

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

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2018

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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, 2018, 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, 2018, 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018. 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, 2018**

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 \$9,403,931 as of December 31, 2018. 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, 2018, and December 31, 2017.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 6,952,262	\$ 4,828,185	\$ 2,124,077
Capital Assets (Net of Accumulated Depreciation)	20,706,839	21,000,605	(293,766)
Total Assets	\$ 27,659,101	\$ 25,828,790	\$ 1,830,311
Deferred Outflows of Resources	\$ 196,520	\$ 213,730	\$ (17,210)
Bonds/Note Payable	\$ 16,229,799	\$ 14,914,347	\$ (1,315,452)
Other Liabilities	788,927	652,946	(135,981)
Total Liabilities	\$ 17,018,726	\$ 15,567,293	\$ (1,451,433)
Deferred Inflows of Resources	\$ 1,432,964	\$ 1,355,520	\$ (77,444)
Net Position:			
Net Investment in Capital Assets	\$ 5,989,003	\$ 6,544,656	\$ (555,653)
Restricted	1,415,564	1,294,453	121,111
Unrestricted	1,999,364	1,280,598	718,766
Total Net Position	\$ 9,403,931	\$ 9,119,707	\$ 284,224

The District's net position increased by \$284,224. The following table provides a summary of the District's operations for the years ended December 31, 2018, and December 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,355,724	\$ 1,217,995	\$ 137,729
Charges for Services	3,230,258	2,865,389	364,869
Other Revenues	239,695	69,423	170,272
Total Revenues	\$ 4,825,677	\$ 4,152,807	\$ 672,870
Expenses for Services	4,541,453	4,190,272	(351,181)
Change in Net Position	\$ 284,224	\$ (37,465)	\$ 321,689
Net Position, Beginning of Year	9,119,707	9,157,172	(37,465)
Net Position, End of Year	\$ 9,403,931	\$ 9,119,707	\$ 284,224

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2018, were \$4,801,146, an increase of \$1,904,135 from the prior year.

The General Fund fund balance increased by \$718,766, primarily due to service revenues exceeding operating costs as well as a transfer of funds received from the Capital Projects Fund and a capital contribution received from the Kemah Volunteer Fire Department.

The Debt Service Fund fund balance increased by \$114,594, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$1,070,775, primarily due to unspent proceeds from the Series 2018 bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$242,376 more than budgeted revenues primarily due to higher than anticipated revenues across all categories except tap fees and miscellaneous revenues. Actual expenditures were \$176,400 more than budgeted expenditures primarily due to higher than anticipated professional fees and fire service costs. Additionally, note payment costs were not budgeted for.

CAPITAL ASSETS

Capital assets as of December 31, 2018, total \$20,706,839 (net of accumulated depreciation) and include land, buildings, vehicles and equipment as well as the water and wastewater systems. Current year activity includes engineering fees related to the interruptible service water well and water well no. 1 rehabilitation as well as a down payment for a new fire truck.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 822,435	\$ 822,435	\$
Construction in Progress	670,800	62,780	608,020
Capital Assets, Net of Accumulated Depreciation:			
Vehicles	226,287	281,277	(54,990)
Buildings	1,451,084	1,521,213	(70,129)
Water System	8,564,690	8,774,494	(209,804)
Wastewater System	8,971,543	9,538,406	(566,863)
Total Net Capital Assets	\$ 20,706,839	\$ 21,000,605	\$ (293,766)

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

LONG-TERM DEBT ACTIVITY

As of December 31, 2018, the District had total bond debt payable of \$15,995,000. The changes in the debt position of the District during the fiscal year ended December 31, 2018, are summarized as follows:

Bond Debt Payable, January 1, 2018	\$ 14,590,000
Add: Bond Sale - Series 2018	2,175,000
Less: Bond Principal Paid	<u>770,000</u>
Bond Debt Payable, December 31, 2018	<u>\$ 15,995,000</u>

The District’s Series 2010, 2014 and 2018 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 2018 bonds carry an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual Assurance Company. The ratings above reflect all rating changes through December 31, 2018.

