

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

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2015

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

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO THE FINANCIAL STATEMENTS	16-30
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	32
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	34-36
GENERAL FUND EXPENDITURES	37-38
INVESTMENTS	39
TAXES LEVIED AND RECEIVABLE	40-41
LONG-TERM DEBT SERVICE REQUIREMENTS	42-46
CHANGE IN LONG-TERM BOND DEBT	47-48
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	49-52
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	53-54

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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

111 Congress Avenue
Suite 400
Austin, Texas 78701
(512) 610-2209
www.mgsbpllc.com

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, 2015, 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, 2015, 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 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
Certified Public Accountants
Houston, Texas

March 7, 2016

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) 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 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. 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 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, 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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

FUND FINANCIAL STATEMENTS (Continued)

restricted, committed 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 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. The notes to the financial statements can be found 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,262,479 as of December 31, 2015. 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, 2015, and December 31, 2014.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2015</u>	<u>2014</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 7,774,076	\$ 9,676,521	\$ (1,902,445)
Capital Assets (Net of Accumulated Depreciation)	<u>19,694,648</u>	<u>19,188,204</u>	<u>506,444</u>
Total Assets	<u>\$ 27,468,724</u>	<u>\$ 28,864,725</u>	<u>\$ (1,396,001)</u>
Deferred Outflows of Resources	<u>\$ 248,196</u>	<u>\$ -0-</u>	<u>\$ 248,196</u>
Long -Term Liabilities	<u>\$ 16,502,754</u>	<u>\$ 17,800,908</u>	<u>\$ 1,298,154</u>
Other Liabilities	<u>686,991</u>	<u>703,194</u>	<u>16,203</u>
Total Liabilities	<u>\$ 17,189,745</u>	<u>\$ 18,504,102</u>	<u>\$ 1,314,357</u>
Deferred Inflows of Resources	<u>\$ 1,264,696</u>	<u>\$ 1,258,093</u>	<u>\$ (6,603)</u>
Net Position:			
Net Investment in Capital Assets	<u>\$ 6,264,916</u>	<u>\$ 5,124,521</u>	<u>\$ 1,140,395</u>
Restricted	<u>1,178,819</u>	<u>2,113,834</u>	<u>(935,015)</u>
Unrestricted	<u>1,818,744</u>	<u>1,864,175</u>	<u>(45,431)</u>
Total Net Position	<u><u>\$ 9,262,479</u></u>	<u><u>\$ 9,102,530</u></u>	<u><u>\$ 159,949</u></u>

The District's net position increased by \$159,949. The following table provides a summary of the District's operations for the years ended December 31, 2015, and December 31, 2014.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2015</u>	<u>2014</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	<u>\$ 1,250,291</u>	<u>\$ 1,226,595</u>	<u>\$ 23,696</u>
Charges for Services	<u>2,612,800</u>	<u>2,695,788</u>	<u>(82,988)</u>
Other Revenues	<u>56,195</u>	<u>71,426</u>	<u>(15,231)</u>
Total Revenues	<u>\$ 3,919,286</u>	<u>\$ 3,993,809</u>	<u>\$ (74,523)</u>
Expenses for Services	<u>3,759,337</u>	<u>3,965,139</u>	<u>205,802</u>
Change in Net Position	<u>\$ 159,949</u>	<u>\$ 28,670</u>	<u>\$ 131,279</u>
Net Position, Beginning of Year	<u>9,102,530</u>	<u>9,073,860</u>	<u>28,670</u>
Net Position, End of Year	<u><u>\$ 9,262,479</u></u>	<u><u>\$ 9,102,530</u></u>	<u><u>\$ 159,949</u></u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2015, were \$5,912,801, a decrease of \$1,998,574 from the prior year.

The General Fund fund balance decreased by \$57,481, primarily due to operating expenditures exceeding service revenues.

The Debt Service Fund fund balance decreased by \$1,028,694, primarily due to the structure of the District's outstanding debt and the use of \$1,000,000 of funds in the refunding bond transaction.

The Capital Projects Fund fund balance decreased by \$912,399, due to the use of bond proceeds received in prior fiscal years on current year capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$81,816 less than budgeted revenues primarily due to water service, wastewater service and tap revenue being lower than anticipated. Actual expenditures were \$289,715 more than budgeted expenditures primarily due to higher than anticipated purchased water service, utilities, fire service and capital costs than were anticipated.

