

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

**GALVESTON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2017**



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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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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





## **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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *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 9, 2018



**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017. Please read it in conjunction with the District’s financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

The 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 restricted, committed or assigned for acquisition or construction of facilities and related costs.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**FUND FINANCIAL STATEMENTS** (Continued)

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The District’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,119,707 as of December 31, 2017. 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 following is a comparative analysis of the Statement of Net Position as of December 31, 2017, and December 31, 2016.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 4,828,185	\$ 6,134,560	\$ (1,306,375)
Capital Assets (Net of Accumulated Depreciation)	21,000,605	20,409,306	591,299
Total Assets	\$ 25,828,790	\$ 26,543,866	\$ (715,076)
Deferred Outflows of Resources	\$ 213,730	\$ 230,939	\$ (17,209)
Bonds/Note Payable	\$ 14,914,347	\$ 15,721,742	\$ 807,395
Other Liabilities	652,946	677,058	24,112
Total Liabilities	\$ 15,567,293	\$ 16,398,800	\$ 831,507
Deferred Inflows of Resources	\$ 1,355,520	\$ 1,218,833	\$ (136,687)
Net Position:			
Net Investment in Capital Assets	\$ 6,544,656	\$ 6,545,459	\$ (803)
Restricted	1,294,453	1,263,091	31,362
Unrestricted	1,280,598	1,348,622	(68,024)
Total Net Position	\$ 9,119,707	\$ 9,157,172	\$ (37,465)

The District's net position decreased by \$37,465. The following table provides a summary of the District's operations for the years ended December 31, 2017, and December 31, 2016.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,217,995	\$ 1,264,326	\$ (46,331)
Charges for Services	2,865,389	2,711,243	154,146
Other Revenues	69,423	54,607	14,816
Total Revenues	\$ 4,152,807	\$ 4,030,176	\$ 122,631
Expenses for Services	4,190,272	4,135,483	(54,789)
Change in Net Position	\$ (37,465)	\$ (105,307)	\$ 67,842
Net Position, Beginning of Year	9,157,172	9,262,479	(105,307)
Net Position, End of Year	\$ 9,119,707	\$ 9,157,172	\$ (37,465)

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of December 31, 2017, were \$2,897,011, a decrease of \$1,422,763 from the prior year.

The General Fund fund balance decreased by \$68,024, primarily due to operating expenditures and capital costs exceeding service revenues.

The Debt Service Fund fund balance increased by \$27,549, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$1,382,288, due to the use of bond proceeds received in prior fiscal years on current year repairs, maintenance and capital projects.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors amended the budget during the current fiscal year to increase projected water and wastewater service revenues and to reduce projected professional fees and repairs and maintenance/capital outlay. Actual revenues were \$62,261 more than budgeted revenues primarily due to higher than anticipated water and fire service revenues and tap connection and inspection fees. Actual expenditures were \$141,355 more than budgeted expenditures primarily due to higher than anticipated costs across most expenditure categories with the exception of contracted services and repairs and maintenance/capital outlay.

**CAPITAL ASSETS**

Capital assets as of December 31, 2017, total \$21,000,605 (net of accumulated depreciation) and include land, buildings, vehicles and equipment as well as the water and wastewater systems. Current year activity includes the force main extension as well as the rehabilitation of water lines, sanitary sewer lines and Vivian Water Plant.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 822,435	\$ 822,435	\$
Construction in Progress	62,780	567,861	(505,081)
Capital Assets, Net of Accumulated Depreciation:			
Vehicles	281,277	337,371	(56,094)
Buildings	1,521,213	1,592,351	(71,138)
Water System	8,774,494	6,983,001	1,791,493
Wastewater System	9,538,406	10,106,287	(567,881)
Total Net Capital Assets	<u>\$ 21,000,605</u>	<u>\$ 20,409,306</u>	<u>\$ 591,299</u>

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**LONG-TERM DEBT ACTIVITY**

As of December 31, 2017, the District had total bond debt payable of \$14,590,000. The changes in the debt position of the District during the fiscal year ended December 31, 2017, are summarized as follows:

Bond Debt Payable, January 1, 2017	\$ 15,325,000
Less: Bond Principal Paid	<u>735,000</u>
Bond Debt Payable, December 31, 2017	<u>\$ 14,590,000</u>

The District’s Series 2010 and 2014 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 Series 2015 Bonds do not have an underlying rating and are not insured. The ratings above reflect all rating changes through December 31, 2017.

