \$3.85 per 1,000 gallons. The District paid the Authority fees totaling \$584,550 in the current fiscal year.

Capital Contribution Contracts

On July 7, 2003, the District entered into a Capital Contribution Contract with the Authority and on October 2, 2003, approved the First Amendment to the Capital Contribution Contract. The District paid \$1,367,587 to the Authority on October 20, 2003, for the District’s share of Phase I of the 2010 Surface Water Distribution and Transmission System. During the current fiscal year, \$45,808 in principal was repaid leaving a balance of \$1,019,089.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 10. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)

Capital Contribution Contracts (Continued)

On July 20, 2005, the District paid an additional capital contribution of \$909,168. During the current fiscal year, \$26,889 in principal was repaid leaving a balance of \$703,212.

On August 4, 2008, the District entered into a capital contribution contract with the Authority. On October 16, 2008, the District made the payment of \$751,131 to the Authority. During the current fiscal year, \$18,669 in principal was repaid leaving a balance of \$663,100.

The District receives capital contribution credits applied to the water purchased by the District from the Authority. The Authority calculates the credit by amortizing the capital contributions over the life of the Authority's bonds. As of March 31, 2019, the remaining capital contribution credits to be received were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 95,980	\$ 121,001	\$ 216,981
2021	100,826	116,154	216,980
2022	105,918	111,062	216,980
2023	111,267	105,713	216,980
2024	116,887	100,093	216,980
2025-2029	679,201	405,700	1,084,901
2030-2034	845,157	215,846	1,061,003
2035-2038	<u>330,165</u>	<u>43,583</u>	<u>373,748</u>
	<u>\$ 2,385,401</u>	<u>\$ 1,219,152</u>	<u>\$ 3,604,553</u>

Chloramine Conversion Reimbursement

The Authority required the District to convert its water system to chloramine disinfection for as long as it is connected to the Authority's system. The District's cost of this conversion was \$317,221. The Authority calculated the reimbursement at 6% interest over a 30-year period. The District began receiving chloramine conversion credits on the August 2011, Authority billing. Total credits received in the current fiscal year were \$23,045. Of this amount, \$5,919 was a return of principal with the balance being applicable to interest.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

**NOTE 10. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)**

Chloramine Conversion Reimbursement (Continued)

The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 6,275	\$ 16,771	\$ 23,046
2021	6,651	16,395	23,046
2022	7,050	15,996	23,046
2023	7,473	15,573	23,046
2024	7,922	15,124	23,046
2025-2029	47,334	67,895	115,229
2030-2034	63,344	51,885	115,229
2035-2039	84,768	30,461	115,229
2040-2042	48,703	4,780	53,483
	<u>\$ 279,520</u>	<u>\$ 234,880</u>	<u>\$ 514,400</u>

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

Effective April 11, 2003, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston, Texas (“the City”). Under the agreement, and in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City has annexed a tract of land within the District for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the tract. On March 2, 2005, the District approved the First Amendment to the SPA which added an additional tract of land. The City may not annex the District for full purposes during the term of this agreement. The District will pay an annual \$100 fee to the City for the provision of city services in lieu of full-purpose annexation.

The City imposes a Sales and Use Tax within the boundaries of the District at the rate of one percent or the rate specified under future amendments to Chapter 321 of the Tax Code and pays to the District an amount equal to one-half of all Sales and Use Tax revenues generated. The term of this SPA is 30 years from the effective date April 11, 2003. During the current fiscal year the District recorded sales tax revenues of \$385,515, of which \$90,594 was recorded as receivable at year end.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

NOTE 12. RISK MANAGEMENT

The District carries commercial insurance to protect against various risks including loss related to torts, the theft of, damage to or destruction of assets, errors and omissions, and natural disasters. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2019

