

GALVESTON COUNTY
MUNICIPAL UTILITY DISTRICT NO. 12
GALVESTON COUNTY, TEXAS
ANNUAL AUDIT REPORT
SEPTEMBER 30, 2019

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December 16, 2019

INDEPENDENT AUDITOR'S REPORT

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

I 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, 2019, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, 2019, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My 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 my 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, I 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 my firm.

A handwritten signature in black ink, appearing to read "M. G. J.", is located in the lower right quadrant of the page.

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, 2019.

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>2019</u>	<u>2018</u>	<u>Change</u>
Current and other assets	\$ 2,853,949	\$ 1,643,484	\$ 1,210,465
Capital assets	3,549,613	2,497,406	1,052,207
Total assets	<u>6,403,562</u>	<u>4,140,890</u>	<u>2,262,672</u>
Long-term liabilities	2,495,000	0	2,495,000
Other liabilities	478,260	711,455	(233,195)
Total liabilities	<u>2,973,260</u>	<u>711,455</u>	<u>2,261,805</u>
Net position:			
Invested in capital assets, net of related debt	999,613	2,312,686	(1,313,073)
Restricted	1,170,579	166,769	1,003,810
Unrestricted	1,260,110	949,980	310,130
Total net position	<u>\$ 3,430,302</u>	<u>\$ 3,429,435</u>	<u>\$ 867</u>

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 685,249	\$ 669,583	\$ 15,666
Charges for services	1,042,189	1,059,932	(17,743)
Other revenues	44,597	33,297	11,300
Total revenues	<u>1,772,035</u>	<u>1,762,812</u>	<u>9,223</u>
Expenses:			
Service operations	1,533,956	1,614,813	(80,857)
Debt service	237,212	5,821	231,391
Total expenses	<u>1,771,168</u>	<u>1,620,634</u>	<u>150,534</u>
Change in net position	867	142,178	(141,311)
Net position, beginning of year	<u>3,429,435</u>	<u>3,287,257</u>	<u>142,178</u>
Net position, end of year	<u>\$ 3,430,302</u>	<u>\$ 3,429,435</u>	<u>\$ 867</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, 2019, were \$2,403,590, an increase of \$1,314,766 from the prior year.

The General Fund balance increased by \$305,294, as revenues and the reimbursement of \$108,769 from the Capital Projects Fund exceeded expenditures.

The Debt Service Fund balance decreased by \$22,516, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by \$1,031,988, as proceeds from the Series 2019 bonds and interest earnings exceeded authorized expenditures and the reimbursement of \$108,769 to the General Fund.

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, 2019, was expected to be \$1,112,235 and the actual end of year fund balance was \$1,236,427.

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>2019</u>	<u>2018</u>	<u>Change</u>
Land	\$ 115,803	\$ 115,803	\$ 0
Construction in progress	1,322,471	108,769	1,213,702
Buildings and improvements	258,683	282,107	(23,424)
Machinery and equipment	22,623	28,718	(6,095)
Water system	1,130,365	1,229,187	(98,822)
Sewer system	699,668	732,822	(33,154)
Totals	<u>\$ 3,549,613</u>	<u>\$ 2,497,406</u>	<u>\$ 1,052,207</u>

Changes to capital assets during the fiscal year ended September 30, 2019, are summarized as follows:

Additions:		
Sewer system improvements		\$ 1,213,702
Decreases:		
Depreciation		<u>(161,495)</u>
Net change to capital assets		<u>\$ 1,052,207</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2019, is summarized as follows:

Bonded debt payable, beginning of year	\$ 185,000
Bonds sold	2,550,000
Bonds paid	<u>(185,000)</u>
Bonded debt payable, end of year	<u>\$ 2,550,000</u>

At September 30, 2019, the District had \$1,850,000 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 2019 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, 2019.

RELEVANT FACTORS*Property Tax Base*

The District's tax base increased approximately \$6,140,000 for the 2018 tax year (approximately 2%), primarily due to the increase of the average assessed valuations on existing property.