The District’s long-term debt also includes a note payable with a December 31, 2017, balance of \$297,015 (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, 2017**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 1,366,846	\$ 1,193,910
Investments	43,242	678,254
Cash with Galveston County		44,682
Receivables:		
Property Taxes		862,229
Penalty and Interest on Delinquent Taxes		
Service Accounts	121,332	
Other	4,400	
Due from Other Funds	254,044	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 1,789,864</b>	<b>\$ 2,779,075</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,789,864</b>	<b>\$ 2,779,075</b>

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



Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 495,009	\$ 3,055,765	\$	\$ 3,055,765
	721,496		721,496
	44,682		44,682
	862,229		862,229
		18,281	18,281
	121,332		121,332
	4,400		4,400
834	254,878	(254,878)	
		822,435	822,435
		62,780	62,780
		20,115,390	20,115,390
<u>\$ 495,843</u>	<u>\$ 5,064,782</u>	<u>\$ 20,764,008</u>	<u>\$ 25,828,790</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 213,730</u>	<u>\$ 213,730</u>
<u>\$ 495,843</u>	<u>\$ 5,064,782</u>	<u>\$ 20,977,738</u>	<u>\$ 26,042,520</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, 2017**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 169,366	\$
Accrued Interest Payable		
Due to Kemah Volunteer Fire Department	44,627	
Due to Other Funds	834	4,019
Security Deposits	294,439	
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		
<b>TOTAL LIABILITIES</b>	\$ 509,266	\$ 4,019
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ -0-	\$ 1,403,311
<b>FUND BALANCES</b>		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		1,371,745
Unassigned	1,280,598	
<b>TOTAL FUND BALANCES</b>	\$ 1,280,598	\$ 1,371,745
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 1,789,864	\$ 2,779,075
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 1,150	\$ 170,516	\$	\$ 170,516
		143,364	143,364
	44,627		44,627
250,025	254,878	(254,878)	
	294,439		294,439
		51,284	51,284
		245,731	245,731
		770,000	770,000
		13,847,332	13,847,332
<u>\$ 251,175</u>	<u>\$ 764,460</u>	<u>\$ 14,802,833</u>	<u>\$ 15,567,293</u>
<u>\$ -0-</u>	<u>\$ 1,403,311</u>	<u>\$ (47,791)</u>	<u>\$ 1,355,520</u>
\$ 244,668	\$ 244,668	\$ (244,668)	\$
	1,371,745	(1,371,745)	
	1,280,598	(1,280,598)	
<u>\$ 244,668</u>	<u>\$ 2,897,011</u>	<u>\$ (2,897,011)</u>	<u>\$ - 0 -</u>
<u>\$ 495,843</u>	<u>\$ 5,064,782</u>		
		\$ 6,544,656	\$ 6,544,656
		1,294,453	1,294,453
		1,280,598	1,280,598
		<u>\$ 9,119,707</u>	<u>\$ 9,119,707</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, 2017**

Total Fund Balances - Governmental Funds	\$ 2,897,011
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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.	21,000,605
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Deferred charges on refunding bonds are not expenditures of the current period.	213,730
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District.	66,072
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (143,364)	
Note Payable	(297,015)	
Bonds Payable	<u>(14,617,332)</u>	<u>(15,057,711)</u>
Total Net Position - Governmental Activities		<u>\$ 9,119,707</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 FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$	\$ 1,215,730
Water Service	1,170,279	
Wastewater Service	968,205	
Fire Assessment	573,463	
Surcharges	35,499	
Penalty and Interest	17,659	15,002
Tap Connection and Inspection Fees	94,203	
Miscellaneous Revenues	58,473	9,488
	<u>\$ 2,917,781</u>	<u>\$ 1,240,220</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 143,314	\$ 3,453
Contracted Services	483,215	10,279
Purchased Water Service	418,380	
Utilities	188,785	
Fire Service	566,889	
Repairs and Maintenance	389,620	
Depreciation		
Other	354,907	5,045
Capital Outlay	347,001	
Debt Service:		
Note Principal	49,823	
Note Interest	9,679	
Bond Issuance Costs	34,192	
Bond Principal		735,000
Bond Interest		458,894
	<u>\$ 2,985,805</u>	<u>\$ 1,212,671</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ (68,024)	\$ 27,549
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - JANUARY 1, 2017</b>	<u>1,348,622</u>	<u>1,344,196</u>
<b>FUND BALANCES/NET POSITION - DECEMBER 31, 2017</b>	<u>\$ 1,280,598</u>	<u>\$ 1,371,745</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,215,730	\$ 2,265	\$ 1,217,995
	1,170,279		1,170,279
	968,205		968,205
	573,463		573,463
	35,499		35,499
	32,661	(8,921)	23,740
	94,203		94,203
1,462	69,423		69,423
<u>\$ 1,462</u>	<u>\$ 4,159,463</u>	<u>\$ (6,656)</u>	<u>\$ 4,152,807</u>
\$	\$ 146,767	\$	\$ 146,767
	493,494		493,494
	418,380		418,380
	188,785		188,785
	566,889		566,889
250,025	639,645		639,645
		889,283	889,283
144	360,096		360,096
1,133,581	1,480,582	(1,480,582)	
	49,823	(49,823)	
	9,679	(117)	9,562
	34,192		34,192
	735,000	(735,000)	
	458,894	(15,715)	443,179
<u>\$ 1,383,750</u>	<u>\$ 5,582,226</u>	<u>\$ (1,391,954)</u>	<u>\$ 4,190,272</u>
\$ (1,382,288)	\$ (1,422,763)	\$ 1,422,763	\$
		(37,465)	(37,465)
1,626,956	4,319,774	4,837,398	9,157,172
<u>\$ 244,668</u>	<u>\$ 2,897,011</u>	<u>\$ 6,222,696</u>	<u>\$ 9,119,707</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, 2017**