CAPITAL ASSETS

Capital assets as of December 31, 2015, total \$19,694,648 (net of accumulated depreciation) and include 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.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2015	2014	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 822,435	\$ 822,435	\$
Construction in Progress	1,167,903	183,358	984,545
Capital Assets, Net of Accumulated Depreciation:			
Vehicles	410,497	522,050	(111,553)
Buildings	1,663,684	1,734,822	(71,138)
Water System	6,288,756	6,045,605	243,151
Wastewater System	9,341,373	9,879,934	(538,561)
Total Net Capital Assets	<u>\$ 19,694,648</u>	<u>\$ 19,188,204</u>	<u>\$ 506,444</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

LONG-TERM DEBT ACTIVITY

As of December 31, 2015, the District had total bond debt payable of \$16,035,000. The changes in the debt position of the District during the fiscal year ended December 31, 2015, are summarized as follows:

Bond Debt Payable, January 1, 2015	\$ 17,280,000
Add: Bond Sale - Refunding Series 2015	9,910,000
Less: Bond Principal Refunded	10,445,000
Less: Bond Principal Paid	<u>710,000</u>
Bond Debt Payable, December 31, 2015	<u>\$ 16,035,000</u>

The District’s bonds carry an underlying rating of “A”. The Series 2005 bonds carry an insured rating of “AA-” by virtue of bond insurance issued by NCFG. 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, 2015.

The District’s long-term debt also includes a note payable with a December 31, 2015, balance of \$395,217 (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, 2015**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 2,065,640	\$ 1,193,043
Investments	33,357	475,402
Cash with Galveston County		92,138
Receivables:		
Property Taxes		816,357
Penalty and Interest on Delinquent Taxes		
Service Accounts	109,467	
Other	8,900	828
Due from Other Funds	7,576	7,160
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 2,224,940	\$ 2,584,928
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,224,940	\$ 2,584,928

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>
\$ 2,944,334	\$ 6,203,017	\$	\$ 6,203,017
	508,759		508,759
	92,138		92,138
	816,357		816,357
		22,560	22,560
	109,467		109,467
	9,728	12,050	21,778
	14,736	(14,736)	
		822,435	822,435
		1,167,903	1,167,903
		<u>17,704,310</u>	<u>17,704,310</u>
<u>\$ 2,944,334</u>	<u>\$ 7,754,202</u>	<u>\$ 19,714,522</u>	<u>\$ 27,468,724</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 248,196</u>	<u>\$ 248,196</u>
<u>\$ 2,944,334</u>	<u>\$ 7,754,202</u>	<u>\$ 19,962,718</u>	<u>\$ 27,716,920</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, 2015**

	<u>General Fund</u>	<u>Debt Service Fund</u>
LIABILITIES		
Accounts Payable	\$ 136,439	\$ 848
Accrued Interest Payable		
Due to Other Funds	7,160	
Security Deposits	274,647	
Long-Term Liabilities:		
Note Payable, Due Within One Year		
Note Payable, Due After One Year		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 418,246</u>	<u>\$ 848</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	<u>\$ -0-</u>	<u>\$ 1,302,799</u>
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		1,281,281
Unassigned	<u>1,806,694</u>	
TOTAL FUND BALANCES	<u>\$ 1,806,694</u>	<u>\$ 1,281,281</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,224,940</u>	<u>\$ 2,584,928</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.

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 111,932	\$ 249,219	\$	\$ 249,219
		163,125	163,125
7,576	14,736	(14,736)	
	274,647		274,647
		48,379	48,379
		346,838	346,838
		710,000	710,000
		15,397,537	15,397,537
<u>\$ 119,508</u>	<u>\$ 538,602</u>	<u>\$ 16,651,143</u>	<u>\$ 17,189,745</u>
<u>\$ -0-</u>	<u>\$ 1,302,799</u>	<u>\$ (38,103)</u>	<u>\$ 1,264,696</u>
\$ 2,824,826	\$ 2,824,826	\$ (2,824,826)	\$
	1,281,281	(1,281,281)	
	1,806,694	(1,806,694)	
<u>\$ 2,824,826</u>	<u>\$ 5,912,801</u>	<u>\$ (5,912,801)</u>	<u>\$ - 0 -</u>
<u>\$ 2,944,334</u>	<u>\$ 7,754,202</u>		
		\$ 6,264,916	\$ 6,264,916
		1,178,819	1,178,819
		1,818,744	1,818,744
		<u>\$ 9,262,479</u>	<u>\$ 9,262,479</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, 2015**

Total Fund Balances - Governmental Funds	\$	5,912,801
--	----	-----------

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.		19,706,698
--	--	------------

Deferred charges on refunding bonds are not expenditures of the current period.		248,196
---	--	---------

Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2014 and prior tax levies became part of recognized revenue in the governmental activities of the District.		60,663
--	--	--------