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, 2019

	<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>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 636,531	\$ 19,308	\$ 410,336	\$ 1,066,175	\$	\$ 1,066,175
Certificates of deposit, at cost, Note 7	125,000			125,000		125,000
Temporary investments, at cost, Note 7	724,983	118,207	703,414	1,546,604		1,546,604
Receivables:						
Property taxes	23,683	11,185		34,868		34,868
Service accounts	81,289			81,289		81,289
Accrued interest	13			13		13
Due from other fund	6,119			6,119	(6,119)	0
Maintenance taxes collected not yet transferred from other fund	2,340			2,340	(2,340)	0
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	1,438,274	1,438,274
Depreciable capital assets				0	2,111,339	2,111,339
Total assets	<u>\$1,599,958</u>	<u>\$ 148,700</u>	<u>\$1,113,750</u>	<u>\$ 2,862,408</u>	<u>3,541,154</u>	<u>6,403,562</u>
LIABILITIES						
Accounts payable	\$ 85,178	\$	\$ 22,151	\$ 107,329		107,329
Construction contracts payable			53,492	53,492		53,492
Ratepayer refunds payable, Note 11	104,470			104,470		104,470
Accrued interest payable				0	7,769	7,769
Customer deposits	150,200			150,200		150,200
Due to other fund			6,119	6,119	(6,119)	0
Maintenance taxes collected not yet transferred to other fund		2,340		2,340	(2,340)	0
Long-term liabilities, Note 5:						
Due within one year				0	55,000	55,000
Due in more than one year				0	2,495,000	2,495,000
Total liabilities	<u>339,848</u>	<u>2,340</u>	<u>81,762</u>	<u>423,950</u>	<u>2,549,310</u>	<u>2,973,260</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>23,683</u>	<u>11,185</u>	<u>0</u>	<u>34,868</u>	<u>(34,868)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Committed to construction contracts in progress			250,200	250,200	(250,200)	0
Assigned to debt service		135,175		135,175	(135,175)	0
Unassigned	1,236,427		781,788	2,018,215	(2,018,215)	0
Total fund balances	<u>1,236,427</u>	<u>135,175</u>	<u>1,031,988</u>	<u>2,403,590</u>	<u>(2,403,590)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$1,599,958</u>	<u>\$ 148,700</u>	<u>\$1,113,750</u>	<u>\$ 2,862,408</u>		
Net position:						
Invested in capital assets, net of related debt					999,613	999,613
Restricted for debt service					138,591	138,591
Restricted for capital projects					1,031,988	1,031,988
Unrestricted					1,260,110	1,260,110
Total net position					<u>\$ 3,430,302</u>	<u>\$ 3,430,302</u>

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, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 482,162	\$ 190,639	\$	\$ 672,801	\$ 6,712	\$ 679,513
Water service	478,408			478,408		478,408
Sewer service	534,609			534,609		534,609
Penalty and interest	10,673	5,736		16,409		16,409
Tap connection fees	11,150			11,150		11,150
Lease and rental	20,967			20,967		20,967
Interest on deposits and investments	17,592	2,902	3,136	23,630		23,630
Accrued interest on bonds received at date of sale		3,885		3,885	(3,885)	0
Other revenues	7,349			7,349		7,349
Total revenues	1,562,910	203,162	3,136	1,769,208	2,827	1,772,035
EXPENDITURES / EXPENSES						
Service operations:						
Purchased water, Note 9	187,030			187,030		187,030
Personnel costs	406,283			406,283		406,283
Professional fees	67,027	1,190		68,217		68,217
Contracted services	28,288	4,886		33,174		33,174
Utilities	53,513			53,513		53,513
Repairs and maintenance	237,951			237,951		237,951
Other operating expenditures	82,321			82,321		82,321
Garbage disposal	184,452			184,452		184,452
Administrative expenditures	119,520			119,520		119,520
Depreciation				0	161,495	161,495
Capital outlay / non-capital outlay			1,213,702	1,213,702	(1,213,702)	0
Debt service:						
Principal retirement		185,000		185,000	(185,000)	0
Bond issuance expenditures			198,677	198,677		198,677
Interest and fees, Note 5		34,602		34,602	3,933	38,535
Total expenditures / expenses	1,366,385	225,678	1,412,379	3,004,442	(1,233,274)	1,771,168
Excess (deficiency) of revenues over expenditures	196,525	(22,516)	(1,409,243)	(1,235,234)	1,236,101	867
OTHER FINANCING SOURCES (USES)						
Bonds issued, Note 5			2,550,000	2,550,000	(2,550,000)	0
Reimbursement to (from) other fund	108,769		(108,769)	0	0	0
Total other financing sources (uses)	108,769	0	2,441,231	2,550,000	(2,550,000)	0
Net change in fund balances / net position	305,294	(22,516)	1,031,988	1,314,766	(1,313,899)	867
Beginning of year	931,133	157,691	0	1,088,824	2,340,611	3,429,435
End of year	\$ 1,236,427	\$ 135,175	\$ 1,031,988	\$ 2,403,590	\$ 1,026,712	\$ 3,430,302