Net Change in Fund Balances - Governmental Funds	\$ (1,422,763)
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.	2,265
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.	(8,921)
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.	(889,283)
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.	1,480,582
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.	49,823
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.	735,000
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.	15,832
Change in Net Position - Governmental Activities	<u>\$ (37,465)</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, 2017**

**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. On May 6, 2017, voters of the District approved the consolidation of the District with Galveston County Municipal Utility District No. 51. 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 (“GASB Codification”).

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2016 tax levy collections from October 1, 2016, to December 31, 2017, and taxes collected in the period January 1, 2017, to December 31, 2017, for the 2015 and prior tax levies. The 2017 tax levy has been fully deferred to the 2018 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 other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of December 31, 2017, the General Fund recorded a liability in the amount of \$834 to the Capital Projects Fund for an excess reimbursement of funds for various engineering and construction costs, the Debt Service Fund recorded a liability in the amount of \$4,019 to the General Fund for tax-related costs and the Capital Projects Fund recorded a liability in the amount of \$250,025 to the General Fund for repairs and maintenance 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 expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$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
Vehicles and Equipment	3-20

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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. 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.

*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.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

*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.

**NOTE 3. LONG-TERM DEBT**

	Series 2010 Refunding	Series 2014	Series 2015 Refunding
Amount Outstanding – December 31, 2017	\$ 1,050,000	\$ 3,755,000	\$ 9,785,000
Interest Rates	4.50%	3.00% - 4.00%	2.53%
Maturity Dates - Serially Beginning/Ending	September 1, 2018/2020	September 1, 2018/2039	September 1, 2018/2030
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	N/A	September 1, 2022*	N/A

\* 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, 2017**

**NOTE 3. LONG-TERM DEBT (Continued)**

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2017:

	January 1, 2017	Additions	Retirements	December 31, 2017
Bonds Payable	\$ 15,325,000	\$	\$ 735,000	\$ 14,590,000
Unamortized Discounts	(58,786)		(5,209)	(53,577)
Unamortized Premiums	108,690		27,781	80,909
Bonds Payable, Net	\$ 15,374,904	\$ -0-	\$ 757,572	\$ 14,617,332
			Amount Due Within One Year	\$ 770,000
			Amount Due After One Year	13,847,332
			Bonds Payable, Net	\$ 14,617,332

As of December 31, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
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
2023-2027	5,050,000	1,235,832	6,285,832
2028-2032	3,785,000	555,776	4,340,776
2033-2037	1,065,000	229,200	1,294,200
2038-2039	490,000	29,600	519,600
	\$ 14,590,000	\$ 3,918,122	\$ 18,508,122

On May 6, 2017, voters of the District approved the authorization of additional bonds in the amount of \$12,650,000. As of December 31, 2017, the District had authorized but unissued bonds in the amount of \$12,830,000. 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.

During the year ended December 31, 2017, the District levied an ad valorem debt service tax rate of \$0.26 per \$100 of assessed valuation, which resulted in a tax levy of \$1,355,520 on the adjusted taxable valuation of \$521,070,411 for the 2017 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.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 3. LONG-TERM DEBT (Continued)**

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 certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

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.

**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 \$3,055,765 and the bank balance was \$3,061,138. The District was not exposed to custodial credit risk at year-end.



