

GALVESTON COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 12  
GALVESTON COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
SEPTEMBER 30, 2017

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# Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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January 15, 2018

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Galveston County Municipal  
Utility District No. 12  
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Galveston County Municipal Utility District No. 12, as of and for the year ended September 30, 2017, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

### **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 of 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 of 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 assessment of the risk 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 entity'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 fund of Galveston County Municipal Utility District No. 12 as of September 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 20 be presented to supplement the basic financial statements. Such information, although not 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 21 to 35 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

*North & Cousins, PLLC*

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Galveston County Municipal Utility District No. 12 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### *Government-Wide Financial Statements*

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

#### *Fund Financial Statements*

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

### **Financial Analysis of the District as a Whole**

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current and other assets	\$ 1,602,555	\$ 1,546,227	\$ 56,328
Capital assets	<u>2,290,927</u>	<u>2,242,796</u>	<u>48,131</u>
Total assets	<u>3,893,482</u>	<u>3,789,023</u>	<u>104,459</u>
Long-term liabilities	184,720	364,239	(179,519)
Other liabilities	<u>421,505</u>	<u>365,365</u>	<u>56,140</u>
Total liabilities	<u>606,225</u>	<u>729,604</u>	<u>(123,379)</u>
Net position:			
Invested in capital assets, net of related debt	1,926,688	1,709,210	217,478
Restricted	163,947	158,960	4,987
Unrestricted	<u>1,196,622</u>	<u>1,191,249</u>	<u>5,373</u>
Total net position	<u>\$ 3,287,257</u>	<u>\$ 3,059,419</u>	<u>\$ 227,838</u>

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 618,131	\$ 586,161	\$ 31,970
Charges for services	1,037,586	1,071,018	(33,432)
Other revenues	<u>24,601</u>	<u>20,677</u>	<u>3,924</u>
Total revenues	<u>1,680,318</u>	<u>1,677,856</u>	<u>2,462</u>
Expenses:			
Service operations	1,444,764	1,438,308	6,456
Debt service	<u>7,716</u>	<u>9,538</u>	<u>(1,822)</u>
Total expenses	<u>1,452,480</u>	<u>1,447,846</u>	<u>4,634</u>
Change in net position	227,838	230,010	(2,172)
Net position, beginning of year	<u>3,059,419</u>	<u>2,829,409</u>	<u>230,010</u>
Net position, end of year	<u>\$ 3,287,257</u>	<u>\$ 3,059,419</u>	<u>\$ 227,838</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended September 30, 2017, were \$1,337,731, an increase of \$11,653 from the prior year.

The General Fund balance increased by \$5,962, in accordance with the District's financial plan.

The Debt Service Fund balance increased by \$5,691, in accordance with the District's financial plan.

### General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 20 of this report. The budgetary fund balance as of September 30, 2017, was expected to be \$1,106,538 and the actual end of year fund balance was \$1,181,408.

### Capital Asset and Debt Administration

#### Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$ 115,803	\$ 115,803	\$ 0
Construction in progress	61,758	0	61,758
Buildings and improvements	305,531	328,955	(23,424)
Machinery and equipment	34,813	40,912	(6,099)
Water system	1,328,009	1,426,831	(98,822)
Sewer system	445,013	330,295	114,718
Totals	<u>\$ 2,290,927</u>	<u>\$ 2,242,796</u>	<u>\$ 48,131</u>

Changes to capital assets during the fiscal year ended September 30, 2017, are summarized as follows:

#### Additions:

Sewer system improvements	\$ 160,496
Engineering for non potable water system at wastewater treatment plant	<u>61,758</u>
Total additions to capital assets	222,254

#### Decreases:

Depreciation	<u>(174,123)</u>
Net change to capital assets	<u>\$ 48,131</u>

#### Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2017, is summarized as follows:

Bonded debt payable, beginning of year	\$ 535,000
Bonds paid	<u>(170,000)</u>
Bonded debt payable, end of year	<u>\$ 365,000</u>

At September 30, 2017, the District had no bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's Series 2014 bonds have an underlying rating of A by Standard & Poor's. There was no change in the bond ratings during the fiscal year ended September 30, 2017.



**RELEVANT FACTORS***Property Tax Base*

The District's tax base increased approximately \$9,800,000 for the 2016 tax year (approximately 4%), primarily due to the increase of the average assessed valuations on existing property and the addition of new houses to the District.