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

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2019

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	\$ 2,403,590
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Total capital assets, net	3,549,613
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	(2,550,000)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:	
Uncollected property taxes	34,868
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:	
Accrued interest	<u>(7,769)</u>
Net position, end of year	<u>\$ 3,430,302</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Total net change in fund balances		\$ 1,314,766
<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	\$ 1,213,702	
Depreciation	<u>(161,495)</u>	1,052,207
<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>		
Sale of bonds	(2,550,000)	
Principal reduction	<u>185,000</u>	(2,365,000)
<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		(280)
<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		6,712
<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>(7,538)</u>
Change in net position		<u>\$ 867</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2019, 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>108,769</u>	<u>1,213,702</u>		<u>1,322,471</u>
Total capital assets not being depreciated	<u>224,572</u>	<u>1,213,702</u>	<u>0</u>	<u>1,438,274</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>2,289,306</u>			<u>2,289,306</u>
Total depreciable capital assets	<u>5,711,113</u>	<u>0</u>	<u>0</u>	<u>5,711,113</u>
Less accumulated depreciation for:				
Buildings and improvements	(421,947)	(23,424)		(445,371)
Machinery and equipment	(100,055)	(6,095)		(106,150)
Automobiles and trucks	(45,995)			(45,995)
Water system	(1,313,798)	(98,822)		(1,412,620)
Sewer system	<u>(1,556,484)</u>	<u>(33,154)</u>		<u>(1,589,638)</u>
Total accumulated depreciation	<u>(3,438,279)</u>	<u>(161,495)</u>	<u>0</u>	<u>(3,599,774)</u>
Total depreciable capital assets, net	<u>2,272,834</u>	<u>(161,495)</u>	<u>0</u>	<u>2,111,339</u>
Total capital assets, net	<u>\$ 2,497,406</u>	<u>\$ 1,052,207</u>	<u>\$ 0</u>	<u>\$ 3,549,613</u>
Changes to capital assets:				
Capital outlay		\$ 1,213,702	\$	
Less depreciation expense for the fiscal year		<u>(161,495)</u>		
Net increases / decreases to capital assets		<u>\$ 1,052,207</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 30, 2019, 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	\$ 185,000	\$ 2,550,000	\$ 185,000	\$ 2,550,000	\$ 55,000
Less deferred amounts:					
For issuance discounts	<u>(280)</u>		<u>(280)</u>	<u>0</u>	<u>0</u>
Total bonds payable	<u>184,720</u>	<u>2,550,000</u>	<u>184,720</u>	<u>2,550,000</u>	<u>55,000</u>
Total long-term liabilities	<u>\$ 184,720</u>	<u>\$ 2,550,000</u>	<u>\$ 184,720</u>	<u>\$ 2,550,000</u>	<u>\$ 55,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Developer Construction Commitments and Liabilities

At September 30, 2019, there were no developer construction commitments or liabilities.

Bonds Payable

As of September 30, 2019, the debt service requirements on the bonds payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 55,000	\$ 93,232	\$ 148,232
2021	60,000	90,206	150,206
2022	60,000	86,906	146,906
2023	65,000	83,606	148,606
2024	65,000	80,032	145,032
2025 - 2029	385,000	352,094	737,094
2030 - 2034	485,000	281,454	766,454
2035 - 2039	605,000	195,658	800,658
2040 - 2044	<u>770,000</u>	<u>83,300</u>	<u>853,300</u>
	<u>\$ 2,550,000</u>	<u>\$ 1,346,488</u>	<u>\$ 3,896,488</u>

Bonds voted	\$ 8,670,000
Bonds approved for sale and sold	6,820,000
Bonds voted and not issued	1,850,000

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.