**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2017, as listed below:

	Cash
GENERAL FUND	\$ 1,366,846
DEBT SERVICE FUND	1,193,910
CAPITAL PROJECTS FUND	495,009
TOTAL DEPOSITS	\$ 3,055,765

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

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

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 43,242	\$ 43,242
<u>DEBT SERVICE FUND</u>		
TexPool	678,254	678,254
TOTAL INVESTMENTS	\$ 721,496	\$ 721,496

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

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

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.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 6. CAPITAL ASSETS**

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

	January 1, 2017	Increases	Decreases	December 31, 2017
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 822,435	\$	\$	\$ 822,435
Construction in Progress	<u>567,861</u>	<u>1,480,582</u>	<u>1,985,663</u>	<u>62,780</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 1,390,296</u>	<u>\$ 1,480,582</u>	<u>\$ 1,985,663</u>	<u>\$ 885,215</u>
<b>Capital Assets Subject to Depreciation</b>				
Vehicles	\$ 1,879,973	\$	\$	\$ 1,879,973
Buildings	2,368,457			2,368,457
Water System	8,629,302	1,985,663		10,614,965
Wastewater System	<u>17,546,256</u>	<u></u>	<u></u>	<u>17,546,256</u>
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 30,423,988</u>	<u>\$ 1,985,663</u>	<u>\$ - 0 -</u>	<u>\$ 32,409,651</u>
<b>Accumulated Depreciation</b>				
Vehicles	\$ 1,542,602	\$ 56,094	\$	\$ 1,598,696
Buildings	776,106	71,138		847,244
Water System	1,646,301	194,170		1,840,471
Wastewater System	<u>7,439,969</u>	<u>567,881</u>	<u></u>	<u>8,007,850</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 11,404,978</u>	<u>\$ 889,283</u>	<u>\$ - 0 -</u>	<u>\$ 12,294,261</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 19,019,010</u>	<u>\$ 1,096,380</u>	<u>\$ - 0 -</u>	<u>\$ 20,115,390</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 20,409,306</u>	<u>\$ 2,576,962</u>	<u>\$ 1,985,663</u>	<u>\$ 21,000,605</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 District voters. Such tax would be in addition to taxes which the District is authorized to levy for paying principal and interest on the outstanding bonds. To date, a maintenance tax has not been authorized by District voters, and thus no maintenance tax has been levied.

**NOTE 8. GULF COAST WATER AUTHORITY AGREEMENTS**

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, May 1, 2014 and May 1, 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 \$418,380.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 8. GULF COAST WATER AUTHORITY AGREEMENTS (Continued)**

On February 13, 2017, the District executed an interruptible water supply agreement with the Authority to supplement the original agreement. This agreement allows the District to purchase excess water from the Authority not to exceed 1,000,000 gallons per day. The District is to be charged for this excess water at the same rate as in the original agreement detailed in the preceding paragraph plus any additional costs the Authority incurs in connection with the provision of excess water to the District.

On January 19, 2017, the District executed an agreement with the Authority to allow the Authority to begin the design and other preliminary services, including land acquisition, necessary for a booster pump station that will increase line capacity for transportation of water to the District. The agreement was amended on November 13, 2017. Under the terms of the agreement, the District has agreed to reimburse the Authority for their costs related to this project. It is intended for the District to be reimbursed for payments made to the Authority from the proceeds of a future sale of contract revenue obligations by the Authority which will be secured by contractual payments from the District over the life of such obligations under a future agreement to be negotiated by the parties.

The District executed an Assumption Agreement with NRG Texas Power LLC (NRG). In a prior year, 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.

**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 firefighting 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, 2017**

**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 firefighting assessment revenues of \$573,463 and firefighting service costs of \$566,889.

**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. On May 8, 2017, the District entered into an agreement with the Kemah Volunteer Fire Department (the “KVFD”) whereby KVFD is to make the next eight quarterly payments on this note. The District is obligated to repay KVFD and resume making future payments after these eight payments have occurred. The District has recorded a liability of \$44,627 to KVFD for the quarterly payments they made during the current fiscal year. Current activity is as follows:

Note Payable Balance-January 1, 2017	\$	346,838
Less: Principal Paid		49,823
Note Payable Balance-December 31, 2017	\$	297,015

As of December 31, 2017, the scheduled maturities are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 51,284	\$ 8,218	\$ 59,502
2019	52,838	6,664	59,502
2020	54,414	5,088	59,502
2021	56,054	3,448	59,502
2022	57,710	1,792	59,502
2023	24,715	255	24,970
	\$ 297,015	\$ 25,465	\$ 322,480

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 12. ESCROW REQUIREMENT**

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 Kipp Street lift station. On September 14, 2015, the Commission released \$621,000 from escrow for the Kipp Street lift station. On May 30, 2017, the Commission released \$500,300 from escrow for the 12-inch water line to serve FM 518 and South Kemah. As of December 31, 2017, no funds remain in escrow.

**NOTE 13. SUBSEQUENT EVENTS – BOND SALE AND USE OF SURPLUS FUNDS**

On January 9, 2018, subsequent to year-end, the District closed on the sale of its \$2,175,000 Series 2018 Unlimited Tax Bonds. Proceeds from the bond sale will be used to finance construction and engineering costs for an interruptible service water well, water well no. 1 rehabilitation, emergency water interconnect and a force main along Kipp Avenue. Additional proceeds were used to pay issuance costs of the bonds.

