

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12**

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Galveston County Water Control
and Improvement District No. 12
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Water Control and Improvement District No. 12 (the "District"), as of and for the year ended December 31, 2014, 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.

Board of Directors
Galveston County Water Control and
Improvement District No. 12

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 December 31, 2014, 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 Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 33 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
Certified Public Accountants
Houston, Texas

April 13, 2015

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Management’s discussion and analysis of Galveston County Water Control and Improvement District No. 12’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the District’s financial statements, which begin on page 8.

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 Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes 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 statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 8 through 11. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District’s assets and liabilities, 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 portion of the Statement of Activities on pages 13 and 14 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, 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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

FUND FINANCIAL STATEMENTS (Continued)

or assigned for acquisition or construction of facilities and related costs.

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 on page 12 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 15 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. The notes to the financial statements can be found on pages 16 through 31 in this report.

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

The District's assets exceeded liabilities and deferred inflows by \$9,102,530 as of December 31, 2014. A portion of the District's net position reflects its net investment in capital assets (buildings and vehicles as well as the water and wastewater facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

The following is a comparative analysis of the Statement of Net Position as of December 31, 2014, and December 31, 2013.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2014	2013	Change Positive (Negative)
Current and Other Assets	\$ 9,676,521	\$ 5,367,816	\$ 4,308,705
Capital Assets (Net of Accumulated Depreciation)	19,188,204	19,901,507	(713,303)
Total Assets	\$ 28,864,725	\$ 25,269,323	\$ 3,595,402
Long -Term Liabilities	\$ 17,108,930	\$ 13,825,044	\$ (3,283,886)
Other Liabilities	1,395,172	1,139,127	(256,045)
Total Liabilities	\$ 18,504,102	\$ 14,964,171	\$ (3,539,931)
Deferred Inflows of Resources	\$ 1,258,093	\$ 1,231,292	\$ (26,801)
Net Position:			
Net Investment in Capital Assets	\$ 5,124,521	\$ 5,500,885	\$ (376,364)
Restricted	2,113,834	2,084,308	29,526
Unrestricted	1,864,175	1,488,667	375,508
Total Net Position	\$ 9,102,530	\$ 9,073,860	\$ 28,670

The District's net position increased by \$28,670. The following table provides a summary of the District's operations for the years ended December 31, 2014, and December 31, 2013.

	Summary of Changes in the Statement of Activities		
	2014	2013	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,226,595	\$ 1,212,593	\$ 14,002
Charges for Services	2,695,788	2,605,079	90,709
Other Revenues	71,426	192,963	(121,537)
Total Revenues	\$ 3,993,809	\$ 4,010,635	\$ (16,826)
Expenses for Services	3,965,139	3,758,646	(206,493)
Change in Net Position	\$ 28,670	\$ 251,989	\$ (223,319)
Net Position, Beginning of Year	9,073,860	8,821,871	251,989
Net Position, End of Year	\$ 9,102,530	\$ 9,073,860	\$ 28,670

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2014, were \$7,911,375, an increase of \$4,168,308 from the prior year.

The General Fund fund balance increased by \$375,508, primarily due to service revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$55,575, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$3,737,225, due to the sale of Series 2014 bonds, of which proceeds were still on hand at year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the current fiscal year to remove estimated tax assessor/collector fees. Actual revenues were \$124,186 more than budgeted revenues due to water service, fire assessment and tap revenue being higher than anticipated. Actual expenditures were \$12,322 less than budgeted expenditures. See the budget to actual comparison on page 33.

CAPITAL ASSETS

Capital assets as of December 31, 2014, total \$19,188,204 (net of accumulated depreciation) and includes land, buildings, vehicles and equipment as well as the water and wastewater systems. Current year activity includes the emergency generator at the lift station as well as the rehabilitation of water lines, sanitary sewer lines, and ground storage tank. Additional information on the District's capital assets can be found in Note 6 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2014	2013	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 822,435	\$ 822,435	\$
Construction in Progress	183,358	122,744	60,614
Capital Assets, Net of Accumulated Depreciation:			
Vehicles	522,050	633,603	(111,553)
Buildings	1,734,822	1,805,509	(70,687)
Water System	6,045,605	6,105,682	(60,077)
Wastewater System	9,879,934	10,411,534	(531,600)
Total Net Capital Assets	<u>\$ 19,188,204</u>	<u>\$ 19,901,507</u>	<u>\$ (713,303)</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

LONG-TERM DEBT ACTIVITY

As of December 31, 2014, the District had total bond debt payable of \$17,280,000. The changes in the debt position of the District during the fiscal year ended December 31, 2014, are summarized as follows:

Bond Debt Payable, January 1, 2014	\$ 13,760,000
Add: Bond Sale - Series 2014	4,050,000
Less: Bond Principal Paid	<u>530,000</u>
Bond Debt Payable, December 31, 2014	<u>\$ 17,280,000</u>

The District’s bonds carry an underlying rating of “A”. The Series 2010 bonds carry an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2014 bonds carry an insured rating of “AA” by virtue of bond insurance issued by Municipal Assurance Corp. The ratings above reflect all rating changes through December 31, 2014.

The District’s long-term debt also includes a note payable with a December 31, 2014, balance of \$442,195 (see Note 11).