*Relationship to the Village of Bayou Vista and the City of La Marque*

A portion of the District lies within the Village of Bayou Vista and a portion lies within the City of La Marque. A small portion of the District lies outside any city limits.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash, including interest-bearing accounts, Note 7	\$ 497,011	\$ 36,241	\$ 5,017	\$ 538,269	\$	\$ 538,269
Certificates of deposit, at cost, Note 7	125,000			125,000		125,000
Temporary investments, at cost, Note 7	697,627	125,345	275	823,247		823,247
Receivables:						
Property taxes	15,214	8,020		23,234		23,234
Service accounts	87,601			87,601		87,601
Prepaid expenditures	5,204			5,204		5,204
Due from other fund	5,292			5,292	(5,292)	0
Maintenance taxes collected not yet transferred from other fund	4,670			4,670	(4,670)	0
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	177,561	177,561
Depreciable capital assets				0	2,113,366	2,113,366
<b>Total assets</b>	<b><u>\$1,437,619</u></b>	<b><u>\$ 169,606</u></b>	<b><u>\$ 5,292</u></b>	<b><u>\$ 1,612,517</u></b>	<b><u>2,280,965</u></b>	<b><u>3,893,482</u></b>
<b>LIABILITIES</b>						
Accounts payable	\$ 100,747	\$ 593	\$	\$ 101,340		101,340
Accrued interest payable				0	396	396
Customer deposits	140,250			140,250		140,250
Due to other fund			5,292	5,292	(5,292)	0
Maintenance taxes collected not yet transferred to other fund		4,670		4,670	(4,670)	0
Long-term liabilities, Note 5:						
Due within one year				0	179,519	179,519
Due in more than one year				0	184,720	184,720
<b>Total liabilities</b>	<b><u>240,997</u></b>	<b><u>5,263</u></b>	<b><u>5,292</u></b>	<b><u>251,552</u></b>	<b><u>354,673</u></b>	<b><u>606,225</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property tax revenues	<u>15,214</u>	<u>8,020</u>	<u>0</u>	<u>23,234</u>	<u>(23,234)</u>	<u>0</u>
<b>FUND BALANCES / NET POSITION</b>						
Fund balances:						
Assigned to debt service		156,323		156,323	(156,323)	0
Unassigned	<u>1,181,408</u>			<u>1,181,408</u>	<u>(1,181,408)</u>	<u>0</u>
<b>Total fund balances</b>	<b><u>1,181,408</u></b>	<b><u>156,323</u></b>	<b><u>0</u></b>	<b><u>1,337,731</u></b>	<b><u>(1,337,731)</u></b>	<b><u>0</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$1,437,619</u></b>	<b><u>\$ 169,606</u></b>	<b><u>\$ 5,292</u></b>	<b><u>\$ 1,612,517</u></b>		
Net position:						
Invested in capital assets, net of related debt					1,926,688	1,926,688
Restricted for debt service					163,947	163,947
Unrestricted					<u>1,196,622</u>	<u>1,196,622</u>
<b>Total net position</b>					<b><u>\$ 3,287,257</u></b>	<b><u>\$ 3,287,257</u></b>

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

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>						
Property taxes	\$ 431,667	\$ 180,227	\$	\$ 611,894	\$ (1,435)	\$ 610,459
Water service	449,535			449,535		449,535
Sewer service	554,303			554,303		554,303
Penalty and interest	11,254	7,672		18,926		18,926
Tap connection fees	13,500			13,500		13,500
Lease and rental	18,450			18,450		18,450
Interest on deposits and investments	5,251	900		6,151		6,151
Other revenues	8,994			8,994		8,994
<b>Total revenues</b>	<b>1,492,954</b>	<b>188,799</b>	<b>0</b>	<b>1,681,753</b>	<b>(1,435)</b>	<b>1,680,318</b>
<b>EXPENDITURES / EXPENSES</b>						
Service operations:						
Purchased water, Note 9	171,473			171,473		171,473
Personnel costs	375,099			375,099		375,099
Professional fees	85,165			85,165		85,165
Contracted services	26,068	5,310		31,378		31,378
Utilities	40,250			40,250		40,250
Repairs and maintenance	350,706			350,706		350,706
Other operating expenditures	68,408			68,408		68,408
Administrative expenditures	120,716	593		121,309		121,309
Depreciation				0	174,123	174,123
Capital outlay / non-capital outlay	249,107			249,107	(222,254)	26,853
Debt service:						
Principal retirement		170,000		170,000	(170,000)	0
Interest and fees, Note 5		7,205		7,205	511	7,716
<b>Total expenditures / expenses</b>	<b>1,486,992</b>	<b>183,108</b>	<b>0</b>	<b>1,670,100</b>	<b>(217,620)</b>	<b>1,452,480</b>
Excess (deficiency) of revenues over expenditures	5,962	5,691	0	11,653	216,185	227,838
Net change in fund balances / net position	5,962	5,691	0	11,653	216,185	227,838
Beginning of year	1,175,446	150,632	0	1,326,078	1,733,341	3,059,419
End of year	<u>\$ 1,181,408</u>	<u>\$ 156,323</u>	<u>\$ 0</u>	<u>\$ 1,337,731</u>	<u>\$ 1,949,526</u>	<u>\$ 3,287,257</u>