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	\$ (163,125)	
Note Payable	(395,217)	
Bonds Payable	<u>(16,107,537)</u>	<u>(16,665,879)</u>
Total Net Position - Governmental Activities		<u>\$ 9,262,479</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$	\$ 1,249,661
Water Service	1,031,315	
Wastewater Service	876,151	
Fire Assessment	573,082	
Surcharges	41,938	
Penalty and Interest	22,403	16,167
Tap Connection and Inspection Fees	48,889	
Miscellaneous Revenues	49,206	2,937
	<u>\$ 2,642,984</u>	<u>\$ 1,268,765</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 73,720	\$ 4,537
Contracted Services	519,815	12,407
Purchased Water Service	279,232	
Utilities	180,501	
Fire Service	564,038	
Repairs and Maintenance	358,898	
Depreciation		
Other	196,602	4,121
Capital Outlay	468,157	
Debt Service:		
Note Principal	46,978	
Note Interest	12,524	
Bond Issuance Costs		215,049
Bond Principal		710,000
Bond Interest		573,554
Payment to Refunded Bond Escrow Agent		1,000,000
	<u>\$ 2,700,465</u>	<u>\$ 2,519,668</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (57,481)</u>	<u>\$ (1,250,903)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from Refunding Bonds	\$	\$ 9,910,000
Payment to Refunded Bond Escrow Agent		(9,687,791)
	<u>\$ -0-</u>	<u>\$ 222,209</u>
NET CHANGE IN FUND BALANCES	<u>\$ (57,481)</u>	<u>\$ (1,028,694)</u>
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2015	<u>1,864,175</u>	<u>2,309,975</u>
FUND BALANCES/NET POSITION - DECEMBER 31, 2015	<u>\$ 1,806,694</u>	<u>\$ 1,281,281</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,249,661	\$ 630	\$ 1,250,291
	1,031,315		1,031,315
	876,151		876,151
	573,082		573,082
	41,938		41,938
	38,570	2,855	41,425
	48,889		48,889
4,052	56,195		56,195
<u>\$ 4,052</u>	<u>\$ 3,915,801</u>	<u>\$ 3,485</u>	<u>\$ 3,919,286</u>
\$	\$ 78,257	\$	\$ 78,257
	532,222		532,222
	279,232		279,232
	180,501		180,501
	564,038		564,038
	358,898		358,898
		865,898	865,898
216	200,939		200,939
916,235	1,384,392	(1,384,392)	
	46,978	(46,978)	
	12,524	(118)	12,406
	215,049		215,049
	710,000	(710,000)	
	573,554	(101,657)	471,897
	1,000,000	(1,000,000)	
<u>\$ 916,451</u>	<u>\$ 6,136,584</u>	<u>\$ (2,377,247)</u>	<u>\$ 3,759,337</u>
<u>\$ (912,399)</u>	<u>\$ (2,220,783)</u>	<u>\$ 2,380,732</u>	<u>\$ 159,949</u>
\$	\$ 9,910,000	\$ (9,910,000)	\$
	(9,687,791)	9,687,791	
<u>\$ -0-</u>	<u>\$ 222,209</u>	<u>\$ (222,209)</u>	<u>\$ -0-</u>
\$ (912,399)	\$ (1,998,574)	\$ 1,998,574	\$
		159,949	159,949
3,737,225	7,911,375	1,191,155	9,102,530
<u>\$ 2,824,826</u>	<u>\$ 5,912,801</u>	<u>\$ 3,349,678</u>	<u>\$ 9,262,479</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 STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balances - Governmental Funds	\$ (1,998,574)
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.	630
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.	2,855
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.	(865,898)
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.	1,384,392
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.	46,978
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.	710,000
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.	101,775
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	(9,910,000)
Governmental funds report the payment to the refunded bond escrow agent as an other financing use. However, the refunding of outstanding bonds decreases long-term liabilities in the Statement of Net Position.	10,687,791
Change in Net Position - Governmental Activities	<u>\$ 159,949</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, 2015**

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, 2015**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2014 tax levy collections from October 1, 2014, to December 31, 2015, and taxes collected in the period January 1, 2015, to December 31, 2015, for the 2013 and prior tax levies. The 2015 tax levy has been fully deferred to the 2016 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, 2015, the Capital Projects Fund recorded a liability in the amount of \$7,576 to the General Fund for various engineering and construction costs and the General Fund owed the Debt Service Fund \$7,160 for an excess reimbursement of funds for 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, 2015**

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 not 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. The District does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015**

NOTE 3. LONG-TERM DEBT

	Series 2005	Series 2010 Refunding
Amount Outstanding – December 31, 2015	\$ 265,000	\$ 1,965,000
Interest Rates	5.00% - 5.50%	4.00% - 4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2016/2017	September 1, 2016/2020
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Date	March 1, 2015*	N/A
	Series 2014	Series 2015 Refunding
Amount Outstanding – December 31, 2015	\$ 3,960,000	\$ 9,845,000
Interest Rates	3.00% - 4.00%	2.53%
Maturity Dates – Serially Beginning/Ending	September 1, 2016/2039	September 1, 2016/2030
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Date	September 1, 2022**	N/A

* 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.