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 Galveston County Water Control and Improvement District No. 12, 524 Cien Street, Kemah, TX 77565.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2014**

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash, Note 5	\$ 2,089,175	\$ 2,193,376
Investments, Note 5	30,953	422,576
Cash with Galveston County		175,481
Receivables:		
Property Taxes		819,250
Penalty and Interest on Delinquent Taxes		19,705
Service Accounts (Net of Allowance for Uncollectible Accounts of \$5,000)	112,842	
Other	4,500	828
Due from Other Funds, Note 2	31,830	
Prepaid Costs	38,780	
Land, Note 6		
Construction in Progress, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
TOTAL ASSETS	<u>\$ 2,308,080</u>	<u>\$ 3,631,216</u>

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>
\$ 3,769,055	\$ 8,051,606	\$	\$ 8,051,606
	453,529		453,529
	175,481		175,481
	819,250		819,250
	19,705		19,705
	112,842		112,842
	5,328		5,328
	31,830	(31,830)	
	38,780		38,780
		822,435	822,435
		183,358	183,358
		<u>18,182,411</u>	<u>18,182,411</u>
<u>\$ 3,769,055</u>	<u>\$ 9,708,351</u>	<u>\$ 19,156,374</u>	<u>\$ 28,864,725</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2014**

	<u>General Fund</u>	<u>Debt Service Fund</u>
LIABILITIES		
Accounts Payable	\$ 181,408	\$ 847
Accrued Interest Payable		
Due to Other Funds, Note 2		
Security Deposits	262,497	
Accrued Interest at Time of Sale		5,123
Long-Term Liabilities:		
Notes Payable, Due Within One Year, Note 11		
Notes Payable, Due After One Year, Note 11		
Bonds Payable, Due Within One Year, Note 3		
Bonds Payable, Due After One Year, Note 3		
TOTAL LIABILITIES	<u>\$ 443,905</u>	<u>\$ 5,970</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$	\$ 1,295,566
Penalty and Interest on Delinquent Taxes		19,705
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ -0-</u>	<u>\$ 1,315,271</u>
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 38,780	\$
Restricted for Authorized Construction		
Restricted for Debt Service		2,309,975
Unassigned	1,825,395	
TOTAL FUND BALANCES	<u>\$ 1,864,175</u>	<u>\$ 2,309,975</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,308,080</u>	<u>\$ 3,631,216</u>
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>
\$	\$ 182,255	\$	\$ 182,255
		258,442	258,442
31,830	31,830	(31,830)	
	262,497		262,497
	5,123	(5,123)	
		46,978	46,978
		395,217	395,217
		645,000	645,000
		16,713,713	16,713,713
<u>31,830</u>	<u>481,705</u>	<u>18,022,397</u>	<u>18,504,102</u>
\$	\$ 1,295,566	\$ (37,473)	\$ 1,258,093
	19,705	(19,705)	
<u>-0-</u>	<u>1,315,271</u>	<u>(57,178)</u>	<u>1,258,093</u>
\$	\$ 38,780	\$ (38,780)	\$
3,737,225	3,737,225	(3,737,225)	
	2,309,975	(2,309,975)	
	1,825,395	(1,825,395)	
<u>3,737,225</u>	<u>7,911,375</u>	<u>(7,911,375)</u>	<u>- 0 -</u>
<u>3,769,055</u>	<u>9,708,351</u>		
		\$ 5,124,521	\$ 5,124,521
		2,113,834	2,113,834
		1,864,175	1,864,175
		<u>9,102,530</u>	<u>9,102,530</u>

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

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 12
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total Fund Balances - Governmental Funds \$ 7,911,375

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 19,188,204

Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2013 and prior tax levies became part of recognized revenue in the governmental activities of the District. 57,178

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	\$ (253,319)	
Notes Payable Within One Year	(46,978)	
Notes Payable After One Year	(395,217)	
Bonds Payable Within One Year	(645,000)	
Bonds Payable After One Year	<u>(16,713,713)</u>	<u>(18,054,227)</u>
Total Net Position - Governmental Activities		<u>\$ 9,102,530</u>

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

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$	\$ 1,213,629
Water Service	1,069,181	
Wastewater Service	900,844	
Fire Assessment, Note 10	563,915	
Surcharges	42,344	
Penalty and Interest	25,180	9,586
Tap Connection and Inspection Fees	81,081	
Investment Revenues	2,386	4,179
Miscellaneous Revenues	63,555	
TOTAL REVENUES	\$ 2,748,486	\$ 1,227,394
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 80,851	\$
Contracted Services	567,091	12,790
Purchased Water Service, Note 8	206,802	
Utilities	163,850	
Fire Service, Note 10	568,232	
Repairs and Maintenance	416,717	
Depreciation, Note 6		
Other	255,888	796
Capital Outlay	54,045	
Debt Service:		
Note Principal	45,578	
Note Interest	13,924	
Bond Issuance Costs		
Bond Principal		530,000
Bond Interest		628,233
TOTAL EXPENDITURES/EXPENSES	\$ 2,372,978	\$ 1,171,819
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 375,508	\$ 55,575
OTHER FINANCING SOURCES (USES)		
Bond Proceeds, Note 12	\$	\$
Bond Discounts		
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCES	\$ 375,508	\$ 55,575
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2014	1,488,667	2,254,400
FUND BALANCES/NET POSITION - DECEMBER 31, 2014	\$ 1,864,175	\$ 2,309,975

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,213,629	\$ 12,966	\$ 1,226,595
	1,069,181		1,069,181
	900,844		900,844
	563,915		563,915
	42,344		42,344
	34,766	3,657	38,423
	81,081		81,081
1,306	7,871		7,871
	63,555		63,555
\$ 1,306	\$ 3,977,186	\$ 16,623	\$ 3,993,809
\$	\$ 80,851	\$	\$ 80,851
	579,881		579,881
	206,802		206,802
	163,850		163,850
	568,232		568,232
	416,717		416,717
		827,962	827,962
104	256,788		256,788
60,614	114,659	(114,659)	
	45,578	(45,578)	
	13,924	(128)	13,796
202,029	202,029		202,029
	530,000	(530,000)	
	628,233	19,998	648,231
\$ 262,747	\$ 3,807,544	\$ 157,595	\$ 3,965,139
\$ (261,441)	\$ 169,642	\$ (140,972)	\$ 28,670
\$ 4,050,000	\$ 4,050,000	\$ (4,050,000)	\$
(51,334)	(51,334)	51,334	
\$ 3,998,666	\$ 3,998,666	\$ (3,998,666)	\$ -0-
\$ 3,737,225	\$ 4,168,308	\$ (4,168,308)	\$
		28,670	28,670
	3,743,067	5,330,793	9,073,860
\$ 3,737,225	\$ 7,911,375	\$ 1,191,155	\$ 9,102,530