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

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2017

## NOTE 1: REPORTING ENTITY

Galveston County Municipal Utility District No. 12 (the "District") was created by an order of the Texas Water Commission (now the Texas Commission on Environmental Quality) effective September 1, 1981, and operates in accordance with Texas Water Code Chapters 49 and 54. The first bonds were sold in 1983. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are either not spendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

### Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

### Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

### Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

**NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 1,337,731
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		2,290,927
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (365,000)	
Issuance discount (to be amortized as interest expense)	761	(364,239)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Uncollected property taxes		23,234
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		(396)
Net position, end of year		\$ 3,287,257

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances	\$	11,653
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$	222,254
Depreciation	<u>(174,123)</u>	48,131
<p>The issuance of long-term debt (bonds and notes payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		170,000
<p>The funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Issuance discount		(653)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Uncollected property taxes		(1,435)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>142</u>
Change in net position	\$	<u><u>227,838</u></u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 115,803	\$	\$	\$ 115,803
Construction in progress	<u>0</u>	<u>61,758</u>	<u>        </u>	<u>61,758</u>
Total capital assets not being depreciated	<u>115,803</u>	<u>61,758</u>	<u>0</u>	<u>177,561</u>
Depreciable capital assets:				
Buildings and improvements	704,054			704,054
Machinery and equipment	128,773			128,773
Automobiles and trucks	45,995			45,995
Water system	2,542,985			2,542,985
Sewer system	<u>1,807,825</u>	<u>160,496</u>	<u>        </u>	<u>1,968,321</u>
Total depreciable capital assets	<u>5,229,632</u>	<u>160,496</u>	<u>0</u>	<u>5,390,128</u>
Less accumulated depreciation for:				
Buildings and improvements	(375,099)	(23,424)		(398,523)
Machinery and equipment	(87,861)	(6,099)		(93,960)
Automobiles and trucks	(45,995)			(45,995)
Water system	(1,116,154)	(98,822)		(1,214,976)
Sewer system	<u>(1,477,530)</u>	<u>(45,778)</u>	<u>        </u>	<u>(1,523,308)</u>
Total accumulated depreciation	<u>(3,102,639)</u>	<u>(174,123)</u>	<u>0</u>	<u>(3,276,762)</u>
Total depreciable capital assets, net	<u>2,126,993</u>	<u>(13,627)</u>	<u>0</u>	<u>2,113,366</u>
Total capital assets, net	<u>\$ 2,242,796</u>	<u>\$ 48,131</u>	<u>\$ 0</u>	<u>\$ 2,290,927</u>
Changes to capital assets:				
Capital outlay		\$ 222,254	\$	
Less depreciation expense for the fiscal year		<u>(174,123)</u>	<u>        </u>	
Net increases / decreases to capital assets		<u>\$ 48,131</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 535,000	\$	\$ 170,000	\$ 365,000	\$ 180,000
Less deferred amounts:					
For issuance discounts	<u>(1,414)</u>	<u>        </u>	<u>(653)</u>	<u>(761)</u>	<u>(481)</u>
Total bonds payable	<u>533,586</u>	<u>0</u>	<u>169,347</u>	<u>364,239</u>	<u>179,519</u>
Total long-term liabilities	<u>\$ 533,586</u>	<u>\$ 0</u>	<u>\$ 169,347</u>	<u>\$ 364,239</u>	<u>\$ 179,519</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Developer Construction Commitments and Liabilities

At September 30, 2017, there were no developer construction commitments or liabilities.

Bonds Payable

As of September 30, 2017, the debt service requirements on the bonds payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 180,000	\$ 4,755	\$ 184,755
2019	<u>185,000</u>	<u>2,775</u>	<u>187,775</u>
	<u>\$ 365,000</u>	<u>\$ 7,530</u>	<u>\$ 372,530</u>

Bonds voted	\$ 4,270,000
Bonds approved for sale and sold	4,270,000
Bonds voted and not issued	0

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The bond issues payable at September 30, 2017, were as follows:

	<u>Series 2014</u>
Amounts outstanding, September 30, 2017	\$365,000
Interest rates	1.10% to 1.50%
Maturity dates, serially beginning/ending	September 1, 2018/2019
Interest payment dates	March 1/September 1
Callable dates	Not callable