The District’s long-term debt also includes a note payable with a December 31, 2018, balance of \$245,731 (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, 2018**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 1,230,151	\$ 1,197,850
Investments	1,251,018	652,445
Cash with Galveston County		64,970
Receivables:		
Property Taxes		1,062,846
Penalty and Interest on Delinquent Taxes		
Service Accounts	126,315	
Due from Other Funds	2,554	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 2,610,038	\$ 2,978,111
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,610,038	\$ 2,978,111

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>
\$ 1,335,576	\$ 3,763,577	\$	\$ 3,763,577
	1,903,463		1,903,463
	64,970		64,970
	1,062,846		1,062,846
	126,315	31,091	31,091
	2,554	(2,554)	126,315
		822,435	822,435
		670,800	670,800
		<u>19,213,604</u>	<u>19,213,604</u>
<u>\$ 1,335,576</u>	<u>\$ 6,923,725</u>	<u>\$ 20,735,376</u>	<u>\$ 27,659,101</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 196,520</u>	<u>\$ 196,520</u>
<u>\$ 1,335,576</u>	<u>\$ 6,923,725</u>	<u>\$ 20,931,896</u>	<u>\$ 27,855,621</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, 2018**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 276,940	\$
Accrued Interest Payable		
Due to Other Funds		2,554
Security Deposits	333,734	
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	\$ 610,674	\$ 2,554
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ -0-	\$ 1,489,218
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		1,486,339
Unassigned	1,999,364	
TOTAL FUND BALANCES	\$ 1,999,364	\$ 1,486,339
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,610,038	\$ 2,978,111
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
\$ 20,133	\$ 297,073	\$	\$ 297,073
		158,120	158,120
	2,554	(2,554)	
	333,734		333,734
		52,838	52,838
		192,893	192,893
		795,000	795,000
		15,189,068	15,189,068
<u>\$ 20,133</u>	<u>\$ 633,361</u>	<u>\$ 16,385,365</u>	<u>\$ 17,018,726</u>
<u>\$ -0-</u>	<u>\$ 1,489,218</u>	<u>\$ (56,254)</u>	<u>\$ 1,432,964</u>
\$ 1,315,443	\$ 1,315,443	\$ (1,315,443)	\$
	1,486,339	(1,486,339)	
	1,999,364	(1,999,364)	
<u>\$ 1,315,443</u>	<u>\$ 4,801,146</u>	<u>\$ (4,801,146)</u>	<u>\$ - 0 -</u>
<u>\$ 1,335,576</u>	<u>\$ 6,923,725</u>		
		\$ 5,989,003	\$ 5,989,003
		1,415,564	1,415,564
		1,999,364	1,999,364
		<u>\$ 9,403,931</u>	<u>\$ 9,403,931</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, 2018**

Total Fund Balances - Governmental Funds	\$ 4,801,146
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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.	20,706,839
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Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the new debt or the old debt, whichever is shorter.	196,520
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.	87,345
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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	\$ (158,120)	
Note Payable	(245,731)	
Bonds Payable	<u>(15,984,068)</u>	<u>(16,387,919)</u>
Total Net Position - Governmental Activities		<u>\$ 9,403,931</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, 2018**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$	\$ 1,347,261
Water Service	1,267,373	
Wastewater Service	1,009,299	
Fire Assessment	759,327	
Surcharges and Other Fees	63,853	
Penalty and Interest	21,231	14,273
Tap Connection and Inspection Fees	82,092	
Miscellaneous Revenues	19,386	18,112
	<u>\$ 3,222,561</u>	<u>\$ 1,379,646</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 142,671	\$ 3,850
Contracted Services	523,122	12,568
Purchased Water Service	386,060	
Utilities	169,784	
Fire Service	728,208	
Repairs and Maintenance	579,277	
Depreciation		
Other	356,051	3,939
Capital Outlay	200,000	
Debt Service:		
Note Principal	51,284	
Note Interest	8,218	
Bond Issuance Costs		
Bond Principal		770,000
Bond Interest		474,695
	<u>\$ 3,144,675</u>	<u>\$ 1,265,052</u>
TOTAL EXPENDITURES/EXPENSES		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ 77,886</u>	<u>\$ 114,594</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	\$ 440,880	\$
Proceeds from Issuance of Long-Term Debt		
Bond Discount		
Capital Contribution by Kemah VFD	200,000	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 640,880</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCES	\$ 718,766	\$ 114,594
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2018	<u>1,280,598</u>	<u>1,371,745</u>
FUND BALANCES/NET POSITION - DECEMBER 31, 2018	<u><u>\$ 1,999,364</u></u>	<u><u>\$ 1,486,339</u></u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,347,261	\$ 8,463	\$ 1,355,724
	1,267,373		1,267,373
	1,009,299		1,009,299
	759,327		759,327
	63,853		63,853
	35,504	12,810	48,314
	82,092		82,092
2,197	39,695	200,000	239,695
<u>\$ 2,197</u>	<u>\$ 4,604,404</u>	<u>\$ 221,273</u>	<u>\$ 4,825,677</u>
\$	\$ 146,521	\$	\$ 146,521
	535,690		535,690
	386,060		386,060
	169,784		169,784
	728,208		728,208
	579,277	76,580	655,857
		901,786	901,786
624	360,614		360,614
484,600	684,600	(684,600)	
	51,284	(51,284)	
	8,218	(156)	8,062
163,989	163,989		163,989
	770,000	(770,000)	
	474,695	10,187	484,882
<u>\$ 649,213</u>	<u>\$ 5,058,940</u>	<u>\$ (517,487)</u>	<u>\$ 4,541,453</u>
<u>\$ (647,016)</u>	<u>\$ (454,536)</u>	<u>\$ 738,760</u>	<u>\$ 284,224</u>
\$ (440,880)	\$	\$	\$
2,175,000	2,175,000	(2,175,000)	
(16,329)	(16,329)	16,329	
	200,000	(200,000)	
<u>\$ 1,717,791</u>	<u>\$ 2,358,671</u>	<u>\$ (2,358,671)</u>	<u>\$ -0-</u>
\$ 1,070,775	\$ 1,904,135	\$ (1,904,135)	\$
		284,224	284,224
244,668	2,897,011	6,222,696	9,119,707
<u>\$ 1,315,443</u>	<u>\$ 4,801,146</u>	<u>\$ 4,602,785</u>	<u>\$ 9,403,931</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, 2018**