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net Change in Fund Balances - Governmental Funds	\$	4,168,308
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.		12,966
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		3,657
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.		(827,962)
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.		114,659
Governmental funds report bond discounts as other financing uses in the year paid. However, in the Statement of Net Position, bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		51,334
Governmental funds report note principal payments as expenditures. However, in the Statement of Net Position, note principal payments are reported as decreases in long-term liabilities.		45,578
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		530,000
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.		(19,870)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(4,050,000)
Change in Net Position - Governmental Activities	\$	<u>28,670</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1. CREATION OF DISTRICT

Galveston County Water Control and Improvement District No. 12 (the “District”) was created by an order of the State Board of Water Engineers of Texas on June 11, 1951. The District is presently under the oversight of the Texas Commission on Environmental Quality (the “Commission”). On August 2, 1984, the District was converted from a water control and improvement district operating under the provisions of Chapter 51, to a municipal utility district operating under the provisions of Chapter 54, Texas Water Code. 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 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 July 6, 1951, and the first bonds were sold on April 1, 1953.

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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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:

- 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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 of the government-wide Statement of Activities.

Fund Financial Statements

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

Governmental Funds

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

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2013 tax levy collections from October 1, 2013, to December 31, 2014, and taxes collected in the period January 1, 2014, to December 31, 2014, for the 2012 and prior tax levies. The 2014 tax levy has been fully deferred to the 2015 fiscal year to meet the District's planned cost of operations in that fiscal year.

Amounts transferred from one fund to another fund are reported as an other financing source or use. 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 December 31, 2014, the Capital Projects Fund recorded a liability in the amount of \$31,830 to the General Fund for various engineering fees and Series 2014 bond issuance costs.

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 an expenditure 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 \$10,000 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:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered to be "employees" for federal payroll tax 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 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3. LONG-TERM DEBT

	<u>Series 2005</u>	<u>Series 2010 Refunding</u>
Amount Outstanding – December 31, 2014	\$ 10,765,000	\$ 2,465,000
Interest Rates	4.50% - 5.00%	4.00% - 4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2015/2030	September 1, 2015/2020
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Date	March 1, 2015*	N/A
		<u>Series 2014</u>
Amount Outstanding – December 31, 2014		\$ 4,050,000
Interest Rates		3.00% - 4.00%
Maturity Dates – Serially Beginning/Ending		September 1, 2015/2039
Interest Payment Dates		March 1/ September 1
Callable Date		September 1, 2022**

* The bonds maturing on September 1, 2016, and thereafter are subject to redemption prior to maturity at the option of the District at a price equal to the principal amount plus accrued interest to the date fixed for redemption. The bonds maturing on September 1, 2028, and September 1, 2030, are term bonds subject to mandatory redemption on September 1, 2026, and September 1, 2029, respectively.

** Series 2014 term bonds due September 1, 2026, September 1, 2028, September 1, 2030, September 1, 2032, September 1, 2034, September 1, 2036, and September 1, 2039, are subject to mandatory redemption on September 1, 2025, September 1, 2027, September 1, 2029, September 1, 2031, September 1, 2033, September 1, 2035, September 1, 2037, respectively.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2014:

	January 1, 2014	Additions	Retirements	December 31, 2014
Bonds Payable	\$ 13,760,000	\$ 4,050,000	\$ 530,000	\$ 17,280,000
Unamortized Discounts	(39,260)	(51,334)	(4,979)	(85,615)
Unamortized Premiums	192,109		27,781	164,328
Bonds Payable, Net	<u>\$ 13,912,849</u>	<u>\$ 4,050,000</u>	<u>\$ 552,802</u>	<u>\$ 17,358,713</u>
			Amount Due Within One Year	\$ 645,000
			Amount Due After One Year	<u>16,713,713</u>
			Bonds Payable, Net	<u>\$ 17,358,713</u>

As of December 31, 2014, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 645,000	\$ 755,058	\$ 1,400,058
2016	680,000	722,907	1,402,907
2017	705,000	696,158	1,401,158
2018	740,000	665,857	1,405,857
2019	770,000	631,958	1,401,958
2020-2024	4,600,000	2,605,413	7,205,413
2025-2029	5,865,000	1,495,611	7,360,611
2030-2034	2,120,000	397,087	2,517,087
2035-2039	1,155,000	142,200	1,297,200
	<u>\$ 17,280,000</u>	<u>\$ 8,112,249</u>	<u>\$ 25,392,249</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.

As of December 31, 2014, the District had authorized but unissued bonds in the amount of \$180,000.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended December 31, 2014, the District levied an ad valorem debt service tax rate of \$0.30 per \$100 of assessed valuation, which resulted in a tax levy of \$1,258,093 on the adjusted taxable valuation of \$418,692,104 for the 2014 tax year. The bond orders require 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.

The District's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter, 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 so long as any of the bonds are outstanding, the District covenants to maintain insurance on such parts of the system as are usually insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents or casualties against which and to the extent insurance is usually carried by such municipal corporations and political subdivisions.

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 to each nationally recognized municipal securities information depository and the state information depository. 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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. At fiscal year end, the carrying amount of the District’s deposits was \$8,051,606 and the bank balance was \$8,092,714. Of the balance, \$750,000 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2014, as listed below:

	Cash
GENERAL FUND	\$ 2,089,175
DEBT SERVICE FUND	2,193,376
CAPITAL PROJECTS FUND	3,769,055
TOTAL DEPOSITS	\$ 8,051,606

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,

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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.

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. The fair value of the District’s position in the pool is the same as the value of pool shares.