**NOTE 6: PROPERTY TAXES**

The Galveston Central Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Order requires that the District 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At an election held November 3, 1981, the voters within the District authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On September 19, 2016, the District levied the following ad valorem taxes for the 2016 tax year on the adjusted taxable valuation of \$247,942,542:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.072389	\$ 179,483
Maintenance	<u>0.173930</u>	<u>431,246</u>
	<u>\$ 0.246319</u>	<u>\$ 610,729</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2016 tax year total property tax levy	\$ 610,729
Appraisal district adjustments to prior year taxes	<u>(270)</u>
Statement of Activities property tax revenues	<u>\$ 610,459</u>

**NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS**

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$663,269 and the bank balance was \$683,303. Of the bank balance, \$375,000 was covered by federal insurance and \$308,303 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$823,247.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deposits and temporary investments restricted by state statutes and the Bond Order:

Debt Service Fund

For payment of debt principal and interest,  
paying agent fees and costs of assessing and  
collecting taxes:

Cash		\$	36,241
Temporary investments			<u>125,345</u>
		\$	<u>161,586</u>

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2017, the District had property damage coverage (excluding flood coverage on building and contents) of \$4,786,965, windstorm property damage coverage of \$3,489,085, boiler and machinery coverage of \$3,025,000, mobile equipment coverage of \$107,650, building and contents flood insurance of \$2,524,000, pollution coverage of \$2,000,000, automobile liability coverage of \$2,000,000, general liability coverage of \$3,000,000 and \$6,000,000 general aggregate and statutory workers' compensation coverage with the Texas Municipal League Intergovernmental Risk Pool (the "Pool"). The Pool is a public entity risk pool currently operating as a common risk management and insurance program for various Texas public entities. The District pays annual premiums for its general insurance coverage. The Pool purchases reinsurance for protection against catastrophic losses that exceed the Pool's self-insurance retention. This reinsurance is purchased from companies rated A- or higher by A. M. Best Company. At this date, the District also had employee crime coverage of \$10,000.

NOTE 9: WATER SUPPLY CONTRACT

Effective July 1, 1998, the District and the Gulf Coast Water Authority (the "Authority") entered into a contract for a supply of potable water to service the District. The contract continues until December 31, 2022 and thereafter until payment in full of the principal, premium, if any, and interest and related fees on all bonds sold to finance the facilities to transport water to the District. Under the terms of the contract, the District is to pay a monthly charge comprised of its share of the debt service costs, raw water costs and operating costs incurred to furnish water to the District by the Authority. The District accrued costs of \$171,473 for water purchased under this contract during the fiscal year ended September 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## NOTE 10: PENSION PLAN AND DEFERRED COMPENSATION PLAN

Pension Plan

The District has established a SEP-IRA defined contribution pension plan for all of its full-time employees. Plan provisions may be amended by the Board of Directors of the District. Employees with two years of service are eligible to participate. The plan provides that the District will contribute at a rate (measured as a percentage of the employee's salary) to be determined each year at the sole discretion of the Board of Directors. The plan is administered by a broker-dealer and contributions are invested in mutual funds at the discretion of the plan participants. Activity of the plan is not reported in the financial statements of the District. Contributions are recognized in the period that the contributions are due. The contribution for the fiscal year ended September 30, 2017, was \$14,604 (6.00% of base salary for 5 employees).

Deferred Compensation Plan

Employees of the District participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or unforeseen emergency. The plan is administered by a broker-dealer and contributions are invested in mutual funds at the discretion of the plan participants. Activity of the plan is not reported in the financial statements of the District.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 408,778	\$ 408,778	\$ 431,667	\$ 22,889
Water service	400,000	400,000	449,535	49,535
Sewer service	575,000	575,000	554,303	(20,697)
Penalty	12,019	12,019	11,254	(765)
Tap connection fees	5,600	5,600	13,500	7,900
Lease and rental	19,500	19,500	18,450	(1,050)
Interest on deposits and investments	750	750	5,251	4,501
Other revenues	<u>7,100</u>	<u>7,100</u>	<u>8,994</u>	<u>1,894</u>
<b>TOTAL REVENUES</b>	<u>1,428,747</u>	<u>1,428,747</u>	<u>1,492,954</u>	<u>64,207</u>
<b>EXPENDITURES</b>				
Service operations:				
Purchased water	190,000	190,000	171,473	(18,527)
Personnel costs	336,361	336,361	375,099	38,738
Professional fees	26,475	26,475	85,165	58,690
Contracted services	22,025	22,025	26,068	4,043
Utilities	56,570	56,570	40,250	(16,320)
Repairs and maintenance	302,800	302,800	350,706	47,906
Other operating expenditures	94,350	94,350	68,408	(25,942)
Administrative expenditures	182,574	182,574	120,716	(61,858)
Capital outlay	<u>286,500</u>	<u>286,500</u>	<u>249,107</u>	<u>(37,393)</u>
<b>TOTAL EXPENDITURES</b>	<u>1,497,655</u>	<u>1,497,655</u>	<u>1,486,992</u>	<u>(10,663)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	(68,908)	(68,908)	5,962	74,870
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>1,175,446</u>	<u>1,175,446</u>	<u>1,175,446</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 1,106,538</u>	<u>\$ 1,106,538</u>	<u>\$ 1,181,408</u>	<u>\$ 74,870</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
SEPTEMBER 30, 2017