On February 12, 2018, subsequent to year-end, the District approved the use of surplus construction funds in the amount of \$214,763 to reimburse the General Fund for costs related to the wastewater treatment plant repairs and improvements. On March 12, 2018, the District approved the use of an additional amount of \$35,262 of surplus construction funds to further reimburse the General Fund for costs related to this project.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017**





**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, 2017**

	<u>Original Budget</u>	<u>Amended and Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>REVENUES</b>				
Water Service	\$ 1,042,250	\$ 1,119,389	\$ 1,170,279	\$ 50,890
Wastewater Service	909,250	986,386	968,205	(18,181)
Fire Assessment	560,000	560,000	573,463	13,463
Surcharges	42,000	42,000	35,499	(6,501)
Penalty and Interest	28,500	28,500	17,659	(10,841)
Tap Connection and Inspection Fees	69,500	69,500	94,203	24,703
Miscellaneous Revenues	<u>49,745</u>	<u>49,745</u>	<u>58,473</u>	<u>8,728</u>
<b>TOTAL REVENUES</b>	<b><u>\$ 2,701,245</u></b>	<b><u>\$ 2,855,520</u></b>	<b><u>\$ 2,917,781</u></b>	<b><u>\$ 62,261</u></b>
<b>EXPENDITURES</b>				
Services Operations:				
Professional Fees	\$ 135,250	\$ 102,250	\$ 143,314	\$ (41,064)
Contracted Services	520,500	520,500	483,215	37,285
Purchased Water Service	332,250	332,250	418,380	(86,130)
Utilities	185,500	185,500	188,785	(3,285)
Fire Service	562,500	562,500	566,889	(4,389)
Repairs and Maintenance/Capital Outlay	1,213,000	833,000	736,621	96,379
Other	318,450	308,450	354,907	(46,457)
Bond Issuance Costs			34,192	(34,192)
Note Principal/Interest	<u>59,502</u>		<u>59,502</u>	<u>(59,502)</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 3,326,952</u></b>	<b><u>\$ 2,844,450</u></b>	<b><u>\$ 2,985,805</u></b>	<b><u>\$ (141,355)</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (625,707)</b>	<b>\$ 11,070</b>	<b>\$ (68,024)</b>	<b>\$ (79,094)</b>
<b>FUND BALANCE - JANUARY 1, 2017</b>	<b><u>1,348,622</u></b>	<b><u>1,348,622</u></b>	<b><u>1,348,622</u></b>	
<b>FUND BALANCE - DECEMBER 31, 2017</b>	<b><u><u>\$ 722,915</u></u></b>	<b><u><u>\$ 1,359,692</u></u></b>	<b><u><u>\$ 1,280,598</u></u></b>	<b><u><u>\$ (79,094)</u></u></b>

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, 2017**



**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
SERVICES AND RATES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**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 23, 2017.

	<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:	\$ 12.00	2,000	N	\$ 4.00 \$ 4.50 \$ 5.00 \$ 5.50	2,001 to 10,000 10,001 to 20,000 20,001 to 30,000 30,001 and up
WASTEWATER:	\$ 12.00	2,000	N	\$ 4.00 \$ 4.50 \$ 5.00 \$ 5.50	2,001 to 10,000 10,001 to 20,000 20,001 to 30,000 30,001 and up

**SURCHARGE:**

Other                      Fire Assessment \$7.00 per Unit

District employs winter averaging for wastewater usage?

              X    
Yes              No

Total monthly charges per 10,000 gallons usage: Water: \$44.00 Wastewater: \$44.00 Surcharge: \$7.00 Total \$95.00

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
SERVICES AND RATES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	<u>5</u>	<u>5</u>	x 1.0	<u>5</u>
≤ <sup>3</sup> / <sub>4</sub> "	<u>1,527</u>	<u>1,330</u>	x 1.0	<u>1,330</u>
1"	<u>70</u>	<u>63</u>	x 2.5	<u>158</u>
1½"	<u>36</u>	<u>34</u>	x 5.0	<u>170</u>
2"	<u>91</u>	<u>88</u>	x 8.0	<u>704</u>
3"	<u>7</u>	<u>5</u>	x 15.0	<u>75</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"	<u>          </u>	<u>          </u>	x 115.0	<u>          </u>
Total Water Connections	<u><u>1,742</u></u>	<u><u>1,531</u></u>		<u><u>2,672</u></u>
Total Wastewater Connections	<u><u>1,652</u></u>	<u><u>1,455</u></u>	x 1.0	<u><u>1,455</u></u>

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

Gallons pumped into system:	4,797,000	Water Accountability Ratio: 84.8% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	222,338,000	
Gallons purchased:	257,396,000	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, 2017**

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

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

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

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

County in which District is located:

Galveston County, Texas

Is the District located within a city?