The bond issues payable at September 30, 2019, were as follows:

	<u>Series 2019</u>
Amounts outstanding, September 30, 2019	\$2,550,000
Interest rates	3.25% to 5.50%
Maturity dates, serially beginning/ending	September 1, 2020/2044
Interest payment dates	March 1/September 1
Callable dates	September 1, 2025*

*Or any date thereafter at par plus accrued interest to the date of redemption, in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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 17, 2018, the District levied the following ad valorem taxes for the 2018 tax year on the adjusted taxable valuation of \$282,993,107:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.067838	\$ 192,032
Maintenance	<u>0.171673</u>	<u>485,963</u>
	<u>\$ 0.239511</u>	<u>\$ 677,995</u>

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

2018 tax year total property tax levy	\$ 677,995
Appraisal district adjustments to prior year taxes	<u>1,518</u>
Statement of Activities property tax revenues	<u>\$ 679,513</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 \$1,191,175 and the bank balance was \$1,221,086. Of the bank balance, \$375,000 was covered by federal insurance and \$846,086 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At the balance sheet date the carrying value and market value of the investments in TexPool was \$1,546,604.

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	\$	19,308
Temporary investments		<u>118,207</u>
	\$	<u>137,515</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$	410,336
Temporary investments		<u>703,414</u>
	\$	<u>1,113,750</u>

During the fiscal year ended September 30, 2019, the District reimbursed \$108,769 to the General Fund from the Capital Projects Fund in accordance with the rules of the Texas Commission on Environmental Quality.

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, 2019, the District had property damage coverage (excluding flood coverage on building and contents) of \$5,773,726, 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 \$2,587,200, 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 \$187,030 for water purchased under this contract during the fiscal year ended September 30, 2019.

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, 2019, was \$17,206 (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.

NOTE 11: RATEPAYER REFUNDS PAYABLE

The District entered into a Settlement Agreement (the "Agreement") with the Public Utility Commission of Texas during the fiscal year ended September 30, 2019. The District was not found liable for any wrongdoing or violation of any State provision and entered into the Agreement for the express purpose of good stewardship. Under the terms of the Agreement, the District will refund to ratepayers \$10 per customer for a period of 21 months. The amount due to ratepayers was \$104,470 at September 30, 2019.

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, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 461,457	\$ 461,457	\$ 482,162	\$ 20,705
Water service	361,920	361,920	478,408	116,488
Sewer service	473,873	473,873	534,609	60,736
Penalty	11,500	11,500	10,673	(827)
Tap connection fees	5,600	5,600	11,150	5,550
Lease and rental	18,900	18,900	20,967	2,067
Interest on deposits and investments	2,000	2,000	17,592	15,592
Other revenues	8,100	8,100	7,349	(751)
TOTAL REVENUES	<u>1,343,350</u>	<u>1,343,350</u>	<u>1,562,910</u>	<u>219,560</u>
EXPENDITURES				
Service operations:				
Purchased water	200,000	200,000	187,030	(12,970)
Personnel costs	395,274	395,274	406,283	11,009
Professional fees	63,000	63,000	67,027	4,027
Contracted services	26,000	26,000	28,288	2,288
Utilities	55,424	55,424	53,513	(1,911)
Repairs and maintenance	194,699	194,699	237,951	43,252
Other operating expenditures	53,400	53,400	82,321	28,921
Garbage disposal	185,000	185,000	184,452	(548)
Administrative expenditures	103,951	103,951	119,520	15,569
Capital outlay	110,500	110,500	0	(110,500)
TOTAL EXPENDITURES	<u>1,387,248</u>	<u>1,387,248</u>	<u>1,366,385</u>	<u>(20,863)</u>
EXCESS REVENUES (EXPENDITURES)	<u>(43,898)</u>	<u>(43,898)</u>	<u>196,525</u>	<u>240,423</u>
OTHER FINANCING SOURCES (USES)				
Reimbursement from other fund	225,000	225,000	108,769	(116,231)
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>225,000</u>	<u>225,000</u>	<u>108,769</u>	<u>(116,231)</u>
EXCESS SOURCES (USES)	181,102	181,102	305,294	124,192
FUND BALANCE, BEGINNING OF YEAR	<u>931,133</u>	<u>931,133</u>	<u>931,133</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,112,235</u>	<u>\$ 1,112,235</u>	<u>\$ 1,236,427</u>	<u>\$ 124,192</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, 2019