Net Change in Fund Balances - Governmental Funds	\$	1,904,135
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.		8,463
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.		12,810
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.		(901,786)
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.		608,020
Governmental funds report bond discounts as other financing uses in the year paid. However, in the Statement of Net Position, bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		16,329
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.		51,284
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.		770,000
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.		(10,031)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		<u>(2,175,000)</u>
Change in Net Position - Governmental Activities	\$	<u><u>284,224</u></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, 2018**

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, 2018**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2017 tax levy collections from October 1, 2017, to December 31, 2018, and taxes collected from January 1, 2018, to December 31, 2018, for the 2016 and prior tax levies. The 2018 tax levy has been fully deferred to the 2019 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, 2018, the Debt Service Fund recorded a liability in the amount of \$2,554 to the General Fund for tax-related costs. During the current fiscal year, the Capital Projects Fund transferred \$440,880 to the General Fund to reimburse for various engineering, construction and 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 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:

	Years
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, 2018**

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.

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, 2018**

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	Series 2018
Amount Outstanding – December 31, 2018	\$ 645,000	\$ 3,645,000	\$ 9,530,000	\$ 2,175,000
Interest Rates	4.50%	3.00% - 4.00%	2.53%	3.00% - 3.50%
Maturity Dates - Serially Beginning/Ending	September 1, 2019/2020	September 1, 2019/2039	September 1, 2019/2030	September 1, 2031/2042
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	N/A	September 1, 2022*	N/A	September 1, 2025*

* 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. Series 2018 term bonds due September 1, 2032, September 1, 2034, and September 1, 2036 are subject to mandatory redemption on September 1, 2031, September 1, 2033, and September 1, 2035, respectively.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2018:

	January 1, 2018	Additions	Retirements	December 31, 2018
Bonds Payable	\$ 14,590,000	\$ 2,175,000	\$ 770,000	\$ 15,995,000
Unamortized Discounts	(53,577)	(16,329)	(5,846)	(64,060)
Unamortized Premiums	80,909		27,781	53,128
Bonds Payable, Net	<u>\$ 14,617,332</u>	<u>\$ 2,175,000</u>	<u>\$ 791,935</u>	<u>\$ 15,984,068</u>
			Amount Due Within One Year	\$ 795,000
			Amount Due After One Year	<u>15,189,068</u>
			Bonds Payable, Net	<u>\$ 15,984,068</u>

As of December 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 795,000	\$ 472,571	\$ 1,267,571
2020	825,000	445,712	1,270,712
2021	890,000	417,774	1,307,774
2022	920,000	394,671	1,314,671
2023	950,000	370,782	1,320,782
2024-2028	5,200,000	1,467,835	6,667,835
2029-2033	3,170,000	806,478	3,976,478
2034-2038	1,665,000	472,600	2,137,600
2039-2042	1,580,000	141,619	1,721,619
	<u>\$ 15,995,000</u>	<u>\$ 4,990,042</u>	<u>\$ 20,985,042</u>