Entirely \_\_\_\_\_ Partly X 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 X 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 X

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

PROFESSIONAL FEES:	
Auditing	\$ 15,000
Engineering	84,272
Legal	44,042
TOTAL PROFESSIONAL FEES	<u>\$ 143,314</u>
PURCHASED WATER SERVICE	<u>\$ 418,380</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 18,758
Operations and Billing	464,457
TOTAL CONTRACTED SERVICES	<u>\$ 483,215</u>
UTILITIES:	
Electricity	\$ 172,294
Telephone	16,491
TOTAL UTILITIES	<u>\$ 188,785</u>
REPAIRS AND MAINTENANCE	<u>\$ 389,620</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 10,050
Election Costs	17,803
Insurance	37,974
Office Supplies and Postage	14,048
Travel and Meetings	4,396
Other	2,841
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 87,112</u>
CAPITAL OUTLAY	<u>\$ 347,001</u>
TAP CONNECTION AND INSPECTION FEES	<u>\$ 48,154</u>
FIRE FIGHTING	<u>\$ 566,889</u>
OTHER EXPENDITURES:	
Chemicals	\$ 95,882
Laboratory Fees	41,689
Permit Fees	13,462
Raw Water Purchase Option	25,000
Regulatory Assessment	10,724
Sludge Hauling	30,378
Other	2,506
TOTAL OTHER EXPENDITURES	<u>\$ 219,641</u>
BOND ISSUANCE COSTS	<u>\$ 34,192</u>
DEBT SERVICE:	
Note Principal	\$ 49,823
Note Interest	9,679
TOTAL DEBT SERVICE	<u>\$ 59,502</u>
TOTAL EXPENDITURES	<u><u>\$ 2,985,805</u></u>

See accompanying independent auditor's report.



**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
INVESTMENTS  
DECEMBER 31, 2017**

<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	\$ 43,242	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 678,254	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 721,496</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, 2017**

	Debt Service Taxes	
TAXES RECEIVABLE -		
JANUARY 1, 2017	\$ 753,564	
Adjustments to Beginning Balance	(839)	\$ 752,725
Original 2017 Tax Levy	\$ 1,221,485	
Adjustment to 2017 Tax Levy	134,035	1,355,520
TOTAL TO BE ACCOUNTED FOR		\$ 2,108,245
TAX COLLECTIONS:		
Prior Years	\$ 704,935	
Current Year	541,081	1,246,016
TAXES RECEIVABLE -		
DECEMBER 31, 2017		\$ 862,229
TAXES RECEIVABLE BY		
YEAR:		
2017		\$ 814,439
2016		12,886
2015		10,887
2014		5,473
2013		5,648
2012		2,371
2011		1,782
2010		2,496
2009		1,968
2008		1,037
2007		1,110
2006		505
2005 and Prior		1,627
TOTAL		\$ 862,229

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, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 521,070,411</u>	<u>\$ 468,142,365</u>	<u>\$ 451,677,143</u>	<u>\$ 418,692,104</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	<u>\$ 0.26</u>	<u>\$ 0.26</u>	<u>\$ 0.28</u>	<u>\$ 0.30</u>
ADJUSTED TAX LEVY*	<u>\$ 1,355,520</u>	<u>\$ 1,218,833</u>	<u>\$ 1,264,696</u>	<u>\$ 1,258,093</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>39.92 %</u>	<u>98.94 %</u>	<u>99.14 %</u>	<u>99.56 %</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 District voters.

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
LONG-TERM DEBT SERVICE REQUIREMENTS  
DECEMBER 31, 2017**

SERIES - 2010 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
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>\$ 1,050,000</u>	<u>\$ 91,125</u>	<u>\$ 1,141,125</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
LONG-TERM DEBT SERVICE REQUIREMENTS  
DECEMBER 31, 2017**

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
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>\$ 3,755,000</u>	<u>\$ 1,829,562</u>	<u>\$ 5,584,562</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
LONG-TERM DEBT SERVICE REQUIREMENTS  
DECEMBER 31, 2017**

SERIES - 2015 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
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>\$ 9,785,000</u>	<u>\$ 1,997,435</u>	<u>\$ 11,782,435</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
LONG-TERM DEBT SERVICE REQUIREMENTS  
DECEMBER 31, 2017**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
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>\$ 14,590,000</u>	<u>\$ 3,918,122</u>	<u>\$ 18,508,122</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
CHANGES IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2017
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2005	\$ 11,200,000	\$ 210,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Refunding Bonds - Series 2010	3,945,000	1,440,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2014	4,050,000	3,860,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Refunding Bonds - Series 2015	<u>9,910,000</u>	<u>9,815,000</u>
<b>TOTAL</b>	<u><u>\$ 29,105,000</u></u>	<u><u>\$ 15,325,000</u></u>