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -  
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2017

1. Services Provided by the District during the Fiscal Year:

- |   |   |                                     |
|---|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water  | <input type="checkbox"/> Wholesale Water      | <input type="checkbox"/> Drainage   |
| <input checked="" type="checkbox"/> Retail Wastewater   | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input checked="" type="checkbox"/> Parks/Recreation  | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Security   |
| <input type="checkbox"/> Solid Waste/Garbage  | <input type="checkbox"/> Flood Control        | <input type="checkbox"/> Roads      |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) |   |                                     |
| <input checked="" type="checkbox"/> Other - Navigational maintenance  |   |                                     |

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$20.00	3,000	N	\$3.50	3,001 to 6,000
				4.00	6,001 to 9,000
				4.50	9,001 to 12,000
				5.00	12,001 to 15,000
				6.00	15,001 to 18,000
				7.00	Over 18,000
WASTEWATER:	\$20.00 *	3,000	N	\$1.00	3,001 to 6,000
				1.50	6,001 to 9,000
				1.75	9,001 to 12,000
				2.00	12,001 to 15,000
				2.25	15,001 to 18,000
				3.00	Over 18,000

SURCHARGE: 0.5% of monthly bill for TCEQ assessment.  
 \$0.50 Notification fee  
 \*\$13.50 Garbage rate to be added to Bayou Vista areas

District employs winter averaging for wastewater usage: Yes  No

Total charges per 10,000 gallons usage: Water: \$47.00 Wastewater: \$29.25 Surcharge: \$0.88



GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12

SCHEDULE OF SERVICES AND RATES (Continued)

SEPTEMBER 30, 2017

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	0	0	1.0	0
< or = 3/4"	1,532	1,461	1.0	1,461
1"	2	2	2.5	5
1-1/2"	2	2	5.0	10
2"	3	3	8.0	24
3"	0	0	15.0	0
4"	1	1	25.0	25
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>1,540</u>	<u>1,469</u>		<u>1,525</u>
Total Wastewater	<u>1,526</u>	<u>1,457</u>	1.0	<u>1,457</u>

\*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 107,289  
 Gallons billed to customers (unaudited): 102,665