** 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, 2015**

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2015:

	January 1, 2015	Additions	Retirements	December 31, 2015
Bonds Payable	\$ 17,280,000	\$ 9,910,000	\$ 11,155,000	\$ 16,035,000
Unamortized Discounts	(85,615)		(21,605)	(64,010)
Unamortized Premiums	164,328		27,781	136,547
Bonds Payable, Net	\$ 17,358,713	\$ 9,910,000	\$ 11,161,176	\$ 16,107,537
			Amount Due Within One Year	\$ 710,000
			Amount Due After One Year	15,397,537
			Bonds Payable, Net	\$ 16,107,537

As of December 31, 2015, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 710,000	\$ 486,404	\$ 1,196,404
2017	735,000	458,894	1,193,894
2018	770,000	427,836	1,197,836
2019	795,000	399,859	1,194,859
2020	825,000	372,999	1,197,999
2021-2025	4,750,000	1,486,440	6,236,440
2026-2030	5,525,000	827,488	6,352,488
2031-2035	985,000	307,500	1,292,500
2036-2039	940,000	96,000	1,036,000
	\$ 16,035,000	\$ 4,863,420	\$ 20,898,420

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, 2015, 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, 2015**

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended December 31, 2015, the District levied an ad valorem debt service tax rate of \$0.28 per \$100 of assessed valuation, which resulted in a tax levy of \$1,264,696 on the adjusted taxable valuation of \$451,677,143 for the 2015 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 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.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on each five year anniversary of each issue.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 \$6,203,017 and the bank balance was \$6,207,800. 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, 2015, as listed below:

	Cash
GENERAL FUND	\$ 2,065,640
DEBT SERVICE FUND	1,193,043
CAPITAL PROJECTS FUND	2,944,334
TOTAL DEPOSITS	\$ 6,203,017

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, 2015**

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.

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

As of December 31, 2015, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 33,357	\$ 33,357
<u>DEBT SERVICE FUND</u>		
TexPool	475,402	475,402
TOTAL INVESTMENTS	\$ 508,759	\$ 508,759

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015, 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, 2015:

	January 1, 2015	Increases	Decreases	December 31, 2015
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 822,435	\$	\$	\$ 822,435
Construction in Progress	183,358	984,545		1,167,903
Total Capital Assets Not Being Depreciated	\$ 1,005,793	\$ 984,545	\$ - 0 -	\$ 1,990,338
Capital Assets Subject to Depreciation				
Vehicles	\$ 1,879,973	\$	\$	\$ 1,879,973
Buildings	2,368,457			2,368,457
Water System	7,391,501	387,797		7,779,298
Wastewater System	16,226,878			16,226,878
Total Capital Assets Subject to Depreciation	\$ 27,866,809	\$ 387,797	\$ - 0 -	\$ 28,254,606
Accumulated Depreciation				
Vehicles	\$ 1,357,923	\$ 111,553	\$	\$ 1,469,476
Buildings	633,635	71,138		704,773
Water System	1,345,896	144,646		1,490,542
Wastewater System	6,346,944	538,561		6,885,505
Total Accumulated Depreciation	\$ 9,684,398	\$ 865,898	\$ - 0 -	\$ 10,550,296
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 18,182,411	\$ (478,101)	\$ - 0 -	\$ 17,704,310
Total Capital Assets, Net of Accumulated Depreciation	\$ 19,188,204	\$ 506,444	\$ - 0 -	\$ 19,694,648

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, June 16, 2011 and April 28, 2015. The contract allows the Authority to acquire, construct and operate a water treatment plant and related water supply system in order to provide potable water to its customers. Charges to the District include its allocation of raw water charges, capital charges and operating and maintenance charges. The District's purchased water costs totaled \$279,232.

In accordance with the Assumption Agreement between NRG Texas Power LLC (NRG) and the District, the District paid \$387,797 to NRG for 150,000 gallons of treated water per day of NRG's reserved capacity and 108,350 gallons of treated water per day of NRG's contract quantity. The District's total reserved capacity is currently 1,043,000 gallons-per-day in the original mainland portion of the water plant and its current contract quantity is 832,350 gallons-per-day.

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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 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 \$573,082 and fire fighting service costs of \$564,038.