(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, 2019

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 checked="" 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, 2019

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"	1,492	1,464	1.0	1,464
1"	8	8	2.5	20
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>1,506</u>	<u>1,478</u>		<u>1,543</u>
Total Wastewater	<u>1,493</u>	<u>1,458</u>	1.0	<u>1,458</u>

*Single family equivalents

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

Gallons pumped into system (unaudited): 66,571
 Gallons billed to customers (unaudited): 62,445

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 94%

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. 12

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Purchased water	\$ 187,030	\$ 0	\$ 0	\$ 187,030
Personnel costs:				
Salaries and wages	301,169			301,169
Payroll taxes	23,495			23,495
Pension plan	17,206			17,206
Other benefits	64,413			64,413
	<u>406,283</u>	<u>0</u>	<u>0</u>	<u>406,283</u>
Professional fees:				
Auditing	9,975			9,975
Legal	30,498	1,190		31,688
Engineering	26,554			26,554
	<u>67,027</u>	<u>1,190</u>	<u>0</u>	<u>68,217</u>
Contracted services:				
Bookkeeping	28,288			28,288
Tax assessor-collector		367		367
Central appraisal district		4,519		4,519
	<u>28,288</u>	<u>4,886</u>	<u>0</u>	<u>33,174</u>
Utilities	<u>53,513</u>	<u>0</u>	<u>0</u>	<u>53,513</u>
Repairs and maintenance	<u>237,951</u>	<u>0</u>	<u>0</u>	<u>237,951</u>
Other operating expenditures:				
Sludge hauling	41,608			41,608
Chemicals	17,110			17,110
Laboratory costs	14,879			14,879
TCEQ assessment	3,897			3,897
Other	4,827			4,827
	<u>82,321</u>	<u>0</u>	<u>0</u>	<u>82,321</u>
Garbage disposal	<u>184,452</u>	<u>0</u>	<u>0</u>	<u>184,452</u>
Administrative expenditures:				
Director's fees	15,900			15,900
Office supplies and postage	3,781			3,781
Insurance	56,965			56,965
Permit fees	3,340			3,340
Other	39,534			39,534
	<u>119,520</u>	<u>0</u>	<u>0</u>	<u>119,520</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12EXPENDITURES (Continued)FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,213,702</u>	<u>\$ 1,213,702</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>185,000</u>	<u>0</u>	<u>185,000</u>
Bond issuance expenditures	<u>0</u>	<u>0</u>	<u>198,677</u>	<u>198,677</u>
Interest and fees:				
Interest		33,852		33,852
Paying agent fees		750		750
	<u>0</u>	<u>34,602</u>	<u>0</u>	<u>34,602</u>
TOTAL EXPENDITURES	<u>\$ 1,366,385</u>	<u>\$ 225,678</u>	<u>\$ 1,412,379</u>	<u>\$ 3,004,442</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, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 1,080,425	\$ 203,162	\$ 3,136	\$ 1,286,723
Maintenance tax receipts		482,162		482,162
Transfer of maintenance taxes	481,500			481,500
Proceeds from sale of bonds			2,550,000	2,550,000
Reimbursement from other fund	108,769			108,769
Increase in customer deposits	<u>5,150</u>			<u>5,150</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>1,675,844</u>	<u>685,324</u>	<u>2,553,136</u>	<u>4,914,304</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	1,360,716	6,075		1,366,791
Capital outlay			1,137,235	1,137,235
Debt service		219,602	198,677	418,279
Reimbursement to other fund			108,769	108,769
Reimbursement to customers	174,300			174,300
Transfer of maintenance taxes		<u>481,500</u>		<u>481,500</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>1,535,016</u>	<u>707,177</u>	<u>1,444,681</u>	<u>3,686,874</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	140,828	(21,853)	1,108,455	1,227,430
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>1,345,686</u>	<u>159,368</u>	<u>5,295</u>	<u>1,510,349</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 1,486,514</u>	<u>\$ 137,515</u>	<u>\$ 1,113,750</u>	<u>\$ 2,737,779</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12
SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS
SEPTEMBER 30, 2019