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2019**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 735,000	\$ 893,832	\$ 158,832
Water Service	550,000	559,830	9,830
Wastewater Service	513,945	407,538	(106,407)
Water Authority Fees	700,000	667,123	(32,877)
Penalty and Interest	55,000	49,050	(5,950)
Sales Tax Revenues	360,000	385,515	25,515
Water Authority Credits	240,000	240,026	26
Miscellaneous Revenues	82,816	144,893	62,077
TOTAL REVENUES	<u>\$ 3,236,761</u>	<u>\$ 3,347,807</u>	<u>\$ 111,046</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 165,000	\$ 126,963	\$ 38,037
Contracted Services	813,112	807,080	6,032
Purchased Water Service	870,000	815,508	54,492
Purchased Wastewater Service	336,000	237,625	98,375
Utilities	90,000	89,979	21
Repairs and Maintenance	302,000	439,322	(137,322)
Other	193,900	128,716	65,184
Capital Outlay		15,698	(15,698)
TOTAL EXPENDITURES	<u>\$ 2,770,012</u>	<u>\$ 2,660,891</u>	<u>\$ 109,121</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 466,749</u>	<u>\$ 686,916</u>	<u>\$ 220,167</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	\$ - 0 -	\$ (41,761)	\$ (41,761)
NET CHANGE IN FUND BALANCE	\$ 466,749	\$ 645,155	\$ 178,406
FUND BALANCE - APRIL 1, 2018	<u>6,410,888</u>	<u>6,410,888</u>	
FUND BALANCE - MARCH 31, 2019	<u>\$ 6,877,637</u>	<u>\$ 7,056,043</u>	<u>\$ 178,406</u>

See accompanying independent auditor's report.

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

MARCH 31, 2019

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2019**

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 "	<u>1,521</u>	<u>1,469</u>	x 1.0	<u>1,469</u>
1"	<u>10</u>	<u>10</u>	x 2.5	<u>25</u>
1½"	<u>24</u>	<u>24</u>	x 5.0	<u>120</u>
2"	<u>24</u>	<u>24</u>	x 8.0	<u>192</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>1,583</u></u>	<u><u>1,531</u></u>		<u><u>1,911</u></u>
Total Wastewater Connections	<u><u>1,545</u></u>	<u><u>1,504</u></u>	x 1.0	<u><u>1,504</u></u>

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

Water Accountability Ratio: 106%
(Gallons billed/Gallons purchased)

Gallons billed to customers: 209,523,000

Gallons purchased: 197,259,000

From: NHCRWA, NW HC MUD No. 21,
and Bammel UD

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2019**

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:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2019**

PROFESSIONAL FEES:	
Audit	\$ 26,500
Engineering	33,582
Legal	<u>66,881</u>
TOTAL PROFESSIONAL FEES	<u>\$ 126,963</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 815,508
Purchased Wastewater Service	<u>237,625</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 1,053,133</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 16,600
Operations and Billing	<u>208,449</u>
TOTAL CONTRACTED SERVICES	<u>\$ 225,049</u>
UTILITIES:	
Electricity	\$ 22,031
Streetlights	59,949
Telephone	<u>7,999</u>
TOTAL UTILITIES	<u>\$ 89,979</u>
REPAIRS AND MAINTENANCE	<u>\$ 439,322</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 21,369
Insurance	19,049
Office Supplies and Postage	19,210
Other	<u>10,638</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 70,266</u>
CAPITAL OUTLAY	<u>\$ 15,698</u>
TAP CONNECTIONS	<u>\$ 2,122</u>
SOLID WASTE DISPOSAL	<u>\$ 226,420</u>
SECURITY	<u>\$ 355,611</u>
OTHER EXPENDITURES:	
Chemicals	\$ 3,526
Greens Median Project	12,600
Laboratory Fees	5,937
Permit Fees	4,185
Reconnection Fees	23,084
Inspection Fees	2,089
Regulatory Assessment	<u>4,907</u>
TOTAL OTHER EXPENDITURES	<u>\$ 56,328</u>
TOTAL EXPENDITURES	<u><u>\$ 2,660,891</u></u>

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
INVESTMENTS
MARCH 31, 2019**

<u>Funds</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	\$ 6,929,968	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 745,807	\$ - 0 -
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0005	Varies	Daily	\$ 140,535	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 7,816,310</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2019**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
APRIL 1, 2018	\$	45,153	\$	40,678
Adjustments to Beginning				
Balance		<u>(19,238)</u>	\$	<u>24,777</u>
Original 2018 Tax Levy	\$	874,313	\$	655,735
Adjustment to 2018 Tax Levy		<u>46,654</u>	<u>920,967</u>	<u>34,990</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	946,882	\$
				715,502
TAX COLLECTIONS:				
Prior Years	\$	5,084	\$	5,978
Current Year		<u>888,748</u>	<u>893,832</u>	<u>672,539</u>
TAXES RECEIVABLE -				
MARCH 31, 2019		<u>\$</u>	<u>53,050</u>	<u>\$</u>
				<u>42,963</u>
TAXES RECEIVABLE BY				
YEAR:				
2018	\$	32,219	\$	24,164
2017		5,804		4,716
2016		5,435		5,004
2015		4,451		4,047
2014		2,279		1,954
2013		913		835
2012		902		825
2011		670		691
2010		275		521
2009		<u>102</u>		<u>206</u>
TOTAL		<u>\$</u>	<u>53,050</u>	<u>\$</u>
				<u>42,963</u>