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 paid quarterly with the final payment due May 31, 2023. Current activity is as follows:

Note Payable Balance-January 1, 2015		\$	442,195
Less: Principal Paid			<u>46,978</u>
Note Payable Balance-December 31, 2015		\$	<u>395,217</u>

As of December 31, 2015, the scheduled maturities are as follows:

Fiscal Year	Principal	Interest	Total
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	54,414	5,088	59,502
2021-2023	138,479	5,495	143,974
	<u>\$ 395,217</u>	<u>\$ 46,267</u>	<u>\$ 441,484</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 12. REFUNDING BOND SALE

On June 3, 2015, the District issued \$9,910,000 of Series 2015 Unlimited Tax Refunding Bonds to refund \$10,445,000 of its Series 2005 bonds. The Series 2005 bonds which were refunded had maturities of 2018-2030, interest rates of 4.50% to 5.50% and a redemption date of September 1, 2015. The refunding resulted in gross debt service savings of \$2,210,275 and net present value savings of \$1,611,554.

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. On September 14, 2015, the Commission released the \$621,000 from escrow for the New Kipp lift station. As of December 31, 2015, \$500,300 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. WATER LINE IMPROVEMENTS PROJECT

On October 7, 2015, the City of Kemah, Texas was awarded a grant under Title 1 of the Housing and Community Development Act of 1974 from the Texas Department of Agriculture in the amount of \$350,000. The award will be used to fund the construction and engineering of water line improvements on Kipp Avenue from Bel Road to 10th Street within the District's boundaries. The District will fund an additional \$34,308 of construction costs for this project.

THIS PAGE INTENTIONALLY LEFT BLANK

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

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

**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, 2015**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Water Service	\$ 1,075,000	\$ 1,031,315	\$ (43,685)
Wastewater Service	910,000	876,151	(33,849)
Fire Assessment	530,000	573,082	43,082
Surcharges	42,000	41,938	(62)
Penalty and Interest	25,000	22,403	(2,597)
Tap Connection and Inspection Fees	90,000	48,889	(41,111)
Investment Revenues	1,800		(1,800)
Miscellaneous Revenues	<u>51,000</u>	<u>49,206</u>	<u>(1,794)</u>
TOTAL REVENUES	<u>\$ 2,724,800</u>	<u>\$ 2,642,984</u>	<u>\$ (81,816)</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 94,250	\$ 73,720	\$ 20,530
Contracted Services	530,500	519,815	10,685
Purchased Water Service	210,000	279,232	(69,232)
Utilities	164,000	180,501	(16,501)
Fire Service	532,400	564,038	(31,638)
Repairs and Maintenance/Capital Outlay	564,000	827,055	(263,055)
Other	255,600	196,602	58,998
Note Principal/Interest	<u>60,000</u>	<u>59,502</u>	<u>498</u>
TOTAL EXPENDITURES	<u>\$ 2,410,750</u>	<u>\$ 2,700,465</u>	<u>\$ (289,715)</u>
NET CHANGE IN FUND BALANCE	\$ 314,050	\$ (57,481)	\$ (371,531)
FUND BALANCE - JANUARY 1, 2015	<u>1,864,175</u>	<u>1,864,175</u>	
FUND BALANCE - DECEMBER 31, 2015	<u>\$ 2,178,225</u>	<u>\$ 1,806,694</u>	<u>\$ (371,531)</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

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

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

DECEMBER 31, 2015

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015**

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>1,504</u>	<u>1,295</u>	x 1.0	<u>1,295</u>
1"	<u>65</u>	<u>60</u>	x 2.5	<u>150</u>
1½"	<u>29</u>	<u>28</u>	x 5.0	<u>140</u>
2"	<u>86</u>	<u>83</u>	x 8.0	<u>664</u>
3"	<u>7</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>1,697</u></u>	<u><u>1,475</u></u>		<u><u>2,524</u></u>
Total Wastewater Connections	<u><u>1,632</u></u>	<u><u>1,421</u></u>	x 1.0	<u><u>1,421</u></u>

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

Gallons pumped into system:	828,000	Water Accountability Ratio: 93.1% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	220,807,000	
Gallons purchased:	236,304,000	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, 2015**

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 extraterritorial 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, 2015**

PROFESSIONAL FEES:	
Auditing	\$ 14,000
Engineering	31,932
Legal	<u>27,788</u>
TOTAL PROFESSIONAL FEES	<u>\$ 73,720</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 279,232</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 19,139
Operations and Billing	<u>498,250</u>
TOTAL CONTRACTED SERVICES	<u>\$ 517,389</u>
UTILITIES:	
Electricity	\$ 167,673
Telephone	<u>12,828</u>
TOTAL UTILITIES	<u>\$ 180,501</u>
REPAIRS AND MAINTENANCE	<u>\$ 358,898</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 7,050
Dues	163
Insurance	35,496
Lease Payments	1,902
Legal Notices	600
Office Supplies and Postage	6,635
Payroll Taxes	539
Travel and Meetings	3,073
Other	<u>1,051</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 56,509</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, 2015**