	Interest Rate	Maturity Date	Year End Balance	Accrued Interest Receivable
GENERAL FUND				
Certificate of Deposit				
No. 78391	0.95%	10/27/19	\$ <u>125,000</u>	\$ <u>13</u>
TexPool				
No. 841600002	Market	On demand	\$ <u>724,983</u>	\$ <u>0</u>
DEBT SERVICE FUND				
TexPool				
No. 841600001	Market	On demand	\$ <u>118,207</u>	\$ <u>0</u>
CAPITAL PROJECTS FUND				
TexPool				
No. 841600003	Market	On demand	\$ <u>703,414</u>	\$ <u>0</u>
Total – All Funds			\$ <u>1,671,604</u>	\$ <u>13</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 18,847	\$ 9,309
Additions and corrections to prior year taxes	<u>1,035</u>	<u>483</u>
Adjusted receivable, beginning of year	19,882	9,792
2018 ADJUSTED TAX ROLL	<u>485,963</u>	<u>192,032</u>
Total to be accounted for	505,845	201,824
Tax collections: Current tax year	(477,931)	(188,858)
Prior tax years	<u>(4,231)</u>	<u>(1,781)</u>
RECEIVABLE, END OF YEAR	<u>\$ 23,683</u>	<u>\$ 11,185</u>
RECEIVABLE, BY TAX YEAR		
2008 and prior	\$ 1,284	\$ 1,015
2009	545	382
2010	820	500
2011	762	479
2012	875	524
2013	1,085	620
2014	1,314	828
2015	1,405	613
2016	2,451	1,020
2017	5,110	2,030
2018	<u>8,032</u>	<u>3,174</u>
RECEIVABLE, END OF YEAR	<u>\$ 23,683</u>	<u>\$ 11,185</u>

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED SEPTEMBER 30, 2019

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 94,864,504	\$ 94,835,365	\$ 94,403,000	\$ 94,100,180
Improvements	243,052,564	239,643,336	203,682,450	199,006,850
Personal property	2,316,140	2,166,185	2,047,824	2,021,942
Less exemptions	<u>(57,240,101)</u>	<u>(59,792,484)</u>	<u>(52,341,910)</u>	<u>(56,780,393)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 282,993,107</u>	<u>\$ 276,852,402</u>	<u>\$ 247,791,364</u>	<u>\$ 238,348,579</u>
TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.067838	\$ 0.068084	\$ 0.072389	\$ 0.074200
Maintenance tax rates*	<u>0.171673</u>	<u>0.171427</u>	<u>0.173930</u>	<u>0.170065</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.239511</u>	<u>\$ 0.239511</u>	<u>\$ 0.246319</u>	<u>\$ 0.244265</u>
TAX ROLLS	<u>\$ 677,995</u>	<u>\$ 663,089</u>	<u>\$ 610,729</u>	<u>\$ 581,851</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>98.3 %</u>	<u>98.9 %</u>	<u>99.4 %</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, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2019</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 55,000	\$ 93,232	\$ 148,232
2021	60,000	90,206	150,206
2022	60,000	86,906	146,906
2023	65,000	83,606	148,606
2024	65,000	80,032	145,032
2025	70,000	76,456	146,456
2026	75,000	72,606	147,606
2027	75,000	70,168	145,168
2028	80,000	67,732	147,732
2029	85,000	65,132	150,132
2030	90,000	62,368	152,368
2031	95,000	59,444	154,444
2032	95,000	56,356	151,356
2033	100,000	53,268	153,268
2034	105,000	50,018	155,018
2035	110,000	46,606	156,606
2036	115,000	43,032	158,032
2037	120,000	39,294	159,294
2038	125,000	35,394	160,394
2039	135,000	31,332	166,332
2040	140,000	26,775	166,775
2041	145,000	22,050	167,050
2042	155,000	16,975	171,975
2043	160,000	11,550	171,550
2044	170,000	5,950	175,950
TOTALS	<u>\$ 2,550,000</u>	<u>\$ 1,346,488</u>	<u>\$ 3,896,488</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, 2019