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 84,735,666	\$ 78,190,235	\$ 70,600,358	\$ 67,102,824
Improvements	232,398,346	213,343,142	202,070,138	177,652,204
Personal Property	15,401,650	15,647,772	16,322,071	18,015,529
Exemptions	<u>(44,732,228)</u>	<u>(32,575,402)</u>	<u>(30,779,627)</u>	<u>(28,336,961)</u>
TOTAL PROPERTY VALUATIONS	<u><u>\$ 287,803,434</u></u>	<u><u>\$ 274,605,747</u></u>	<u><u>\$ 258,212,940</u></u>	<u><u>\$ 234,433,596</u></u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.24	\$ 0.26	\$ 0.290	\$ 0.30
Maintenance	<u>0.32</u>	<u>0.32</u>	<u>0.315</u>	<u>0.33</u>
TOTAL TAX RATES PER \$100 VALUATION	<u><u>\$ 0.56</u></u>	<u><u>\$ 0.58</u></u>	<u><u>\$ 0.605</u></u>	<u><u>\$ 0.63</u></u>
ADJUSTED TAX LEVY*	<u><u>\$ 1,611,692</u></u>	<u><u>\$ 1,592,705</u></u>	<u><u>\$ 1,562,180</u></u>	<u><u>\$ 1,476,924</u></u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u><u>96.50 %</u></u>	<u><u>99.34 %</u></u>	<u><u>99.33 %</u></u>	<u><u>99.42 %</u></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 \$0.35 per \$100 of assessed valuation approved by voters on February 2, 2002.

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

SERIES - 2013 REFUNDING			
Due During Fiscal Years Ending March 31	Principal Due August 1	Interest Due August 1 / February 1	Total
2020	\$ 315,000	\$ 14,025	\$ 329,025
2021	310,000	4,650	314,650
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
	\$ 625,000	\$ 18,675	\$ 643,675

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

S E R I E S - 2 0 1 6			
Due During Fiscal Years Ending March 31	Principal Due August 1	Interest Due August 1 / February 1	Total
2020	\$ 275,000	\$ 64,944	\$ 339,944
2021	275,000	61,644	336,644
2022	300,000	57,900	357,900
2023	300,000	52,875	352,875
2024	300,000	46,875	346,875
2025	300,000	40,875	340,875
2026	300,000	34,875	334,875
2027	300,000	28,875	328,875
2028	300,000	22,875	322,875
2029	300,000	16,688	316,688
2030	300,000	10,125	310,125
2031	300,000	3,375	303,375
2032			
2033			
	\$ 3,550,000	\$ 441,926	\$ 3,991,926

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

S E R I E S - 2 0 1 7			
Due During Fiscal Years Ending March 31	Principal Due August 1	Interest Due August 1 / February 1	Total
2020	\$	\$ 63,281	\$ 63,281
2021		63,281	63,281
2022	225,000	61,033	286,033
2023	225,000	56,531	281,531
2024	225,000	52,031	277,031
2025	225,000	47,531	272,531
2026	225,000	43,031	268,031
2027	225,000	38,531	263,531
2028	225,000	33,750	258,750
2029	225,000	28,547	253,547
2030	225,000	23,063	248,063
2031	225,000	16,875	241,875
2032	225,000	10,125	235,125
2033	225,000	3,375	228,375
	\$ 2,700,000	\$ 540,985	\$ 3,240,985

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 590,000	\$ 142,250	\$ 732,250
2021	585,000	129,575	714,575
2022	525,000	118,933	643,933
2023	525,000	109,406	634,406
2024	525,000	98,906	623,906
2025	525,000	88,406	613,406
2026	525,000	77,906	602,906
2027	525,000	67,406	592,406
2028	525,000	56,625	581,625
2029	525,000	45,235	570,235
2030	525,000	33,188	558,188
2031	525,000	20,250	545,250
2032	225,000	10,125	235,125
2033	225,000	3,375	228,375
	<u>\$ 6,875,000</u>	<u>\$ 1,001,586</u>	<u>\$ 7,876,586</u>