Bond Authority:	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 39,450,000
Amount Issued	<u>26,620,000</u>
Remaining to be Issued	<u><u>\$ 12,830,000</u></u>
Debt Service Fund cash and investment balances as of December 31, 2017:	<u>\$ 1,916,846</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u><u>\$ 841,278</u></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, 2017</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 210,000	\$ 11,550	\$ - 0 -	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	390,000	62,850	1,050,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	105,000	136,175	3,755,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	30,000	248,319	9,785,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 735,000</u>	<u>\$ 458,894</u>	<u>\$ 14,590,000</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**

	Amounts		
	2017	2016	2015
<b>REVENUES</b>			
Water Service	\$ 1,170,279	\$ 1,048,940	\$ 1,031,315
Wastewater Service	968,205	907,905	876,151
Fire Assessment	573,463	571,475	573,082
Surcharges	35,499	41,753	41,938
Penalty and Interest	17,659	27,555	22,403
Tap Connection and Inspection Fees	94,203	92,051	48,889
Miscellaneous Revenues	58,473	47,829	49,206
<b>TOTAL REVENUES</b>	<b>\$ 2,917,781</b>	<b>\$ 2,737,508</b>	<b>\$ 2,642,984</b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 143,314	\$ 91,709	\$ 73,720
Contracted and Purchased Services	901,595	834,561	799,047
Utilities	188,785	185,635	180,501
Fire Service	566,889	574,948	564,038
Repairs and Maintenance	389,620	719,271	358,898
Other	354,907	306,432	196,602
Capital Outlay	347,001	423,522	468,157
Debt Service:			
Bond Issuance Costs	34,192		
Note Principal	49,823	48,379	46,978
Note Interest	9,679	11,123	12,524
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,985,805</b>	<b>\$ 3,195,580</b>	<b>\$ 2,700,465</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (68,024)</b>	<b>\$ (458,072)</b>	<b>\$ (57,481)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Note Proceeds	\$	\$	\$
Sale of Assets			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (68,024)</b>	<b>\$ (458,072)</b>	<b>\$ (57,481)</b>
<b>BEGINNING FUND BALANCE</b>	1,348,622	1,806,694	1,864,175
<b>ENDING FUND BALANCE</b>	<b>\$ 1,280,598</b>	<b>\$ 1,348,622</b>	<b>\$ 1,806,694</b>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 1,069,181	\$ 1,014,463	40.1 %	38.3 %	39.0 %	38.9 %	38.3 %
900,844	882,078	33.2	33.2	33.2	32.8	33.3
563,915	550,773	19.7	20.9	21.7	20.5	20.8
42,344	42,609	1.2	1.5	1.6	1.5	1.6
25,180	29,800	0.6	1.0	0.8	0.9	1.1
81,081	72,856	3.2	3.4	1.8	3.0	2.8
65,941	55,610	2.0	1.7	1.9	2.4	2.1
<u>\$ 2,748,486</u>	<u>\$ 2,648,189</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 80,851	\$ 112,264	4.9 %	3.4 %	2.8 %	2.9 %	4.2 %
773,893	633,505	30.9	30.5	30.2	28.2	23.9
163,850	185,958	6.5	6.8	6.8	6.0	7.0
568,232	540,719	19.4	21.0	21.3	20.7	20.4
416,717	513,127	13.4	26.3	13.6	15.2	19.4
255,888	266,049	12.2	11.2	7.4	9.3	10.0
54,045	608,899	11.9	15.5	17.7	2.0	23.0
		1.2				
45,578	203,669	1.7	1.8	1.8	1.7	7.7
13,924	12,522	0.3	0.4	0.5	0.5	0.5
<u>\$ 2,372,978</u>	<u>\$ 3,076,712</u>	<u>102.4 %</u>	<u>116.9 %</u>	<u>102.1 %</u>	<u>86.5 %</u>	<u>116.1 %</u>
<u>\$ 375,508</u>	<u>\$ (428,523)</u>	<u>(2.4) %</u>	<u>(16.9) %</u>	<u>(2.1) %</u>	<u>13.5 %</u>	<u>(16.1) %</u>
\$	\$ 549,899					
	225,000					
<u>\$ - 0 -</u>	<u>\$ 774,899</u>					
\$ 375,508	\$ 346,376					
1,488,667	1,142,291					
<u>\$ 1,864,175</u>	<u>\$ 1,488,667</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**