	<u>(1)</u>	<u>(2)</u>	<u>Totals</u>
Bond Series:	2014	2019	
Interest Rate:	Not Applicable	3.25% to 5.50%	
Dates Interest Payable:	Not Applicable	March 1/ September 1	
Maturity Dates:	Not Applicable	September 1, 2020/2044	
Bonds Outstanding at Beginning of Current Year	\$ 185,000	\$	\$ 185,000
Add Bonds Sold		2,550,000	2,550,000
Less Retirements	<u>(185,000)</u>	<u></u>	<u>(185,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 0</u>	<u>\$ 2,550,000</u>	<u>\$ 2,550,000</u>
Current Year Interest Paid	<u>\$ 2,775</u>	<u>\$ 31,077</u>	<u>\$ 33,852</u>

Bond Descriptions and Original Amount of Issue

- (1) Galveston County Municipal Utility District No. 12 Unlimited Tax Bonds, Series 2014 (\$700,000)
(2) Galveston County Municipal Utility District No. 12 Unlimited Tax Bonds, Series 2019 (\$2,550,000)

Paying Agent/Registrar

- (1) (2) 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:	\$ 8,670,000	\$ 0	\$ 0
Amount Issued:	6,820,000		
Remaining to be Issued:	1,850,000		

Net Debt Service Fund deposits and investments balances as of September 30, 2019: \$135,175
Average annual debt service payment for remaining term of all debt: 155,860

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				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 482,162	\$ 470,508	\$ 431,667	\$ 402,626	\$ 362,559	30.9 %	30.1 %	28.9 %	27.0 %	29.3 %
Water service	478,408	472,803	449,535	426,238	439,688	30.6	30.3	30.1	28.5	35.5
Sewer service	534,609	564,416	554,303	599,975	368,873	34.2	36.1	37.1	40.2	29.8
Penalty	10,673	8,847	11,254	12,102	11,675	0.7	0.6	0.8	0.8	0.9
Tap connection fees	11,150	4,700	13,500	24,000	16,010	0.7	0.3	0.9	1.6	1.3
Lease and rental	20,967	20,000	18,450	18,100	20,900	1.3	1.3	1.2	1.2	1.7
Interest on deposits and temporary investments	17,592	11,361	5,251	2,045	682	1.1	0.7	0.4	0.1	0.1
Other revenues	7,349	9,166	8,994	8,703	16,929	0.5	0.6	0.6	0.6	1.4
TOTAL REVENUES	<u>1,562,910</u>	<u>1,561,801</u>	<u>1,492,954</u>	<u>1,493,789</u>	<u>1,237,316</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Service operations:										
Purchased water	187,030	180,803	171,473	171,939	141,360	12.0	11.6	11.5	11.5	11.4
Personnel costs	406,283	394,228	375,099	361,270	305,366	26.0	25.2	25.1	24.2	24.8
Professional fees	67,027	155,048	85,165	71,069	21,690	4.3	9.9	5.7	4.8	1.8
Contracted services	28,288	32,461	26,068	22,160	22,230	1.8	2.1	1.7	1.5	1.8
Utilities	53,513	48,603	40,250	47,667	54,596	3.4	3.1	2.7	3.2	4.4
Repairs and maintenance	237,951	431,365	350,706	378,022	174,864	15.2	27.7	23.5	25.3	14.1
Other operating expenditures	82,321	61,384	68,408	77,272	55,666	5.3	3.9	4.6	5.2	4.5
Garbage disposal	184,452	0	0	0	0	11.8	0.0	0.0	0.0	0.0
Administrative expenditures	119,520	131,360	120,716	103,416	114,380	7.6	8.4	8.1	6.9	9.2
Capital outlay	0	376,824	249,107	49,623	2,944	0.0	24.1	16.7	3.3	0.2
TOTAL EXPENDITURES	<u>1,366,385</u>	<u>1,812,076</u>	<u>1,486,992</u>	<u>1,282,438</u>	<u>893,096</u>	<u>87.4</u>	<u>116.0</u>	<u>99.6</u>	<u>85.9</u>	<u>72.2</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 196,525</u>	<u>\$ (250,275)</u>	<u>\$ 5,962</u>	<u>\$ 211,351</u>	<u>\$ 344,220</u>	<u>12.6 %</u>	<u>(16.0) %</u>	<u>0.4 %</u>	<u>14.1 %</u>	<u>27.8 %</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,478</u>	<u>1,467</u>	<u>1,469</u>	<u>1,475</u>	<u>1,446</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>1,458</u>	<u>1,452</u>	<u>1,457</u>	<u>1,475</u>	<u>1,446</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				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 190,639	\$ 187,007	\$ 180,227	\$ 176,374	\$ 228,301	93.9 %	95.4 %	95.4 %	97.2 %	97.6 %
Penalty and interest	5,736	7,146	7,672	4,674	5,557	2.8	3.6	4.1	2.6	2.4
Accrued interest on bonds received at date of sale	3,885	0	0	0	0	1.9	0.0	0.0	0.0	0.0
Interest on deposits and investments	<u>2,902</u>	<u>1,936</u>	<u>900</u>	<u>389</u>	<u>69</u>	<u>1.4</u>	<u>1.0</u>	<u>0.5</u>	<u>0.2</u>	<u>0.0</u>
TOTAL REVENUES	<u>203,162</u>	<u>196,089</u>	<u>188,799</u>	<u>181,437</u>	<u>233,927</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Contracted services and other	6,076	9,216	5,903	6,083	5,785	3.0	4.7	3.1	3.4	2.5
Debt service:										
Principal retirement	185,000	180,000	170,000	165,000	205,000	91.1	91.8	90.1	90.9	87.6
Interest and fees	<u>34,602</u>	<u>5,505</u>	<u>7,205</u>	<u>8,855</u>	<u>21,029</u>	<u>17.0</u>	<u>2.8</u>	<u>3.8</u>	<u>4.9</u>	<u>9.0</u>
TOTAL EXPENDITURES	<u>225,678</u>	<u>194,721</u>	<u>183,108</u>	<u>179,938</u>	<u>231,814</u>	<u>111.1</u>	<u>99.3</u>	<u>97.0</u>	<u>99.2</u>	<u>99.1</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ (22,516)</u>	<u>\$ 1,368</u>	<u>\$ 5,691</u>	<u>\$ 1,499</u>	<u>\$ 2,113</u>	<u>(11.1) %</u>	<u>0.7 %</u>	<u>3.0 %</u>	<u>0.8 %</u>	<u>0.9 %</u>