CAPITAL OUTLAY	\$ <u>468,157</u>
TAP CONNECTIONS	\$ <u>38,328</u>
SOLID WASTE DISPOSAL	\$ <u>2,426</u>
FIRE FIGHTING	\$ <u>564,038</u>
OTHER EXPENDITURES:	
Chemicals	\$ 24,861
Laboratory Fees	30,686
Permit Fees	12,033
Inspection Fees	1,650
Regulatory Assessment	9,507
Sludge Hauling	<u>23,028</u>
TOTAL OTHER EXPENDITURES	\$ <u>101,765</u>
DEBT SERVICE:	
Note Principal	\$ 46,978
Note Interest	<u>12,524</u>
TOTAL DEBT SERVICE	\$ <u>59,502</u>
TOTAL EXPENDITURES	<u>\$ 2,700,465</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
INVESTMENTS
DECEMBER 31, 2015**

<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	\$ 33,357	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 475,402	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 508,759</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, 2015**

	Debt Service Taxes	
TAXES RECEIVABLE -		
JANUARY 1, 2015	\$ 819,250	
Adjustments to Beginning Balance	(7,801)	\$ 811,449
Original 2015 Tax Levy	\$ 1,200,979	
Adjustment to 2015 Tax Levy	63,717	1,264,696
TOTAL TO BE ACCOUNTED FOR		\$ 2,076,145
TAX COLLECTIONS:		
Prior Years	\$ 773,345	
Current Year	486,443	1,259,788
TAXES RECEIVABLE -		
DECEMBER 31, 2015		\$ 816,357
TAXES RECEIVABLE BY		
YEAR:		
2015		\$ 778,253
2014		12,699
2013		6,971
2012		2,973
2011		2,439
2010		2,708
2009		2,163
2008		1,243
2007		1,347
2006		693
2005		818
2004		825
2003 and Prior		3,225
TOTAL		\$ 816,357

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, 2015**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 451,677,143</u>	<u>\$ 418,692,104</u>	<u>\$ 410,430,611</u>	<u>\$ 405,631,560</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	<u>\$ 0.28</u>	<u>\$ 0.30</u>	<u>\$ 0.30</u>	<u>\$ 0.30</u>
ADJUSTED TAX LEVY*	<u>\$ 1,264,696</u>	<u>\$ 1,258,093</u>	<u>\$ 1,231,292</u>	<u>\$ 1,216,896</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>38.46 %</u>	<u>98.99 %</u>	<u>99.43 %</u>	<u>99.76 %</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, 2015**

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
2016	\$ 55,000	\$ 14,300	\$ 69,300
2017	210,000	11,550	221,550
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	\$ 265,000	\$ 25,850	\$ 290,850

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2015**

SERIES - 2010 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
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>\$ 1,965,000</u>	<u>\$ 237,825</u>	<u>\$ 2,202,825</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2015**

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
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>\$ 3,960,000</u>	<u>\$ 2,104,912</u>	<u>\$ 6,064,912</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2015**