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2019**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2018
Fountainhead Municipal Utility District Unlimited Tax Refunding Bonds - Series 2013	\$ 2,385,000	\$ 945,000
Fountainhead Municipal Utility District Unlimited Tax Bonds - Series 2016	4,050,000	3,800,000
Fountainhead Municipal Utility District Unlimited Tax Bonds - Series 2017	<u>2,700,000</u>	<u>2,700,000</u>
TOTAL	<u>\$ 9,135,000</u>	<u>\$ 7,445,000</u>

Bond Authority:	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 24,700,000
Amount Issued	<u>21,505,000</u>
Remaining to be Issued	<u><u>\$ 3,195,000</u></u>

Debt Service Fund cash and investment balances as of March 31, 2019:	<u>\$ 1,003,647</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 562,613</u>

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding March 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 320,000	\$ 21,950	\$ 625,000	Wells Fargo Bank Texas, N.A.
	250,000	67,775	3,550,000	BOKF, N.A. Austin, TX
		63,281	2,700,000	BOKF, N.A. Austin, TX
<u>\$ - 0 -</u>	<u>\$ 570,000</u>	<u>\$ 153,006</u>	<u>\$ 6,875,000</u>	

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 893,832	\$ 856,959	\$ 800,535
Water Service	559,830	539,907	500,732
Wastewater Service	407,538	404,790	399,378
Sales Tax Revenues	385,515	380,340	419,194
Water Authority Fee	667,123	618,985	506,720
Penalty and Interest	49,050	57,274	43,240
Water Authority Credits	240,026	240,026	240,026
Miscellaneous Revenues	144,893	142,754	152,629
TOTAL REVENUES	\$ 3,347,807	\$ 3,241,035	\$ 3,062,454
EXPENDITURES			
Professional Fees	\$ 126,963	\$ 150,103	\$ 154,517
Contracted Services	807,080	755,956	679,225
Purchased Water Service	815,508	760,233	622,303
Purchased Wastewater Service	237,625	236,881	259,338
Utilities	89,979	84,958	70,656
Repairs and Maintenance	439,322	253,977	272,619
Other	128,716	245,546	236,644
Capital Outlay	15,698	102,330	70,735
TOTAL EXPENDITURES	\$ 2,660,891	\$ 2,589,984	\$ 2,366,037
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 686,916	\$ 651,051	\$ 696,417
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ (41,761)	\$ 90,189	\$ 463,026
NET CHANGE IN FUND BALANCE	\$ 645,155	\$ 741,240	\$ 1,159,443
BEGINNING FUND BALANCE	6,410,888	5,669,648	4,510,205
ENDING FUND BALANCE	\$ 7,056,043	\$ 6,410,888	\$ 5,669,648

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 767,260	\$ 720,832	26.7 %	26.4 %	26.1 %	26.7 %	27.4 %
479,277	460,267	16.7	16.7	16.4	16.7	17.6
386,796	375,589	12.2	12.5	13.0	13.4	14.3
405,594	286,294	11.5	11.7	13.7	14.1	10.9
449,711	430,714	19.9	19.1	16.6	15.6	16.4
40,748	39,228	1.5	1.8	1.4	1.4	1.5
240,026	240,026	7.2	7.4	8.5	8.3	9.2
109,764	69,558	4.3	4.4	4.3	3.8	2.7
<u>\$ 2,879,176</u>	<u>\$ 2,622,508</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 148,635	\$ 106,217	3.8 %	4.6 %	5.0 %	5.1 %	4.1 %
655,744	620,271	24.1	23.3	22.2	22.8	23.7
519,081	491,624	24.4	23.5	20.3	18.0	18.7
208,071	316,015	7.1	7.3	8.5	7.2	12.1
73,527	72,814	2.7	2.6	2.3	2.6	2.8
331,025	259,307	13.1	7.8	8.9	11.5	9.9
221,516	153,484	3.8	7.6	7.7	7.7	5.9
475,469	25,506	0.5	3.2	2.3	16.5	1.0
<u>\$ 2,633,068</u>	<u>\$ 2,045,238</u>	<u>79.5 %</u>	<u>79.9 %</u>	<u>77.2 %</u>	<u>91.4 %</u>	<u>78.2 %</u>
<u>\$ 246,108</u>	<u>\$ 577,270</u>	<u>20.5 %</u>	<u>20.1 %</u>	<u>22.8 %</u>	<u>8.6 %</u>	<u>21.8 %</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 246,108	\$ 577,270					
4,264,097	3,686,827					
<u>\$ 4,510,205</u>	<u>\$ 4,264,097</u>					