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2019

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: October 21, 2019

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>
Richard L. Matthews 1A N. Curlew La Marque, Texas 77568 Position 1	Elected 5/05/18- 5/07/22	\$ 5,700	\$ 1,496	President
Roger D. Domingue 122 Tarpon Bayou Vista, Texas 77563 Position 3	Appointed 6/17/19- 5/02/20	900	45	Vice President
Robert A. Bassett 964 Bonita Bayou Vista, Texas 77563 Position 4	Elected 5/07/16- 5/02/20	5,100	411	Secretary/ Treasurer/ Inv. Officer
Carter Joseph Tull 1283 Blue Heron Bayou Vista, Texas 77563 Position 5	Appointed 3/06/17- 5/02/20	2,250	2,107	Assistant Secretary/ Treasurer
Eric H. Moeller 1054 Redfish Bayou Vista, Texas 77563 Position 2	Elected 5/05/18- 5/07/22	1,950	896	Director

See accompanying independent auditor's report.

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 12BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2019CONSULTANTS

<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	\$ 30,498 65,470 Bonds	Attorney
Whitley Penn, LLP 600 Gulf Freeway, Suite 226 Texas City, Texas 77591	5/01/98	28,288	Bookkeeper
Cheryl E. Johnson Galveston County TAC 721 Moody Avenue Galveston, Texas 77550	7/01/86	367	Tax Assessor- Collector
Galveston Central Appraisal District P.O. Box 3647 Texas City, Texas 77592	Legislative Action	4,519	Central Appraisal District
AEI Engineering, Inc. 11450 Compaq Center Dr., Suite 660 Houston, Texas 77070	12/21/15	135,341 41,220 Bonds	Engineer
Post Oak Municipal Advisors, LLC 820 Gessner, Suite 1350 Houston, Texas 77024	4/16/18	54,387 Bonds	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	8/25/99	9,975 750 Bonds	Independent Auditor

See accompanying independent auditor's report.