As of December 31, 2014, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 30,953	\$ 30,953	\$	\$	\$
<u>DEBT SERVICE FUND</u>					
TexPool	422,576	422,576			
TOTAL INVESTMENTS	\$ 453,529	\$ 453,529	\$ - 0 -	\$ - 0 -	\$ - 0 -

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2014, 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 the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014:

	January 1, 2014	Increases	Decreases	December 31, 2014
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 822,435	\$	\$	\$ 822,435
Construction in Progress	122,744	114,659	54,045	183,358
Total Capital Assets Not Being Depreciated	\$ 945,179	\$ 114,659	\$ 54,045	\$ 1,005,793
Capital Assets Subject to Depreciation				
Vehicles	\$ 1,879,973	\$	\$	\$ 1,879,973
Buildings	2,368,457			2,368,457
Water System	7,337,456	54,045		7,391,501
Wastewater System	16,226,878			16,226,878
Total Capital Assets Subject to Depreciation	\$ 27,812,764	\$ 54,045	\$ - 0 -	\$ 27,866,809

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 6. CAPITAL ASSETS (Continued)

	January 1, 2014	Increases	Decreases	December 31, 2014
Accumulated Depreciation				
Vehicles	\$ 1,246,370	\$ 111,553	\$	\$ 1,357,923
Buildings	562,948	70,687		633,635
Water System	1,231,774	114,122		1,345,896
Wastewater System	5,815,344	531,600		6,346,944
Total Accumulated Depreciation	<u>\$ 8,856,436</u>	<u>\$ 827,962</u>	<u>\$ - 0 -</u>	<u>\$ 9,684,398</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 18,956,328</u>	<u>\$ (773,917)</u>	<u>\$ - 0 -</u>	<u>\$ 18,182,411</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,901,507</u>	<u>\$ (659,258)</u>	<u>\$ 54,045</u>	<u>\$ 19,188,204</u>

NOTE 7. MAINTENANCE TAX

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax would be in addition to taxes, which the District is authorized to levy for paying principal and interest on the outstanding bonds, and any tax bonds, which may be issued in the future. To date, a maintenance tax has not been authorized by the electorate, and thus no maintenance tax has been levied.

NOTE 8. SURFACE WATER SUPPLY CONTRACT

On May 13, 1985, the District executed an agreement with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"). This agreement was amended on June 21, 1998 and June 16, 2011. The Authority represents that a supply of surface water is available to the District through the Mainland System.

With the June 21, 1998, contract amendment and upon the occurrence of the commencement date, participants in the "South Project" became participants in the facilities. The South Project added approximately 25,000,000 gallons-per-day (gpd) capacity in the water plant, the South Line, the Galveston Line, the Highway 6 Line, the Alta Loma Pump Station, the 39-Inch Line and the Alta Loma Wells.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 8. SURFACE WATER SUPPLY CONTRACT (Continued)

In the Mainland Project the District received a reserved capacity of 750,000 gallons-per-day (gpd) of a total capacity in the Mainland Project of 18,000,000 gpd. The expansion of the plant to 25,000,000 gpd, resulted in the District having 893,000 gpd of capacity. In addition, the District was initially obligated to a “take or pay” quantity of 250,000 gpd. The “take or pay” quantity is subject to periodic changes.

The Authority agreed to furnish, install, operate and maintain at or near the point of delivery the necessary equipment and devices of a standard type for measuring the quantity of water delivered to the District. The Authority has the responsibility for reading the measurement devices and maintaining a journal or record book of such readings and the District has access to such journals. The District has the right to request calibration of the meter no more than once every 180 days.

Charges to the District include its allocation share of the Mainland System Raw Water Charges to provide for the Industrial Division Payments, Mainland System Operation Charges relating to the operation, maintenance and repair of the Mainland System and capital charges. During the current fiscal year, the District incurred costs for purchased water of \$206,802.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions; and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, boiler and machinery, and directors and officers liability coverage. The District, along with other participating entities, contributes annual amounts determined by TML’s management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 10. CONTRACT FOR FIRE FIGHTING SERVICES

A Fire Fighting Services Contract was approved by the District’s voters on May 6, 2000, and by the Commission on March 22, 2000. On November 11, 2004, the District entered into a contract with the Kemah Volunteer Fire Department (the “Department”), whereby the Department agrees to provide fire fighting services within the District’s boundaries. This contract was most recently amended on March 11, 2013. The current assessment charged by the District is \$7.00 per month

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 10. CONTRACT FOR FIRE FIGHTING SERVICES (Continued)

per unit. A unit is defined as a single family dwelling, single apartment unit (80% occupancy factor used), commercial, office, retail, restaurant, or distribution center without fixed fire protection per 500 square feet, commercial office, retail, restaurant, or distribution center with fixed fire protection per 2,000 square feet, boat slip and improved lots (equivalent to ½ unit). The District pays the Department the fee multiplied by the number of units as calculated per the contract or the actual amount collected each month, whichever is less. The term of the contract is two years and will automatically renew for additional periods of one year each, unless written notice of termination is given by either party at least 60 days prior to the beginning of each annual period. During the current fiscal year, the District recorded fire fighting assessment revenues of \$563,915 and fire fighting service costs of \$568,232.

NOTE 11. NOTE PAYABLE

On February 12, 2013, the District financed a note totaling \$549,899, of which \$40,000 was made as a down payment. The note was used to purchase a Pierce Arrow XT Pumper. Payments of \$14,876, including interest of 2.95%, are due quarterly on February, 28th, May 31st, August 31st, and November 31st with the final payment due May 31, 2023.