Water Accountability Ratio  
 (Gallons billed/ gallons pumped): 96%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12EXPENDITURESFOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Purchased water	\$ 171,473	\$ 0	\$ 0	\$ 171,473
Personnel costs:				
Salaries and wages	281,182			281,182
Payroll taxes	21,518			21,518
Pension plan	14,604			14,604
Other benefits	57,795			57,795
	<u>375,099</u>	<u>0</u>	<u>0</u>	<u>375,099</u>
Professional fees:				
Auditing	9,975			9,975
Legal	51,751			51,751
Engineering	23,439			23,439
	<u>85,165</u>	<u>0</u>	<u>0</u>	<u>85,165</u>
Contracted services:				
Bookkeeping	26,068			26,068
Tax assessor-collector		447		447
Central appraisal district		4,863		4,863
	<u>26,068</u>	<u>5,310</u>	<u>0</u>	<u>31,378</u>
Utilities	<u>40,250</u>	<u>0</u>	<u>0</u>	<u>40,250</u>
Repairs and maintenance	<u>350,706</u>	<u>0</u>	<u>0</u>	<u>350,706</u>
Other operating expenditures:				
Sludge hauling	21,616			21,616
Chemicals	19,332			19,332
Laboratory costs	11,398			11,398
TCEQ assessment	3,814			3,814
Other	12,248			12,248
	<u>68,408</u>	<u>0</u>	<u>0</u>	<u>68,408</u>
Administrative expenditures:				
Director's fees	15,750			15,750
Office supplies and postage	15,619			15,619
Insurance	53,423			53,423
Permit fees	3,531			3,531
Other	32,393	593		32,986
	<u>120,716</u>	<u>593</u>	<u>0</u>	<u>121,309</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12EXPENDITURES (Continued)FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CAPITAL OUTLAY</b>				
Authorized expenditures	\$ 222,254	\$	\$	\$ 222,254
Tap connection costs	<u>26,853</u>	<u>0</u>	<u>0</u>	<u>26,853</u>
	<u>249,107</u>	<u>0</u>	<u>0</u>	<u>249,107</u>
<b>DEBT SERVICE</b>				
Principal retirement	<u>0</u>	<u>170,000</u>	<u>0</u>	<u>170,000</u>
Interest and fees:				
Interest		6,455		6,455
Paying agent fees		<u>750</u>		<u>750</u>
	<u>0</u>	<u>7,205</u>	<u>0</u>	<u>7,205</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,486,992</u>	<u>\$ 183,108</u>	<u>\$ 0</u>	<u>\$ 1,670,100</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash receipts from revenues excluding maintenance taxes	\$ 1,056,932	\$ 188,799	\$ 2	\$ 1,245,733
Maintenance tax receipts		431,667		431,667
Transfer of maintenance taxes	427,000			427,000
Increase in customer deposits	6,000			6,000
Collections for volunteer fire department	<u>207,064</u>			<u>207,064</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED</b>	<u>1,696,996</u>	<u>620,466</u>	<u>2</u>	<u>2,317,464</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash disbursements for:				
Current expenditures	1,197,713	5,965		1,203,678
Capital outlay	249,107			249,107
Debt service		177,205		177,205
Transfer of maintenance taxes		427,000		427,000
Payments to volunteer fire department	<u>207,064</u>			<u>207,064</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED</b>	<u>1,653,884</u>	<u>610,170</u>	<u>0</u>	<u>2,264,054</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	43,112	10,296	2	53,410
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>1,276,526</u>	<u>151,290</u>	<u>5,290</u>	<u>1,433,106</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$ 1,319,638</u>	<u>\$ 161,586</u>	<u>\$ 5,292</u>	<u>\$ 1,486,516</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12  
SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS  
SEPTEMBER 30, 2017

	Interest Rate	Maturity Date	Year End Balance	Accrued Interest Receivable
GENERAL FUND				
Certificate of Deposit				
No. 78391	0.35%	10/27/17	\$ <u>125,000</u>	\$ <u>0</u>
TexPool				
No. 841600002	Market	On demand	\$ <u>697,627</u>	\$ <u>0</u>
DEBT SERVICE FUND				
TexPool				
No. 841600001	Market	On demand	\$ <u>125,345</u>	\$ <u>0</u>
CAPITAL PROJECTS FUND				
TexPool				
No. 841600003	Market	On demand	\$ <u>275</u>	\$ <u>0</u>
Total – All Funds			\$ <u>948,247</u>	\$ <u>0</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 15,803	\$ 8,866
Additions and corrections to prior year taxes	<u>(168)</u>	<u>(102)</u>
Adjusted receivable, beginning of year	15,635	8,764
2016 ADJUSTED TAX ROLL	<u>431,246</u>	<u>179,483</u>
Total to be accounted for	446,881	188,247
Tax collections: Current tax year	(425,292)	(177,005)
Prior tax years	<u>(6,375)</u>	<u>(3,222)</u>
RECEIVABLE, END OF YEAR	<u>\$ 15,214</u>	<u>\$ 8,020</u>
RECEIVABLE, BY TAX YEAR		
2006 and prior	\$ 154	\$ 205
2007	577	437
2008	653	458
2009	545	382
2010	820	500
2011	762	479
2012	876	524
2013	1,089	622
2014	1,468	925
2015	2,316	1,010
2016	<u>5,954</u>	<u>2,478</u>
RECEIVABLE, END OF YEAR	<u>\$ 15,214</u>	<u>\$ 8,020</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED SEPTEMBER 30, 2017

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 94,403,000	\$ 94,100,180	\$ 62,127,160	\$ 61,301,400
Improvements	203,682,450	199,006,850	186,893,463	163,908,460
Personal property	2,047,824	2,081,337	2,115,041	2,120,098
Less exemptions	<u>(52,190,732)</u>	<u>(57,006,056)</u>	<u>(42,470,306)</u>	<u>(36,325,321)</u>
<b>TOTAL PROPERTY VALUATIONS</b>	<b><u>\$ 247,942,542</u></b>	<b><u>\$ 238,182,311</u></b>	<b><u>\$ 208,665,358</u></b>	<b><u>\$ 191,004,637</u></b>
TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.072389	\$ 0.074200	\$ 0.109650	\$ 0.103092
Maintenance tax rates*	<u>0.173930</u>	<u>0.170065</u>	<u>0.173976</u>	<u>0.180534</u>
TOTAL TAX RATES PER \$100 VALUATION	<b><u>\$ 0.246319</u></b>	<b><u>\$ 0.244265</u></b>	<b><u>\$ 0.283626</u></b>	<b><u>\$ 0.283626</u></b>
TAX ROLLS	<b><u>\$ 610,729</u></b>	<b><u>\$ 581,851</u></b>	<b><u>\$ 591,890</u></b>	<b><u>\$ 541,738</u></b>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>98.6 %</u>	<u>99.4 %</u>	<u>99.6 %</u>	<u>99.7 %</u>