As of December 31, 2018, the District had authorized but unissued bonds in the amount of \$10,655,000. 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, 2018, 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 \$1,432,964 on the adjusted taxable valuation of \$550,648,083 for the 2018 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, 2018**

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 \$3,763,577 and the bank balance was \$3,782,263. 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, 2018**

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, 2018, as listed below:

	Cash
GENERAL FUND	\$ 1,230,151
DEBT SERVICE FUND	1,197,850
CAPITAL PROJECTS FUND	1,335,576
TOTAL DEPOSITS	\$ 3,763,577

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, 2018**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of December 31, 2018, 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	\$1,251,018	\$1,251,018
<u>DEBT SERVICE FUND</u>		
TexPool	652,445	652,445
TOTAL INVESTMENTS	\$1,903,463	\$1,903,463

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2018, 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, 2018**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

	January 1, 2018	Increases	Decreases	December 31, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 822,435	\$	\$	\$ 822,435
Construction in Progress	62,780	608,020		670,800
Total Capital Assets Not Being Depreciated	<u>\$ 885,215</u>	<u>\$ 608,020</u>	<u>\$ - 0 -</u>	<u>\$ 1,493,235</u>
Capital Assets Subject to Depreciation				
Vehicles	\$ 1,879,973	\$	\$	\$ 1,879,973
Buildings	2,368,457			2,368,457
Water System	10,614,965			10,614,965
Wastewater System	17,546,256			17,546,256
Total Capital Assets Subject to Depreciation	<u>\$ 32,409,651</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 32,409,651</u>
Accumulated Depreciation				
Vehicles	\$ 1,598,696	\$ 54,990	\$	\$ 1,653,686
Buildings	847,244	70,129		917,373
Water System	1,840,471	209,804		2,050,275
Wastewater System	8,007,850	566,863		8,574,713
Total Accumulated Depreciation	<u>\$ 12,294,261</u>	<u>\$ 901,786</u>	<u>\$ - 0 -</u>	<u>\$ 13,196,047</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 20,115,390</u>	<u>\$ (901,786)</u>	<u>\$ - 0 -</u>	<u>\$ 19,213,604</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 21,000,605</u>	<u>\$ (293,766)</u>	<u>\$ - 0 -</u>	<u>\$ 20,706,839</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 entity presently known as the Gulf Coast Water Authority (the "Authority"). This agreement was subsequently amended. The agreement 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 \$386,060.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 February 12, 2018. The current assessment charged by the District is \$10.00 per

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 10. CONTRACT FOR FIRE FIGHTING SERVICES (Continued)

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 firefighting assessment revenues of \$759,327 and firefighting service costs of \$728,208.

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 whereby the Department was to make the next eight quarterly payments on this note and the District was obligated to repay the Department and resume making future payments after these eight payments have occurred. During the current fiscal year, the District reimbursed the Department \$104,129 for the payments that were made on the note. Current year activity is as follows:

Note Payable Balance-January 1, 2018	\$	297,015
Less: Principal Paid		51,284
Note Payable Balance-December 31, 2018	\$	245,731

As of December 31, 2018, the scheduled maturities are as follows:

Fiscal Year	Principal	Interest	Total
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
	\$ 245,731	\$ 17,247	\$ 262,978

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 12. BOND SALE

On January 9, 2018, the District closed on the sale of its \$2,175,000 Series 2018 Unlimited Tax Bonds. Proceeds from the bond sale are being 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.

NOTE 13. USE OF SURPLUS FUNDS

On February 12, 2018, 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.

NOTE 14. CAPITAL CONTRIBUTION

During the current fiscal year, the District received a capital contribution from the Kemah Volunteer Fire Department in the amount of \$200,000. These funds are going towards the total purchase cost of \$979,319 for a new Aerial Ladder Fire Truck. Delivery of the truck is expected in the 2019 fiscal year.