SERIES - 2015 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2016	\$ 30,000	\$ 249,079	\$ 279,079
2017	30,000	248,319	278,319
2018	255,000	247,561	502,561
2019	365,000	241,109	606,109
2020	375,000	231,874	606,874
2021	765,000	222,387	987,387
2022	790,000	203,033	993,033
2023	815,000	183,045	998,045
2024	840,000	162,426	1,002,426
2025	865,000	141,174	1,006,174
2026	890,000	119,290	1,009,290
2027	915,000	96,772	1,011,772
2028	940,000	73,623	1,013,623
2029	970,000	49,841	1,019,841
2030	1,000,000	25,300	1,025,300
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 9,845,000</u>	<u>\$ 2,494,833</u>	<u>\$ 12,339,833</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2015**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2016	\$ 710,000	\$ 486,404	\$ 1,196,404
2017	735,000	458,894	1,193,894
2018	770,000	427,836	1,197,836
2019	795,000	399,859	1,194,859
2020	825,000	372,999	1,197,999
2021	890,000	345,062	1,235,062
2022	920,000	321,958	1,241,958
2023	950,000	298,070	1,248,070
2024	980,000	273,401	1,253,401
2025	1,010,000	247,949	1,257,949
2026	1,040,000	221,715	1,261,715
2027	1,070,000	194,697	1,264,697
2028	1,100,000	166,510	1,266,510
2029	1,140,000	137,529	1,277,529
2030	1,175,000	107,037	1,282,037
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>\$ 16,035,000</u>	<u>\$ 4,863,420</u>	<u>\$ 20,898,420</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, 2015**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2015
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2005	\$ 11,200,000	\$ 10,765,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Refunding Bonds - Series 2010	3,945,000	2,465,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2014	4,050,000	4,050,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Refunding Bonds - Series 2015	<u>9,910,000</u>	
TOTAL	<u>\$ 29,105,000</u>	<u>\$ 17,280,000</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, 2015:	<u>\$ 1,760,583</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 870,768</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, 2015</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 10,500,000	\$ 259,841	\$ 265,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	500,000	103,850	1,965,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	90,000	148,575	3,960,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>9,910,000</u>	<u>65,000</u>	<u>61,288</u>	<u>9,845,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 9,910,000</u>	<u>\$ 11,155,000</u>	<u>\$ 573,554</u>	<u>\$ 16,035,000</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		
	2015	2014	2013
REVENUES			
Water Service	\$ 1,031,315	\$ 1,069,181	\$ 1,014,463
Wastewater Service	876,151	900,844	882,078
Fire Assessment	573,082	563,915	550,773
Surcharges	41,938	42,344	42,609
Penalty and Interest	22,403	25,180	29,800
Tap Connection and Inspection Fees	48,889	81,081	72,856
Miscellaneous Revenues	49,206	65,941	55,610
TOTAL REVENUES	\$ 2,642,984	\$ 2,748,486	\$ 2,648,189
EXPENDITURES			
Professional Fees	\$ 73,720	\$ 80,851	\$ 112,264
Contracted and Purchased Services	799,047	773,893	633,505
Utilities	180,501	163,850	185,958
Fire Service	564,038	568,232	540,719
Repairs and Maintenance	358,898	416,717	513,127
Other	196,602	255,888	266,049
Capital Outlay	468,157	54,045	608,899
Debt Service:			
Note Principal	46,978	45,578	203,669
Note Interest	12,524	13,924	12,522
TOTAL EXPENDITURES	\$ 2,700,465	\$ 2,372,978	\$ 3,076,712
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (57,481)	\$ 375,508	\$ (428,523)
OTHER FINANCING SOURCES (USES)			
Note Proceeds	\$	\$	\$ 549,899
Sale of Assets			225,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ - 0 -	\$ 774,899
NET CHANGE IN FUND BALANCE	\$ (57,481)	\$ 375,508	\$ 346,376
BEGINNING FUND BALANCE	1,864,175	1,488,667	1,142,291
ENDING FUND BALANCE	\$ 1,806,694	\$ 1,864,175	\$ 1,488,667

See accompanying independent auditor's report.

Percentage of Total Revenue

2012		2011		2015		2014		2013		2012		2011	
\$	932,111	\$	923,538	39.0 %	38.9 %	38.3 %	39.4 %	41.3 %					
	789,901		774,703	33.2	32.8	33.3	33.5	34.7					
	478,482		368,176	21.7	20.5	20.8	20.3	16.5					
	41,558		42,586	1.6	1.5	1.6	1.8	1.9					
	25,565		39,901	0.8	0.9	1.1	1.1	1.8					
	45,852		29,995	1.8	3.0	2.8	1.9	1.3					
	47,067		56,037	1.9	2.4	2.1	2.0	2.5					
\$	<u>2,360,536</u>	\$	<u>2,234,936</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>					
\$	129,871	\$	73,339	2.8 %	2.9 %	4.2 %	5.5 %	3.3 %					
	726,309		734,355	30.2	28.2	23.9	30.8	32.9					
	194,845		170,579	6.8	6.0	7.0	8.3	7.6					
	463,096		413,892	21.3	20.7	20.4	19.6	18.5					
	414,820		340,724	13.6	15.2	19.4	17.6	15.2					
	223,569		237,668	7.4	9.3	10.0	9.5	10.6					
			206,314	17.7	2.0	23.0		9.2					
	45,800		42,762	1.8	1.7	7.7	1.9	1.9					
	11,961		15,000	0.5	0.5	0.5	0.5	0.7					
\$	<u>2,210,271</u>	\$	<u>2,234,633</u>	<u>102.1 %</u>	<u>86.5 %</u>	<u>116.1 %</u>	<u>93.7 %</u>	<u>99.9 %</u>					
\$	<u>150,265</u>	\$	<u>303</u>	<u>(2.1) %</u>	<u>13.5 %</u>	<u>(16.1) %</u>	<u>6.3 %</u>	<u>0.1 %</u>					
\$		\$											
\$	<u>- 0 -</u>	\$	<u>- 0 -</u>										
\$	150,265	\$	303										
	992,026		991,723										
\$	<u>1,142,291</u>	\$	<u>992,026</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		
	2015	2014	2013
REVENUES			
Property Taxes	\$ 1,249,661	\$ 1,213,629	\$ 1,213,079
Penalty and Interest	16,167	9,586	11,132
Miscellaneous Revenues	2,937	4,179	8,886
TOTAL REVENUES	\$ 1,268,765	\$ 1,227,394	\$ 1,233,097
EXPENDITURES			
Tax Collection Expenditures	\$ 19,565	\$ 12,086	\$ 11,007
Debt Service Principal	710,000	530,000	515,000
Debt Service Interest and Fees	575,054	629,733	645,583
Bond Issuance Costs	215,049		
Payment to Refunded Bond Escrow Agent	1,000,000		
TOTAL EXPENDITURES	\$ 2,519,668	\$ 1,171,819	\$ 1,171,590
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,250,903)	\$ 55,575	\$ 61,507
OTHER FINANCING SOURCES (USES)			
Proceeds from Refunded Bonds Issued	\$ 9,910,000	\$	\$
Payment to Refunded Bond Escrow Agent	(9,687,791)		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 222,209	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ (1,028,694)	\$ 55,575	\$ 61,507
BEGINNING FUND BALANCE	2,309,975	2,254,400	2,192,893
ENDING FUND BALANCE	\$ 1,281,281	\$ 2,309,975	\$ 2,254,400
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,475	1,486	1,429
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,421	1,445	1,383