\*Maximum tax rate approved by voters on November 3, 1981: \$0.25

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARSSEPTEMBER 30, 2017

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2014</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 180,000	\$ 4,755	\$ 184,755
2019	<u>185,000</u>	<u>2,775</u>	<u>187,775</u>
TOTALS	<u>\$ 365,000</u>	<u>\$ 7,530</u>	<u>\$ 372,530</u>

See accompanying independent auditor's report.



GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12  
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Bond Series:	2014
Interest Rate:	1.10% to 1.50%
Dates Interest Payable:	March 1/ September 1
Maturity Dates:	September 1, 2018/2019
Bonds Outstanding at Beginning of Current Year	\$ 535,000
Less Retirements:	<u>(170,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 365,000</u>
Current Year Interest Paid:	<u>\$ 6,455</u>

Bond Descriptions and Original Amount of Issue

Galveston County Municipal Utility District No. 12 Unlimited Tax Bonds, Series 2014 (\$700,000)

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 4,270,000	\$ 0	\$ 0
Amount Issued:	4,270,000		
Remaining to be Issued:	0		

Net Debt Service Fund deposits and investments balances as of September 30, 2017:	\$156,323
Average annual debt service payment for remaining term of all debt:	186,265

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND  
FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
<b>REVENUES</b>										
Property taxes	\$ 431,667	\$ 402,626	\$ 362,559	\$ 343,590	\$ 322,564	28.9 %	27.0 %	29.3 %	30.0 %	29.6 %
Water service	449,535	426,238	439,688	388,769	445,908	30.1	28.5	35.5	34.0	41.0
Sewer service	554,303	599,975	368,873	356,578	278,342	37.1	40.2	29.8	31.1	25.6
Penalty	11,254	12,102	11,675	13,105	13,158	0.8	0.8	0.9	1.1	1.2
Tap connection fees	13,500	24,000	16,010	12,370	1,780	0.9	1.6	1.3	1.1	0.2
Lease and rental	18,450	18,100	20,900	22,450	22,045	1.2	1.2	1.7	2.0	2.0
Interest on deposits and temporary investments	5,251	2,045	682	599	1,482	0.4	0.1	0.1	0.1	0.1
Other revenues	8,994	8,703	16,929	7,290	3,787	0.6	0.6	1.4	0.6	0.3
<b>TOTAL REVENUES</b>	<u>1,492,954</u>	<u>1,493,789</u>	<u>1,237,316</u>	<u>1,144,751</u>	<u>1,089,066</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<b>EXPENDITURES</b>										
Service operations:										
Purchased water	171,473	171,939	141,360	124,304	120,887	11.5	11.5	11.4	10.9	11.1
Personnel costs	375,099	361,270	305,366	286,317	276,033	25.1	24.2	24.8	25.1	25.3
Professional fees	85,165	71,069	21,690	16,880	11,719	5.7	4.8	1.8	1.5	1.1
Contracted services	26,068	22,160	22,230	20,755	23,151	1.7	1.5	1.8	1.8	2.1
Utilities	40,250	47,667	54,596	53,066	52,713	2.7	3.2	4.4	4.6	4.8
Repairs and maintenance	350,706	378,022	174,864	156,897	101,067	23.5	25.3	14.1	13.7	9.3
Other operating expenditures	68,408	77,272	55,666	55,402	52,175	4.6	5.2	4.5	4.8	4.8
Administrative expenditures	120,716	103,416	114,380	98,942	95,083	8.1	6.9	9.2	8.6	8.7
Debt service:										
Principal	0	0	0	198,186	154,121	0.0	0.0	0.0	17.3	14.2
Interest	0	0	0	5,560	12,546	0.0	0.0	0.0	0.5	1.2
Capital outlay	249,107	49,623	2,944	10,660	287,270	16.7	3.3	0.2	0.9	26.4
<b>TOTAL EXPENDITURES</b>	<u>1,486,992</u>	<u>1,282,438</u>	<u>893,096</u>	<u>1,026,969</u>	<u>1,186,765</u>	<u>99.6</u>	<u>85.9</u>	<u>72.2</u>	<u>89.7</u>	<u>109.0</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>\$ 5,962</u>	<u>\$ 211,351</u>	<u>\$ 344,220</u>	<u>\$ 117,782</u>	<u>\$ (97,699)</u>	<u>0.4 %</u>	<u>14.1 %</u>	<u>27.8 %</u>	<u>10.3 %</u>	<u>(9.0) %</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>1,469</u>	<u>1,475</u>	<u>1,446</u>	<u>1,442</u>	<u>1,420</u>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>1,457</u>	<u>1,475</u>	<u>1,446</u>	<u>1,442</u>	<u>1,420</u>					