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

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018

**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, 2018**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Water Service	\$ 1,184,200	\$ 1,267,373	\$ 83,173
Wastewater Service	972,075	1,009,299	37,224
Fire Assessment	568,500	759,327	190,827
Surcharges	81,965	63,853	(18,112)
Penalty and Interest	15,075	21,231	6,156
Tap Connection and Inspection Fees	141,150	82,092	(59,058)
Miscellaneous Revenues	<u>17,220</u>	<u>19,386</u>	<u>2,166</u>
TOTAL REVENUES	<u>\$ 2,980,185</u>	<u>\$ 3,222,561</u>	<u>\$ 242,376</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 103,750	\$ 142,671	\$ (38,921)
Contracted Services	527,500	523,122	4,378
Purchased Water Service	450,400	386,060	64,340
Utilities	190,500	169,784	20,716
Fire Service	570,500	728,208	(157,708)
Repairs and Maintenance/Capital Outlay	768,500	779,277	(10,777)
Other	357,125	356,051	1,074
Note Principal/Interest	<u> </u>	<u>59,502</u>	<u>(59,502)</u>
TOTAL EXPENDITURES	<u>\$ 2,968,275</u>	<u>\$ 3,144,675</u>	<u>\$ (176,400)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 11,910</u>	<u>\$ 77,886</u>	<u>\$ 65,976</u>
OTHER FINANCING SOURCES(USES)			
Transfers In	\$	\$ 440,880	\$ 440,880
Capital Contribution by Kemah VFD	<u> </u>	<u>200,000</u>	<u>200,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ 640,880</u>	<u>\$ 640,880</u>
NET CHANGE IN FUND BALANCE	\$ 11,910	\$ 718,766	\$ 706,856
FUND BALANCE - JANUARY 1, 2018	<u>1,280,598</u>	<u>1,280,598</u>	<u> </u>
FUND BALANCE - DECEMBER 31, 2018	<u>\$ 1,292,508</u>	<u>\$ 1,999,364</u>	<u>\$ 706,856</u>

See accompanying independent auditor's report.

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

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

DECEMBER 31, 2018

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 November 12, 2018.

	<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 \$10.00 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: \$10.00 Total \$98.00

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2018**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>1,521</u>	<u>1,319</u>	x 1.0	<u>1,319</u>
1"	<u>73</u>	<u>65</u>	x 2.5	<u>163</u>
1½"	<u>38</u>	<u>35</u>	x 5.0	<u>175</u>
2"	<u>100</u>	<u>94</u>	x 8.0	<u>752</u>
3"	<u>5</u>	<u>4</u>	x 15.0	<u>60</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>1,743</u></u>	<u><u>1,523</u></u>		<u><u>2,699</u></u>
Total Wastewater Connections	<u><u>1,685</u></u>	<u><u>1,470</u></u>	x 1.0	<u><u>1,470</u></u>

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

Gallons pumped into system:	5,962,000	Water Accountability Ratio: 88.2% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	226,222,000	
Gallons purchased:	250,587,000	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, 2018**

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, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 15,500
Engineering	90,542
Legal	36,629
TOTAL PROFESSIONAL FEES	<u>\$ 142,671</u>
PURCHASED WATER SERVICE	<u>\$ 386,060</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 19,082
Operations and Billing	504,040
TOTAL CONTRACTED SERVICES	<u>\$ 523,122</u>
UTILITIES:	
Electricity	\$ 153,475
Telephone	16,309
TOTAL UTILITIES	<u>\$ 169,784</u>
REPAIRS AND MAINTENANCE	<u>\$ 579,277</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 9,000
Election Costs	17,665
Insurance	45,205
Office Supplies and Postage	5,928
Travel and Meetings	2,659
Other	13,010
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 93,467</u>
CAPITAL OUTLAY	<u>\$ 200,000</u>
TAP CONNECTION AND INSPECTION FEES	<u>\$ 45,824</u>
FIRE FIGHTING	<u>\$ 728,208</u>
OTHER EXPENDITURES:	
Chemicals	\$ 126,146
Laboratory Fees	33,702
Permit Fees	14,041
Regulatory Assessment	11,198
Sludge Hauling	28,731
Garbage	2,942
TOTAL OTHER EXPENDITURES	<u>\$ 216,760</u>
DEBT SERVICE:	
Note Principal	\$ 51,284
Note Interest	8,218
TOTAL DEBT SERVICE	<u>\$ 59,502</u>
TOTAL EXPENDITURES	<u><u>\$ 3,144,675</u></u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
INVESTMENTS
DECEMBER 31, 2018**

<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	\$ 1,251,018	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 652,445	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 1,903,463</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, 2018**