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 672,539	\$ 696,371	\$ 737,144
Penalty and Interest	16,856	13,531	17,908
Miscellaneous Revenues	11,230	8,223	2,902
TOTAL REVENUES	\$ 700,625	\$ 718,125	\$ 757,954
EXPENDITURES			
Tax Collection Expenditures	\$ 68,751	\$ 65,013	\$ 69,931
Debt Service Principal	570,000	575,000	540,000
Debt Service Interest and Fees	154,506	125,487	72,966
TOTAL EXPENDITURES	\$ 793,257	\$ 765,500	\$ 682,897
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (92,632)	\$ (47,375)	\$ 75,057
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ (7,500)	\$	\$
Proceeds from Issuance of Long-Term Debt			35,763
TOTAL OTHER FINANCING SOURCES (USES)	\$ (7,500)	\$ - 0 -	\$ 35,763
NET CHANGE IN FUND BALANCE	\$ (100,132)	\$ (47,375)	\$ 110,820
BEGINNING FUND BALANCE	1,053,670	1,101,045	990,225
ENDING FUND BALANCE	\$ 953,538	\$ 1,053,670	\$ 1,101,045
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,531	1,531	1,432
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,504	1,504	1,394

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 701,898	\$ 618,991	96.0 %	97.0 %	97.2 %	95.4 %	97.6 %
33,112	15,407	2.4	1.9	2.4	4.5	2.4
930	279	1.6	1.1	0.4	0.1	
<u>\$ 735,940</u>	<u>\$ 634,677</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 63,787	\$ 59,439	9.8 %	9.1 %	9.2 %	8.7 %	9.4 %
550,000	550,000	81.5	80.2	71.3	74.7	86.7
48,700	65,706	22.1	17.5	9.6	6.6	10.4
<u>\$ 662,487</u>	<u>\$ 675,145</u>	<u>113.4 %</u>	<u>106.8 %</u>	<u>90.1 %</u>	<u>90.0 %</u>	<u>106.5 %</u>
<u>\$ 73,453</u>	<u>\$ (40,468)</u>	<u>(13.4) %</u>	<u>(6.8) %</u>	<u>9.9 %</u>	<u>10.0 %</u>	<u>(6.5) %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 73,453	\$ (40,468)					
916,772	957,240					
<u>\$ 990,225</u>	<u>\$ 916,772</u>					
<u>1,337</u>	<u>1,247</u>					
<u>1,310</u>	<u>1,220</u>					

See accompanying independent auditor's report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2019**

District Mailing Address - Fountainhead Municipal Utility District
c/o Michael A. Cole, PC
5120 Bayard Lane
Houston, TX 77006

District Telephone Number - (713) 880-3800

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>March 31, 2019</u>	Expense Reimbursements for the year ended <u>March 31, 2019</u>	<u>Title</u>
Sidney A. Hubbard	05/2016 – 05/2020 (Elected)	\$ 5,050	\$ - 0 -	President
Paul Cemer	05/2016 – 05/2020 (Elected)	\$ 3,300	\$ - 0 -	Vice President
Bob Grace	05/2018 – 05/2022 (Elected)	\$ 3,450	\$ - 0 -	Secretary
Norm Warwick	05/2018 – 05/2022 (Elected)	\$ 4,650	\$ - 0 -	Treasurer
Kathleen Costello	08/2016 – 05/2020 (Appointed)	\$ 3,400	\$ 26	Assistant Secretary/ Treasurer

Note: 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 developer or with any of the District’s consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
June 28, 2019.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on July 16, 2003. Fees of Office are the amounts actually paid to a Director during the District’s current fiscal year.

See accompanying independent auditor’s report.

**FOUNTAINHEAD MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2019</u>	<u>Title</u>
Michael A. Cole, PC	04/17/77	\$ 66,881	General Counsel
McCall Gibson Swedlund Barfoot PLLC	08/19/87	\$ 26,500	Auditor
Claudia Redden & Associates	05/01/83	\$ 23,211	Bookkeeper
IDS Engineering	05/10/95	\$ 64,810	Engineer
Masterson Advisors LLC	05/02/18	\$ -0-	Financial Advisor
Claudia Redden	09/15/99	\$ -0-	Investment Officer
WET Services, Inc.	03/01/80	\$ 677,853	Operator
Wheeler & Associates	11/74	\$ 48,004	Tax Assessor/ Collector
Perdue, Brandon, Fielder, Collins and Mott LLP		\$ 6,742	Delinquent Tax Attorney

See accompanying independent auditor's report.