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2012	2011	2015	2014	2013	2012	2011
\$ 1,203,323	\$ 1,175,493	98.5 %	98.9 %	98.4 %	97.9 %	96.7 %
18,108	29,699	1.3	0.8	0.9	1.5	2.4
7,262	10,919	0.2	0.3	0.7	0.6	0.9
<u>\$ 1,228,693</u>	<u>\$ 1,216,111</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 38,984	\$ 50,343	1.5 %	1.0 %	0.9 %	3.2 %	4.1 %
500,000	505,000	56.0	43.2	41.8	40.7	41.5
661,682	655,507	45.3	51.3	52.4	53.9	53.9
		16.9				
		78.8				
<u>\$ 1,200,666</u>	<u>\$ 1,210,850</u>	<u>198.5 %</u>	<u>95.5 %</u>	<u>95.1 %</u>	<u>97.8 %</u>	<u>99.5 %</u>
<u>\$ 28,027</u>	<u>\$ 5,261</u>	<u>(98.5) %</u>	<u>4.5 %</u>	<u>4.9 %</u>	<u>2.2 %</u>	<u>0.5 %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 28,027	\$ 5,261					
<u>2,164,866</u>	<u>2,159,605</u>					
<u>\$ 2,192,893</u>	<u>\$ 2,164,866</u>					
<u>1,429</u>	<u>1,535</u>					
<u>1,373</u>	<u>1,475</u>					

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2015**

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, 2015</u>	<u>Expense Reimbursements for the year ended December 31, 2015</u>	<u>Title</u>
Ed Linck	05/2012 - 05/2016 (Elected)	\$ -0-	\$ -0-	President
Linda Merryman	05/2014 - 05/2018 (Elected)	\$ 2,100	\$ 747	Vice President
Nancy McDonald	05/2012 - 05/2016 (Elected)	\$ 2,400	\$ 711	Secretary
Terri Gale	05/2014 - 05/2018 (Elected)	\$ -0-	\$ -0-	Assistant Secretary/ ESB Ex- Officio
Greg Collins	05/2015 - 05/2016 (Appointed)	\$ 900	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
July 22, 2015.

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, 2015**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2015</u>	<u>Title</u>
Strawn & Richardson, P.C.	07/22/99	\$ 27,788 \$ 99,100	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	10/10/94	\$ 14,000	Auditor
ETI Bookkeeping Services	03/10/04	\$ 19,139	Bookkeeper
Linebarger Goggan Blair & Sampson, LLP	08/27/12	\$ 4,537	Delinquent Tax Attorney
LJA Engineering & Surveying, Inc.	06/13/94	\$ 354,524	Engineer
Robert W. Baird & Co. Incorporated	03/09/15	\$ 99,100	Financial Advisor
Kemah Volunteer Fire Department	05/06/00	\$ 562,298	Fire Fighting and EMS Services
Kenneth Byrd	06/17/04	\$ -0-	Investment Officer
Municipal District Services, LLC	05/01/08	\$ 851,741	Operator
Galveston County Tax Assessor/Collector	08/21/12	\$ 864	Tax Assessor/ Collector

See accompanying independent auditor's report.