	Debt Service Taxes	
TAXES RECEIVABLE -		
JANUARY 1, 2018	\$ 862,229	
Adjustments to Beginning Balance	204	\$ 862,433
Original 2018 Tax Levy	\$ 1,354,313	
Adjustment to 2018 Tax Levy	78,651	1,432,964
TOTAL TO BE ACCOUNTED FOR		\$ 2,295,397
TAX COLLECTIONS:		
Prior Years	\$ 806,179	
Current Year	426,372	1,232,551
TAXES RECEIVABLE -		
DECEMBER 31, 2018		\$ 1,062,846
TAXES RECEIVABLE BY		
YEAR:		
2018		\$ 1,006,592
2017		16,054
2016		8,426
2015		8,049
2014		5,338
2013		5,558
2012		2,358
2011		1,774
2010		2,487
2009		1,960
2008		1,029
2007		495
2006 and Prior		2,726
TOTAL		\$ 1,062,846

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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 231,838,429	\$ 225,882,658	\$ 155,660,917	\$ 155,101,109
Improvements	376,400,644	363,984,205	351,911,280	334,617,360
Personal Property	50,261,610	44,793,132	44,830,031	45,411,690
Exemptions	<u>(107,852,600)</u>	<u>(113,589,584)</u>	<u>(84,259,863)</u>	<u>(83,453,016)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 550,648,083</u>	<u>\$ 521,070,411</u>	<u>\$ 468,142,365</u>	<u>\$ 451,677,143</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	<u>\$ 0.26</u>	<u>\$ 0.26</u>	<u>\$ 0.26</u>	<u>\$ 0.28</u>
ADJUSTED TAX LEVY*	<u>\$ 1,432,964</u>	<u>\$ 1,355,520</u>	<u>\$ 1,218,833</u>	<u>\$ 1,264,696</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>29.75 %</u>	<u>98.82 %</u>	<u>99.31 %</u>	<u>99.36 %</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, 2018**

SERIES - 2010 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
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			
2040			
2041			
2042			
	<u>\$ 645,000</u>	<u>\$ 43,875</u>	<u>\$ 688,875</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

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
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
2040			
2041			
2042			
	<u>\$ 3,645,000</u>	<u>\$ 1,696,537</u>	<u>\$ 5,341,537</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

SERIES - 2015 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
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			
2040			
2041			
2042			
	<u>\$ 9,530,000</u>	<u>\$ 1,749,874</u>	<u>\$ 11,279,874</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$	\$ 72,712	\$ 72,712
2020		72,713	72,713
2021		72,712	72,712
2022		72,713	72,713
2023		72,712	72,712
2024		72,713	72,713
2025		72,712	72,712
2026		72,713	72,713
2027		72,712	72,712
2028		72,713	72,713
2029		72,712	72,712
2030		72,713	72,713
2031	95,000	72,712	167,712
2032	95,000	69,863	164,863
2033	100,000	67,012	167,012
2034	105,000	63,888	168,888
2035	105,000	60,605	165,605
2036	110,000	57,325	167,325
2037	115,000	53,888	168,888
2038	120,000	50,294	170,294
2039	125,000	46,394	171,394
2040	390,000	42,175	432,175
2041	400,000	28,525	428,525
2042	415,000	14,525	429,525
	<u>\$ 2,175,000</u>	<u>\$ 1,499,756</u>	<u>\$ 3,674,756</u>

See accompanying independent auditor's report.

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 795,000	\$ 472,571	\$ 1,267,571
2020	825,000	445,712	1,270,712
2021	890,000	417,774	1,307,774
2022	920,000	394,671	1,314,671
2023	950,000	370,782	1,320,782
2024	980,000	346,114	1,326,114
2025	1,010,000	320,661	1,330,661
2026	1,040,000	294,428	1,334,428
2027	1,070,000	267,409	1,337,409
2028	1,100,000	239,223	1,339,223
2029	1,140,000	210,241	1,350,241
2030	1,175,000	179,750	1,354,750
2031	275,000	148,324	423,324
2032	285,000	138,951	423,951
2033	295,000	129,212	424,212
2034	310,000	118,288	428,288
2035	320,000	106,805	426,805
2036	330,000	94,925	424,925
2037	345,000	82,688	427,688
2038	360,000	69,894	429,894
2039	375,000	56,394	431,394
2040	390,000	42,175	432,175
2041	400,000	28,525	428,525
2042	415,000	14,525	429,525
	<u>\$ 15,995,000</u>	<u>\$ 4,990,042</u>	<u>\$ 20,985,042</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, 2018**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2018
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Refunding Bonds - Series 2010	\$ 3,945,000	\$ 1,050,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2014	4,050,000	3,755,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Refunding Bonds - Series 2015	9,910,000	9,785,000
Galveston County Water Control and Improvement District No. 12 Unlimited Tax Bonds - Series 2018	<u>2,175,000</u>	<u> </u>
TOTAL	<u><u>\$ 20,080,000</u></u>	<u><u>\$ 14,590,000</u></u>