Current activity is as follows:

Note Payable Balance-January 1, 2014		\$	487,773
Less: Principal Paid			<u>45,578</u>
Note Payable Balance-December 31, 2014		\$	<u><u>442,195</u></u>

As of December 31, 2014, the scheduled maturities are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 46,978	\$ 12,524	\$ 59,502
2016	48,379	11,123	59,502
2017	49,823	9,679	59,502
2018	51,284	8,218	59,502
2019	52,838	6,664	59,502
2020-2023	<u>192,893</u>	<u>10,583</u>	<u>203,476</u>
	<u>\$ 442,195</u>	<u>\$ 58,791</u>	<u>\$ 500,986</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 12. BOND SALE

On August 14, 2014, the District closed on the sale of its \$4,050,000 Series 2014 Bonds. The District will use the proceeds of the bond sale to fund construction of a 12-inch water line along FM 518 and South Kemah, Lazy Bend water line upgrades, wastewater collection system rehabilitation, phases 1 and 2; New Kipp lift station, SH 2094 lift station rehabilitation and odor control program and system. Additional proceeds were used to cover issuance costs of the bonds.

NOTE 13. ESCROW REQUIREMENT AND DIRECTIVE NOT TO EXPEND

The Commission directed the District to place Series 2014 bond proceeds in escrow as follows: \$500,300 to be escrowed for the construction of the 12-inch water line to serve FM 518 and South Kemah and \$621,000 to be escrowed for the construction of the New Kipp lift station. As of December 31, 2014, \$1,121,300 remains in escrow.

The Commission directed the District not to expend Series 2014 bond proceeds as follows: \$557,800 for Lazy Bend waterline upgrades, \$395,500 for wastewater collection system rehabilitation – phase 1, \$291,100 for wastewater collection system rehabilitation – phase 2, and \$163,300 for lift station rehabilitation pending receipt of plans and specifications.

NOTE 14. ASSUMPTION AGREEMENT WITH NRG TEXAS POWER, LLC

Subsequent to the report date, the District intends to finalize an agreement with NRG Texas Power, LLC (“NRG”) in which the District will assume a portion of NRG’s reserve capacity and contract quality in the Mainland Water Project Customer Contract with the Authority. The District agrees to assume NRG’s reserve capacity interest of 150,000 gallons of treated water per day and NRG’s contract quality interest of 108,350 gallons of treated water per day. The District paid \$38,780 toward the final purchase price during the current fiscal year.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12**

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Water Service	\$ 1,045,000	\$ 1,045,000	\$ 1,069,181	\$ 24,181
Wastewater Service	908,000	908,000	900,844	(7,156)
Fire Assessment	525,000	525,000	563,915	38,915
Surcharges	42,000	42,000	42,344	344
Penalty and Interest	28,000	28,000	25,180	(2,820)
Tap Connection and Inspection Fees	18,000	18,000	81,081	63,081
Investment Revenues	1,800	1,800	2,386	586
Miscellaneous Revenues	<u>56,500</u>	<u>56,500</u>	<u>63,555</u>	<u>7,055</u>
TOTAL REVENUES	<u>\$ 2,624,300</u>	<u>\$ 2,624,300</u>	<u>\$ 2,748,486</u>	<u>\$ 124,186</u>
EXPENDITURES				
Services Operations:				
Professional Fees	\$ 134,250	\$ 134,250	\$ 80,851	\$ 53,399
Contracted Services	531,500	519,500	567,091	(47,591)
Purchased Water Service	190,000	190,000	206,802	(16,802)
Utilities	187,000	187,000	163,850	23,150
Fire Service	527,000	527,000	568,232	(41,232)
Repairs and Maintenance	525,000	525,000	416,717	108,283
Other	242,550	242,550	255,888	(13,338)
Capital Outlay			54,045	(54,045)
Note Principal/Interest	<u>60,000</u>	<u>60,000</u>	<u>59,502</u>	<u>498</u>
TOTAL EXPENDITURES	<u>\$ 2,397,300</u>	<u>\$ 2,385,300</u>	<u>\$ 2,372,978</u>	<u>\$ 12,322</u>
NET CHANGE IN FUND BALANCE	\$ 227,000	\$ 239,000	\$ 375,508	\$ 136,508
FUND BALANCE - JANUARY 1, 2014	<u>1,488,667</u>	<u>1,488,667</u>	<u>1,488,667</u>	
FUND BALANCE - DECEMBER 31, 2014	<u>\$ 1,715,667</u>	<u>\$ 1,727,667</u>	<u>\$ 1,864,175</u>	<u>\$ 136,508</u>

See accompanying independent auditor's report.

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12**

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

DECEMBER 31, 2014

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> </u>	Drainage
<u> X </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> X </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved January 13, 2014.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 10.00	2,000	N	\$ 4.00 \$ 5.00	2,001 to 20,000 20,001 and up
WASTEWATER:	\$ 10.00	2,000	N	\$ 4.00 \$ 5.00	2,001 to 20,000 20,001 and up

SURCHARGE:

Other Fire Assessment \$7.00 per Unit

District employs winter averaging for wastewater usage?

	<u> </u>	<u> X </u>
	Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$42.00 Wastewater: \$42.00 Surcharge: \$7.00 Total \$91.00

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2014**

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>1,485</u>	<u>1,308</u>	x 1.0	<u>1,308</u>
1"	<u>63</u>	<u>59</u>	x 2.5	<u>148</u>
1½"	<u>28</u>	<u>27</u>	x 5.0	<u>135</u>
2"	<u>85</u>	<u>83</u>	x 8.0	<u>664</u>
3"	<u>3</u>	<u>3</u>	x 15.0	<u>45</u>
4"	<u>4</u>	<u>4</u>	x 25.0	<u>100</u>
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"	<u>1</u>	<u>1</u>	x 80.0	<u>80</u>
10"			x 115.0	
Total Water Connections	<u><u>1,670</u></u>	<u><u>1,486</u></u>		<u><u>2,530</u></u>
Total Wastewater Connections	<u><u>1,619</u></u>	<u><u>1,445</u></u>	x 1.0	<u><u>1,445</u></u>

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

Gallons pumped into system:	1,493,000	Water Accountability Ratio: 86% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	225,434,000	
Gallons purchased:	259,902,000	From: Gulf Coast Water Authority

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2014**

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:

Galveston County, Texas

Is the District located within a city?