	Amounts		
	2017	2016	2015
<b>REVENUES</b>			
Property Taxes	\$ 1,215,730	\$ 1,256,903	\$ 1,249,661
Penalty and Interest	15,002	16,922	16,167
Miscellaneous Revenues	9,488	4,214	2,937
<b>TOTAL REVENUES</b>	<b>\$ 1,240,220</b>	<b>\$ 1,278,039</b>	<b>\$ 1,268,765</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 16,527	\$ 16,471	\$ 19,565
Debt Service Principal	735,000	710,000	710,000
Debt Service Interest and Fees	461,144	488,653	575,054
Bond Issuance Costs			215,049
Transfer to Refunded Bond Escrow Agent			1,000,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,212,671</b>	<b>\$ 1,215,124</b>	<b>\$ 2,519,668</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 27,549</b>	<b>\$ 62,915</b>	<b>\$ (1,250,903)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Refunded Bonds Issued	\$	\$	\$ 9,910,000
Transfer to Refunded Bond Escrow Agent			(9,687,791)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ - 0 -</b>	<b>\$ -0-</b>	<b>\$ 222,209</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 27,549</b>	<b>\$ 62,915</b>	<b>\$ (1,028,694)</b>
<b>BEGINNING FUND BALANCE</b>	<b>1,344,196</b>	<b>1,281,281</b>	<b>2,309,975</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 1,371,745</b>	<b>\$ 1,344,196</b>	<b>\$ 1,281,281</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,531</b>	<b>1,509</b>	<b>1,475</b>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,455</b>	<b>1,438</b>	<b>1,421</b>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 1,213,629	\$ 1,213,079	98.0 %	98.4 %	98.5 %	98.9 %	98.4 %
9,586	11,132	1.2	1.3	1.3	0.8	0.9
4,179	8,886	0.8	0.3	0.2	0.3	0.7
<u>\$ 1,227,394</u>	<u>\$ 1,233,097</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 12,086	\$ 11,007	1.3 %	1.3 %	1.5 %	1.0 %	0.9 %
530,000	515,000	59.3	55.6	56.0	43.2	41.8
629,733	645,583	37.2	38.2	45.3	51.3	52.4
				16.9		
				78.8		
<u>\$ 1,171,819</u>	<u>\$ 1,171,590</u>	<u>97.8 %</u>	<u>95.1 %</u>	<u>198.5 %</u>	<u>95.5 %</u>	<u>95.1 %</u>
<u>\$ 55,575</u>	<u>\$ 61,507</u>	<u>2.2 %</u>	<u>4.9 %</u>	<u>(98.5) %</u>	<u>4.5 %</u>	<u>4.9 %</u>
\$	\$					
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ 55,575	\$ 61,507					
<u>2,254,400</u>	<u>2,192,893</u>					
<u>\$ 2,309,975</u>	<u>\$ 2,254,400</u>					
<u>1,486</u>	<u>1,429</u>					
<u>1,445</u>	<u>1,383</u>					

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 12  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
DECEMBER 31, 2017**

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

District Telephone Number - (281) 334-3331

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2017	Expense Reimbursements for the year ended December 31, 2017	Title
Terri Gale	05/2014 - 05/2018 (Elected)	\$ -0-	\$ -0-	President
Linda Merryman	05/2014 - 05/2018 (Elected)	\$ 2,850	\$ 1,002	Vice President
Nancy McDonald	05/2016 - 05/2020 (Elected)	\$ 2,100	\$ -0-	Secretary
Peyton Lumpkin	05/2016 - 05/2020 (Elected)	\$ 2,100	\$ 1,109	Assistant Secretary/ ESB Ex- Officio
Douglas Meisinger	05/2016 - 05/2020 (Elected)	\$ 1,800	\$ -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):  
December 12, 2016.

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, 2017**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2017</u>	<u>Title</u>
Strawn & Richardson, P.C.	07/22/99	\$ 51,274	General Counsel
McCall Gibson Swedlund Barfoot PLLC	10/10/94	\$ 15,900	Auditor
ETI Bookkeeping Services	03/10/04	\$ 18,758	Bookkeeper
Linebarger Goggan Blair & Sampson, LLP	08/27/12	\$ 3,453	Delinquent Tax Attorney
LJA Engineering & Surveying, Inc.	06/13/94	\$ 220,354	Engineer
Robert W. Baird & Co. Incorporated	03/09/15	\$ -0-	Financial Advisor
Kemah Volunteer Fire Department	05/06/00	\$ 565,294	Fire Fighting and EMS Services
Kenneth Byrd	06/17/04	\$ -0-	Investment Officer
Municipal District Services, LLC	05/01/08	\$ 1,082,578	Operator
Galveston County Tax Assessor/Collector	08/21/12	\$ 1,448	Tax Assessor/ Collector

See accompanying independent auditor's report.