Bond Authority:	<u>Tax Bonds</u>
Amount Authorized by Voters	\$ 39,450,000
Amount Issued	<u>28,795,000</u>
Remaining to be Issued	<u><u>\$ 10,655,000</u></u>

Debt Service Fund cash and investment balances as of December 31, 2018: \$ 1,915,265

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 874,377

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 405,000	\$ 47,250	\$ 645,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	110,000	133,025	3,645,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	255,000	247,561	9,530,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>2,175,000</u>		<u>46,859</u>	<u>2,175,000</u>	ZB, National Association dba Amegy Bank Houston, TX
<u>\$ 2,175,000</u>	<u>\$ 770,000</u>	<u>\$ 474,695</u>	<u>\$ 15,995,000</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		
	2018	2017	2016
REVENUES			
Water Service	\$ 1,267,373	\$ 1,170,279	\$ 1,048,940
Wastewater Service	1,009,299	968,205	907,905
Fire Assessment	759,327	573,463	571,475
Surcharges and Other Fees	63,853	81,107	86,825
Penalty and Interest	21,231	17,659	27,555
Tap Connection and Inspection Fees	82,092	94,203	92,051
Miscellaneous Revenues	19,386	12,865	2,757
TOTAL REVENUES	\$ 3,222,561	\$ 2,917,781	\$ 2,737,508
EXPENDITURES			
Professional Fees	\$ 142,671	\$ 177,506	\$ 91,709
Contracted and Purchased Services	909,182	901,595	834,561
Utilities	169,784	188,785	185,635
Fire Service	728,208	566,889	574,948
Repairs and Maintenance	579,277	389,620	719,271
Other	356,051	354,907	306,432
Capital Outlay	200,000	347,001	423,522
Debt Service - Note Principal	51,284	49,823	48,379
Debt Service - Note Interest	8,218	9,679	11,123
TOTAL EXPENDITURES	\$ 3,144,675	\$ 2,985,805	\$ 3,195,580
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 77,886	\$ (68,024)	\$ (458,072)
OTHER FINANCING SOURCES (USES)			
Transfer In	\$ 440,880	\$	\$
Capital Contribution by Kemah VFD	200,000		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 640,880	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCE	\$ 718,766	\$ (68,024)	\$ (458,072)
BEGINNING FUND BALANCE	1,280,598	1,348,622	1,806,694
ENDING FUND BALANCE	\$ 1,999,364	\$ 1,280,598	\$ 1,348,622

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 1,031,315	\$ 1,069,181	39.3 %	40.1 %	38.2 %	39.1 %	38.9 %
876,151	900,844	31.3	33.2	33.2	33.2	32.8
573,082	563,915	23.6	19.7	20.9	21.7	20.5
88,414	93,346	2.0	2.8	3.2	3.3	3.4
22,403	25,180	0.7	0.6	1.0	0.8	0.9
48,889	81,081	2.5	3.2	3.4	1.8	3.0
2,730	14,939	0.6	0.4	0.1	0.1	0.5
<u>\$ 2,642,984</u>	<u>\$ 2,748,486</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 73,720	\$ 80,851	4.4 %	6.1 %	3.4 %	2.8 %	2.9 %
799,047	773,893	28.2	30.9	30.5	30.2	28.2
180,501	163,850	5.3	6.5	6.8	6.8	6.0
564,038	568,232	22.6	19.4	21.0	21.3	20.7
358,898	416,717	18.0	13.4	26.3	13.6	15.2
196,602	255,888	11.0	12.2	11.2	7.4	9.3
468,157	54,045	6.2	11.9	15.5	17.7	2.0
46,978	45,578	1.6	1.7	1.8	1.8	1.7
12,524	13,924	0.3	0.3	0.4	0.5	0.5
<u>\$ 2,700,465</u>	<u>\$ 2,372,978</u>	<u>97.6 %</u>	<u>102.4 %</u>	<u>116.9 %</u>	<u>102.1 %</u>	<u>86.5 %</u>
<u>\$ (57,481)</u>	<u>\$ 375,508</u>	<u>2.4 %</u>	<u>(2.4) %</u>	<u>(16.9) %</u>	<u>(2.1) %</u>	<u>13.5 %</u>
\$	\$					
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ (57,481)	\$ 375,508					
1,864,175	1,488,667					
<u>\$ 1,806,694</u>	<u>\$ 1,864,175</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		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 1,347,261	\$ 1,215,730	\$ 1,256,903
Penalty and Interest	14,273	15,002	16,922
Miscellaneous Revenues	18,112	9,488	4,214
TOTAL REVENUES	\$ 1,379,646	\$ 1,240,220	\$ 1,278,039
EXPENDITURES			
Tax Collection Expenditures	\$ 19,607	\$ 16,527	\$ 16,471
Debt Service Principal	770,000	735,000	710,000
Debt Service Interest and Fees	475,445	461,144	488,653
Bond Issuance Costs			
Transfer to Refunded Bond Escrow Agent			
TOTAL EXPENDITURES	\$ 1,265,052	\$ 1,212,671	\$ 1,215,124
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 114,594	\$ 27,549	\$ 62,915
OTHER FINANCING SOURCES (USES)			
Proceeds from Refunded Bonds Issued	\$	\$	\$
Transfer to Refunded Bond Escrow Agent			
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCE	\$ 114,594	\$ 27,549	\$ 62,915
BEGINNING FUND BALANCE	1,371,745	1,344,196	1,281,281
ENDING FUND BALANCE	\$ 1,486,339	\$ 1,371,745	\$ 1,344,196
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,523	1,531	1,509
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,470	1,455	1,438