Entirely Partly Not at all

Cities in which District is located:

City of Kemah, Texas
City of Clear Lake Shores, Texas
City of League City, Texas

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Kemah, Texas
City of Clear Lake Shores, Texas
City of League City, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2014**

PROFESSIONAL FEES:	
Auditing	\$ 14,750
Engineering	37,754
Legal	28,097
Financial Advisor	<u>250</u>
TOTAL PROFESSIONAL FEES	\$ <u>80,851</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 206,802</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 19,176
Operations and Billing	<u>545,541</u>
TOTAL CONTRACTED SERVICES	\$ <u>564,717</u>
UTILITIES:	
Electricity	\$ 149,338
Telephone	<u>14,512</u>
TOTAL UTILITIES	\$ <u>163,850</u>
REPAIRS AND MAINTENANCE	\$ <u>416,717</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 7,950
Dues	751
Insurance	33,738
Lease Payments	1,847
Legal Notices	300
Office Supplies and Postage	16,020
Payroll Taxes	608
Payroll Administration	12,141
Travel and Meetings	5,268
Other	<u>437</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>79,060</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2014**

CAPITAL OUTLAY:	
Capitalized Assets	\$ 54,045
Expenditures Not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY:	<u>\$ 54,045</u>
TAP CONNECTIONS	<u>\$ 47,511</u>
SOLID WASTE DISPOSAL	<u>\$ 2,374</u>
FIRE FIGHTING	<u>\$ 568,232</u>
OTHER EXPENDITURES:	
Chemicals	\$ 44,532
Laboratory Fees	36,438
Permit Fees	11,723
Inspection Fees	7,680
Regulatory Assessment	9,867
Sludge Hauling	<u>19,077</u>
TOTAL OTHER EXPENDITURES	<u>\$ 129,317</u>
DEBT SERVICE:	
Note Principal	\$ 45,578
Note Interest	<u>13,924</u>
TOTAL DEBT SERVICE	<u>\$ 59,502</u>
TOTAL EXPENDITURES	<u>\$ 2,372,978</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
INVESTMENTS
DECEMBER 31, 2014**

<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	XXXX0004	Varies	Daily	\$ 30,953	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 422,576	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 453,529</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Debt Service Taxes	
TAXES RECEIVABLE -		
JANUARY 1, 2014	\$ 901,965	
Adjustments to Beginning Balance	(4,697)	\$ 897,268
Original 2014 Tax Levy	\$ 1,130,463	
Adjustment to 2014 Tax Levy	127,630	1,258,093
TOTAL TO BE ACCOUNTED FOR		\$ 2,155,361
TAX COLLECTIONS:		
Prior Years	\$ 859,795	
Current Year	476,316	1,336,111
TAXES RECEIVABLE -		
DECEMBER 31, 2014		\$ 819,250
TAXES RECEIVABLE BY		
YEAR:		
2014		\$ 781,777
2013		17,699
2012		4,022
2011		2,587
2010		2,721
2009		2,164
2008		1,245
2007		1,349
2006		696
2005		844
2004		846
2003		830
2002 and Prior		2,470
TOTAL		\$ 819,250

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
PROPERTY VALUATIONS:				
Land	\$ 150,459,893	\$ 149,316,663	\$ 149,465,223	\$ 150,273,523
Improvements	296,793,818	281,001,110	278,535,420	267,666,576
Personal Property	43,795,920	45,081,102	43,441,670	42,474,265
Exemptions	<u>(72,357,527)</u>	<u>(64,968,264)</u>	<u>(65,810,753)</u>	<u>(61,248,950)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 418,692,104</u>	<u>\$ 410,430,611</u>	<u>\$ 405,631,560</u>	<u>\$ 399,165,414</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	<u>\$ 0.30</u>	<u>\$ 0.30</u>	<u>\$ 0.30</u>	<u>\$ 0.30</u>
ADJUSTED TAX LEVY*	<u>\$ 1,258,093</u>	<u>\$ 1,231,292</u>	<u>\$ 1,216,896</u>	<u>\$ 1,198,613</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED				
	<u>37.86 %</u>	<u>98.56 %</u>	<u>99.67 %</u>	<u>99.78 %</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 – A maintenance tax rate has not been approved by voters.

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2014**

S E R I E S - 2 0 0 5

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$ 55,000	\$ 502,633	\$ 557,633
2016	55,000	499,882	554,882
2017	210,000	497,133	707,133
2018	225,000	485,582	710,582
2019	340,000	473,208	813,208
2020	360,000	454,508	814,508
2021	755,000	438,309	1,193,309
2022	795,000	404,332	1,199,332
2023	835,000	368,557	1,203,557
2024	875,000	330,982	1,205,982
2025	920,000	291,607	1,211,607
2026	965,000	250,207	1,215,207
2027	1,015,000	204,370	1,219,370
2028	1,065,000	156,157	1,221,157
2029	1,120,000	105,570	1,225,570
2030	1,175,000	54,050	1,229,050
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 10,765,000</u>	<u>\$ 5,517,087</u>	<u>\$ 16,282,087</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2014**

SERIES - 2010 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$ 500,000	\$ 103,850	\$ 603,850
2016	525,000	83,850	608,850
2017	390,000	62,850	452,850
2018	405,000	47,250	452,250
2019	315,000	29,025	344,025
2020	330,000	14,850	344,850
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 2,465,000</u>	<u>\$ 341,675</u>	<u>\$ 2,806,675</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2014**

S E R I E S - 2 0 1 4

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$ 90,000	\$ 148,575	\$ 238,575
2016	100,000	139,175	239,175
2017	105,000	136,175	241,175
2018	110,000	133,025	243,025
2019	115,000	129,725	244,725
2020	120,000	126,275	246,275
2021	125,000	122,675	247,675
2022	130,000	118,925	248,925
2023	135,000	115,025	250,025
2024	140,000	110,975	250,975
2025	145,000	106,775	251,775
2026	150,000	102,425	252,425
2027	155,000	97,925	252,925
2028	160,000	92,887	252,887
2029	170,000	87,688	257,688
2030	175,000	81,737	256,737
2031	180,000	75,612	255,612
2032	190,000	69,088	259,088
2033	195,000	62,200	257,200
2034	205,000	54,400	259,400
2035	215,000	46,200	261,200
2036	220,000	37,600	257,600
2037	230,000	28,800	258,800
2038	240,000	19,600	259,600
2039	250,000	10,000	260,000
	<u>\$ 4,050,000</u>	<u>\$ 2,253,487</u>	<u>\$ 6,303,487</u>

See accompanying independent auditor's report.