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND  
FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
<b>REVENUES</b>										
Property taxes	\$ 180,227	\$ 176,374	\$ 228,301	\$ 196,483	\$ 193,454	95.4 %	97.2 %	97.6 %	97.1 %	96.5 %
Penalty and interest	7,672	4,674	5,557	5,492	6,870	4.1	2.6	2.4	2.7	3.4
Accrued interest on bonds received at date of sale	0	0	0	383	0	0.0	0.0	0.0	0.2	0.0
Interest on deposits and investments	900	389	69	46	127	0.5	0.2	0.0	0.0	0.1
<b>TOTAL REVENUES</b>	<b>188,799</b>	<b>181,437</b>	<b>233,927</b>	<b>202,404</b>	<b>200,451</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EXPENDITURES</b>										
Current:										
Contracted services and other	5,903	6,083	5,785	4,929	4,876	3.1	3.4	2.5	2.4	2.4
Debt service:										
Principal retirement	170,000	165,000	205,000	175,000	165,000	90.1	90.9	87.6	86.5	82.3
Interest and fees	7,205	8,855	21,029	19,651	27,600	3.8	4.9	9.0	9.7	13.8
<b>TOTAL EXPENDITURES</b>	<b>183,108</b>	<b>179,938</b>	<b>231,814</b>	<b>199,580</b>	<b>197,476</b>	<b>97.0</b>	<b>99.2</b>	<b>99.1</b>	<b>98.6</b>	<b>98.5</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ 5,691</b>	<b>\$ 1,499</b>	<b>\$ 2,113</b>	<b>\$ 2,824</b>	<b>\$ 2,975</b>	<b>3.0 %</b>	<b>0.8 %</b>	<b>0.9 %</b>	<b>1.4 %</b>	<b>1.5 %</b>

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2017

Complete District Mailing Address: Galveston County Municipal Utility District No. 12  
2929 Highway 6, Suite 300  
Bayou Vista, Texas 77563

District Business Telephone No.: 409-935-6111

Submission date of the most recent District Registration Form: March 15, 2017

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
William Alcorn 827 Marlin Bayou Vista, Texas 77563 Position 3	Elected 5/10/14- 5/05/18	\$ 4,650	\$ 41	President
Marcel J. Blanchard, Jr. 20 South Flamingo LaMarque, Texas 77568 Position 1	Elected 5/10/14- 5/05/18	2,100	0	Vice President
Robert A. Bassett 964 Bonita Bayou Vista, Texas 77563 Position 4	Elected 5/07/16- 5/02/20	3,450	46	Secretary/ Treasurer/ Inv. Officer
Vaun Warren Henry 1131 Redfish Bayou Vista, Texas 77563 Position 2	Appointed 2/06/17- 5/05/18	2,250	0	Assistant Secretary/ Treasurer
Carter Joseph Tull 1283 Blue Heron Bayou Vista, Texas 77563 Position 5	Appointed 3/06/17- 5/02/20	1,950	837	Director

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2017CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Bacon & Wallace, L.L.P. 6363 Woodway, Suite 800 Houston, Texas 77057	9/12/05	\$ 38,183	Attorney
Whitley Penn, LLP 600 Gulf Freeway, Suite 226 Texas City, Texas 77591	5/01/98	26,068	Bookkeeper
Cheryl E. Johnson Galveston County TAC 721 Moody Avenue Galveston, Texas 77550	7/01/86	447	Tax Assessor- Collector
Galveston Central Appraisal District P.O. Box 3647 Texas City, Texas 77592	Legislative Action	4,863	Central Appraisal District
AEI Engineering, Inc. 11450 Compaq Center Dr., Suite 660 Houston, Texas 77070	12/21/15	91,412	Engineer
Hilltop Securities, Inc. 700 Milam, Suite 500 Houston, Texas 77002	1994	0	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	8/25/99	9,975	Independent Auditor

See accompanying independent auditor's report.