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 1,249,661	\$ 1,213,629	97.7 %	98.0 %	98.4 %	98.5 %	98.9 %
16,167	9,586	1.0	1.2	1.3	1.3	0.8
2,937	4,179	1.3	0.8	0.3	0.2	0.3
<u>\$ 1,268,765</u>	<u>\$ 1,227,394</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 19,565	\$ 12,086	1.4 %	1.3 %	1.3 %	1.5 %	1.0 %
710,000	530,000	55.8	59.3	55.6	56.0	43.2
575,054	629,733	34.5	37.2	38.2	45.3	51.3
215,049					16.9	
1,000,000					78.8	
<u>\$ 2,519,668</u>	<u>\$ 1,171,819</u>	<u>91.7 %</u>	<u>97.8 %</u>	<u>95.1 %</u>	<u>198.5 %</u>	<u>95.5 %</u>
<u>\$ (1,250,903)</u>	<u>\$ 55,575</u>	<u>8.3 %</u>	<u>2.2 %</u>	<u>4.9 %</u>	<u>(98.5) %</u>	<u>4.5 %</u>
\$ 9,910,000	\$					
(9,687,791)						
<u>\$ 222,209</u>	<u>\$ -0-</u>					
\$ (1,028,694)	\$ 55,575					
2,309,975	2,254,400					
<u>\$ 1,281,281</u>	<u>\$ 2,309,975</u>					
<u>1,475</u>	<u>1,486</u>					
<u>1,421</u>	<u>1,445</u>					

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 12
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2018**

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	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2018	Expense Reimbursements for the year ended December 31, 2018	Title
Terri Gale	05/2018 - 05/2022 (Elected)	\$ -0-	\$ -0-	President
Peyton Lumpkin	05/2016 - 05/2020 (Elected)	\$ 2,100	\$ -0-	Vice President
Douglas Meisinger	05/2016 - 05/2020 (Elected)	\$ 2,100	\$ -0-	Secretary
Ronald Richards	05/2018 - 05/2022 (Elected)	\$ 1,350	\$ -0-	Assistant Secretary
Paul B. Boswell	08/2018 - 05/2020 (Appointed)	\$ 600	\$ -0-	Director

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 20, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on July 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, 2018**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2018</u>	<u>Title</u>
Strawn & Richardson, P.C.	07/22/99	\$ 54,294 \$ 44,936	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	10/10/94	\$ 15,500	Auditor
ETI Bookkeeping Services	03/10/04	\$ 19,082	Bookkeeper
LJA Engineering & Surveying, Inc.	06/13/94	\$ 565,901	Engineer
Robert W. Baird & Co. Incorporated	03/09/15	\$ 46,184	Financial Advisor
Kemah Volunteer Fire Department	05/06/00	\$ 728,208	Fire Fighting and EMS Services
Kenneth Byrd	06/17/04	\$ -0-	Investment Officer
Municipal District Services, LLC	05/01/08	\$ 1,040,565	Operator

See accompanying independent auditor's report.