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2014**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2015	\$ 645,000	\$ 755,058	\$ 1,400,058
2016	680,000	722,907	1,402,907
2017	705,000	696,158	1,401,158
2018	740,000	665,857	1,405,857
2019	770,000	631,958	1,401,958
2020	810,000	595,633	1,405,633
2021	880,000	560,984	1,440,984
2022	925,000	523,257	1,448,257
2023	970,000	483,582	1,453,582
2024	1,015,000	441,957	1,456,957
2025	1,065,000	398,382	1,463,382
2026	1,115,000	352,632	1,467,632
2027	1,170,000	302,295	1,472,295
2028	1,225,000	249,044	1,474,044
2029	1,290,000	193,258	1,483,258
2030	1,350,000	135,787	1,485,787
2031	180,000	75,612	255,612
2032	190,000	69,088	259,088
2033	195,000	62,200	257,200
2034	205,000	54,400	259,400
2035	215,000	46,200	261,200
2036	220,000	37,600	257,600
2037	230,000	28,800	258,800
2038	240,000	19,600	259,600
2039	250,000	10,000	260,000
	<u>\$ 17,280,000</u>	<u>\$ 8,112,249</u>	<u>\$ 25,392,249</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2014**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2014
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2005	\$ 11,200,000	\$ 10,820,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Refunding Bonds - Series 2010	3,945,000	2,940,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2014	<u>4,050,000</u>	<u> </u>
TOTAL	<u>\$ 19,195,000</u>	<u>\$ 13,760,000</u>
Bond Authority:		<u>Tax Bonds</u>
Amount Authorized by Voters		\$ 26,800,000
Amount Issued		<u>26,620,000</u>
Remaining to be Issued		<u>\$ 180,000</u>
Debt Service Fund cash and investment balances as of December 31, 2014:		<u>\$ 2,791,433</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 1,015,690</u>

See Note 3 for interest rate, 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 December 31, 2014</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 55,000	\$ 505,382	\$ 10,765,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	475,000	122,851	2,465,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>4,050,000</u>			<u>4,050,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 4,050,000</u>	<u>\$ 530,000</u>	<u>\$ 628,233</u>	<u>\$ 17,280,000</u>	

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amount		
	2014	2013	2012
REVENUES			
Water Service	\$ 1,069,181	\$ 1,014,463	\$ 932,111
Wastewater Service	900,844	882,078	789,901
Fire Assessment	563,915	550,773	478,482
Surcharges	42,344	42,609	41,558
Penalty and Interest	25,180	29,800	25,565
Tap Connection and Inspection Fees	81,081	72,856	45,852
Investment Revenues	2,386	1,721	1,832
Grant Revenue			
Miscellaneous Revenues	63,555	53,889	45,235
TOTAL REVENUES	\$ 2,748,486	\$ 2,648,189	\$ 2,360,536
EXPENDITURES			
Professional Fees	\$ 80,851	\$ 112,264	\$ 129,871
Contracted and Purchased Services	773,893	633,505	726,309
Utilities	163,850	185,958	194,845
Fire Service	568,232	540,719	463,096
Repairs and Maintenance	416,717	513,127	414,820
Other	255,888	266,049	223,569
Capital Outlay	54,045	608,899	
Debt Service:			
Note Principal	45,578	203,669	45,800
Note Interest	13,924	12,522	11,961
TOTAL EXPENDITURES	\$ 2,372,978	\$ 3,076,712	\$ 2,210,271
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 375,508	\$ (428,523)	\$ 150,265
OTHER FINANCING SOURCES (USES)			
Transfer In	\$	\$	\$
Note Proceeds		549,899	
Sale of Assets		225,000	
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ 774,899	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 375,508	\$ 346,376	\$ 150,265
BEGINNING FUND BALANCE	1,488,667	1,142,291	992,026
ENDING FUND BALANCE	\$ 1,864,175	\$ 1,488,667	\$ 1,142,291

See accompanying independent auditor's report.

		Percentage of Total Revenue						
2011	2010	2014	2013	2012	2011	2010		
\$ 923,538	\$ 810,560	38.9 %	38.3 %	39.4 %	41.3 %	34.8		
774,703	666,429	32.8	33.3	33.5	34.7	28.6		
368,176	355,083	20.5	20.8	20.3	16.5	15.2		
42,586	44,505	1.5	1.6	1.8	1.9	1.9		
39,901	33,944	0.9	1.1	1.1	1.8	1.5		
29,995	33,793	3.0	2.8	1.9	1.3	1.4		
1,980	3,163	0.1	0.1	0.1	0.1	0.1		
	350,000					15.0		
54,057	35,767	2.3	2.0	1.9	2.4	1.5		
<u>\$ 2,234,936</u>	<u>\$ 2,333,244</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0</u>		
\$ 73,339	\$ 111,134	2.9 %	4.2 %	5.5 %	3.3 %	4.8		
734,355	703,361	28.2	23.9	30.8	32.9	30.1		
170,579	223,189	6.0	7.0	8.3	7.6	9.6		
413,892	351,475	20.7	20.4	19.6	18.5	15.1		
340,724	377,748	15.2	19.4	17.6	15.2	16.2		
237,668	247,729	9.3	10.0	9.5	10.6	10.6		
206,314	577,809	2.0	23.0		9.2	24.8		
42,762	39,895	1.7	7.7	1.9	1.9	1.7		
15,000	17,867	0.5	0.5	0.5	0.7	0.8		
<u>\$ 2,234,633</u>	<u>\$ 2,650,207</u>	<u>86.5 %</u>	<u>116.1 %</u>	<u>93.7 %</u>	<u>99.9 %</u>	<u>113.7</u>		
<u>\$ 303</u>	<u>\$ (316,963)</u>	<u>13.5 %</u>	<u>(16.1) %</u>	<u>6.3 %</u>	<u>0.1 %</u>	<u>(13.7)</u>		
\$	\$ 288,642							
<u>\$ - 0 -</u>	<u>\$ 288,642</u>							
\$ 303	\$ (28,321)							
991,723	1,020,044							
<u>\$ 992,026</u>	<u>\$ 991,723</u>							

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amount		
	2014	2013	2012
REVENUES			
Property Taxes	\$ 1,213,629	\$ 1,213,079	\$ 1,203,323
Penalty and Interest	9,586	11,132	18,108
Investment Revenues	4,179	5,409	6,949
Miscellaneous Revenues		3,477	313
TOTAL REVENUES	<u>\$ 1,227,394</u>	<u>\$ 1,233,097</u>	<u>\$ 1,228,693</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 12,086	\$ 11,007	\$ 38,984
Debt Service Principal	530,000	515,000	500,000
Debt Service Interest and Fees	629,733	645,583	661,682
TOTAL EXPENDITURES	<u>\$ 1,171,819</u>	<u>\$ 1,171,590</u>	<u>\$ 1,200,666</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 55,575</u>	<u>\$ 61,507</u>	<u>\$ 28,027</u>
OTHER FINANCING SOURCES (USES)			
Refunded Bonds Issued	\$	\$	\$
Discount on Bonds Issued			
Premium on Bonds Issued			
Payment to Refunded Bond Escrow Agent			
Bond Issuance Costs			
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 55,575	\$ 61,507	\$ 28,027
BEGINNING FUND BALANCE	2,254,400	2,192,893	2,164,866
ENDING FUND BALANCE	<u>\$ 2,309,975</u>	<u>\$ 2,254,400</u>	<u>\$ 2,192,893</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,486</u>	<u>1,429</u>	<u>1,429</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>1,445</u>	<u>1,383</u>	<u>1,373</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2014	2013	2012	2011	2010
\$ 1,175,493	\$ 1,085,973	98.9 %	98.4 %	97.9 %	96.7 %	96.4 %
29,699	28,235	0.8	0.9	1.5	2.4	2.5
9,746	12,283	0.3	0.4	0.6	0.8	1.1
1,173			0.3		0.1	
<u>\$ 1,216,111</u>	<u>\$ 1,126,491</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 50,343	\$ 50,698	1.0 %	0.9 %	3.2 %	4.1 %	4.5 %
505,000	430,000	43.2	41.8	40.7	41.5	38.2
<u>655,507</u>	<u>767,412</u>	<u>51.3</u>	<u>52.4</u>	<u>53.9</u>	<u>53.9</u>	<u>68.0</u>
<u>\$ 1,210,850</u>	<u>\$ 1,248,110</u>	<u>95.5 %</u>	<u>95.1 %</u>	<u>97.8 %</u>	<u>99.5 %</u>	<u>110.7 %</u>
\$ 5,261	\$ (121,619)	<u>4.5 %</u>	<u>4.9 %</u>	<u>2.2 %</u>	<u>0.5 %</u>	<u>(10.7) %</u>
\$	\$ 3,945,000					
	(31,560)					
	277,812					
	(4,036,282)					
	<u>(140,014)</u>					
<u>\$ - 0 -</u>	<u>\$ 14,956</u>					
\$ 5,261	\$ (106,663)					
<u>2,159,605</u>	<u>2,266,268</u>					
<u>\$ 2,164,866</u>	<u>\$ 2,159,605</u>					
<u>1,535</u>	<u>1,514</u>					
<u>1,475</u>	<u>1,454</u>					

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2014**

District Mailing Address - Galveston County Water Control and
Improvement District No. 12
524 Cien Street
Kemah, TX 77565

District Telephone Number - (281) 334-3331

Board Members	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended December 31, 2014</u>	<u>Expense Reimbursements for the year ended December 31, 2014</u>	<u>Title</u>
Ed Linck	05/2012 - 05/2016 (Elected)	\$ -0-	\$ 883	President
R.W. "Bill" Kerber	05/2012 - 05/2016 (Elected)	\$ 1,950	\$ -0-	Vice President
Nancy McDonald	05/2012 - 05/2016 (Elected)	\$ 3,000	\$ 1,065	Secretary
Linda Merryman	05/2014 - 05/2018 (Elected)	\$ 3,000	\$ 1,021	Assistant Secretary
Terri Gale	05/2014 - 05/2018 (Elected)	\$ -0-	\$ -0-	Assistant Secretary/ ESB Ex- Officio

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):
November 19, 2014.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 17, 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2014**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2014</u>	<u>Title</u>
Strawn & Richardson, P.C.	07/22/99	\$ 117,158	Attorney
McCall Gibson Swedlund Barfoot PLLC	10/10/94	\$ 14,750	Auditor
ETI Bookkeeping Services	03/10/04	\$ 19,176	Bookkeeper
Linebarger Goggan Blair & Sampson, LLP	08/27/12	\$ 2,551	Delinquent Tax Attorney
LJA Engineering & Surveying, Inc.	06/13/94	\$ 99,991	Engineer
RBC Capital Markets	08/21/03	\$ 83,050	Financial Advisor
Kemah Volunteer Fire Department	05/06/00	\$ 566,053	Fire Fighting and EMS Services
Kenneth Byrd	06/17/04	\$ -0-	Investment Officer
Municipal District Services, LLC	05/01/08	\$ 1,000,815	Operator
Galveston County Tax Assessor/Collector	08/21/12	\$ 866	Tax Assessor/ Collector

See accompanying independent auditor's report.

