

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2017

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Galveston County Water Control and
Improvement District No. 1
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Water Control and Improvement District No. 1 (the "District"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Galveston County Water Control and
Improvement District No. 1

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 22, 2018

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2017**

Our discussion and analysis of Galveston County Water Control and Improvement District No. 1’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended September 30, 2017. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The Statement of Activities reports how the District’s net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2017**

FUND FINANCIAL STATEMENTS (Continued)

assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$30,827,763 as of September 30, 2017. A portion of the District’s net position reflects its net investment in capital assets (buildings, vehicles and equipment as well as the water and wastewater facilities, less any debt used to acquire those assets that is still outstanding).

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

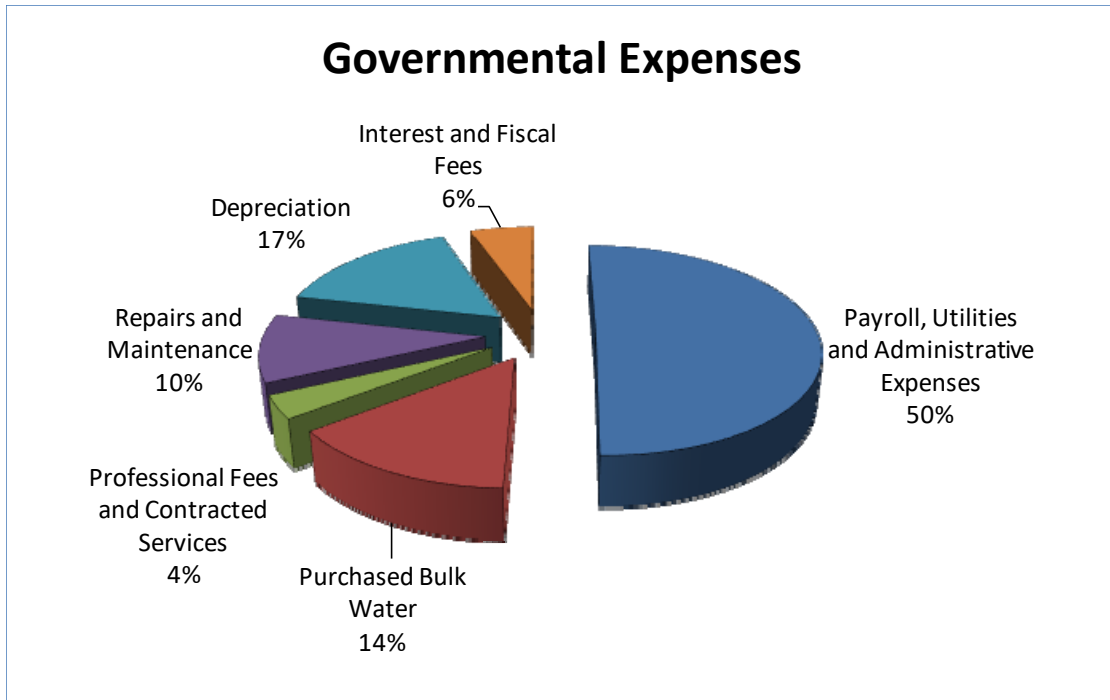
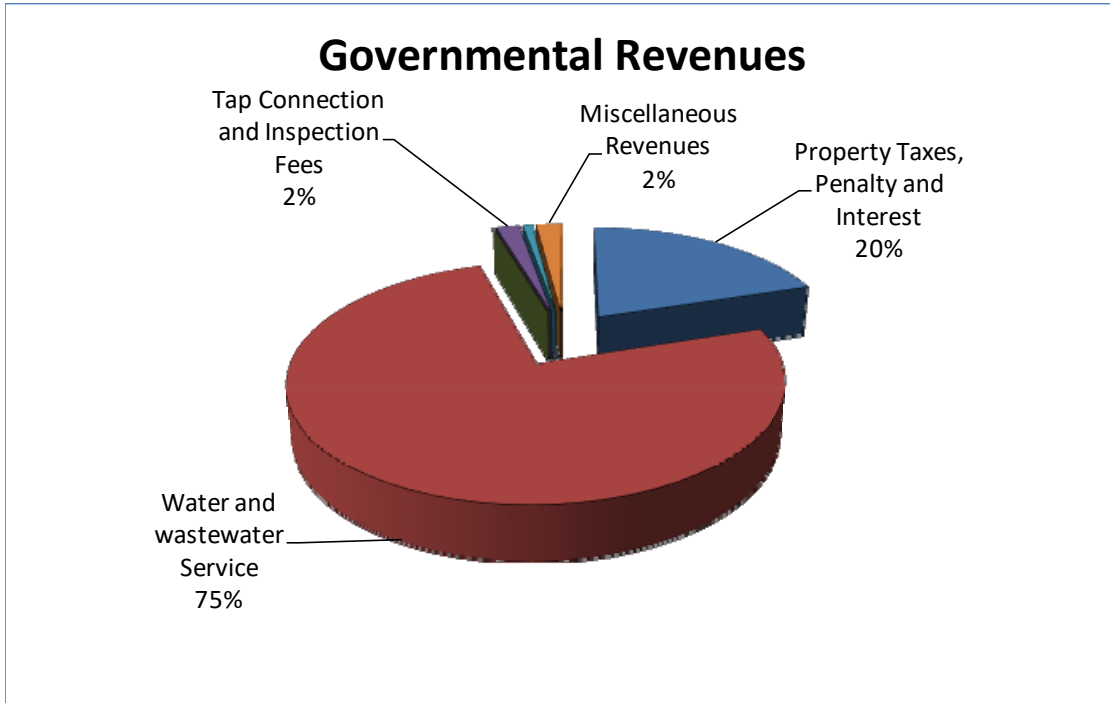
The following is a comparative analysis of government-wide changes in net position:

	<u>Summary of Changes in the Statement of Net Position</u>		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 13,327,811	\$ 12,921,421	\$ 406,390
Capital Assets (Net of Accumulated Depreciation)	30,666,960	31,269,266	(602,306)
Total Assets	<u>\$ 43,994,771</u>	<u>\$ 44,190,687</u>	<u>\$ (195,916)</u>
Deferred Outflows of Resources	\$ 1,256,761	\$ 1,406,523	\$ (149,762)
Long -Term Liabilities	\$ 10,611,281	\$ 11,411,857	\$ 800,576
Other Liabilities	3,732,536	4,250,118	517,582
Total Liabilities	<u>\$ 14,343,817</u>	<u>\$ 15,661,975</u>	<u>\$ 1,318,158</u>
Deferred Inflows of Resources	\$ 79,952	\$ 106,602	\$ 26,650
Net Position:			
Net Investment in Capital Assets	\$ 22,705,699	\$ 22,203,615	\$ 502,084
Restricted	2,599,501	2,598,122	1,379
Unrestricted	5,522,563	5,026,896	495,667
Total Net Position	<u>\$ 30,827,763</u>	<u>\$ 29,828,633</u>	<u>\$ 999,130</u>

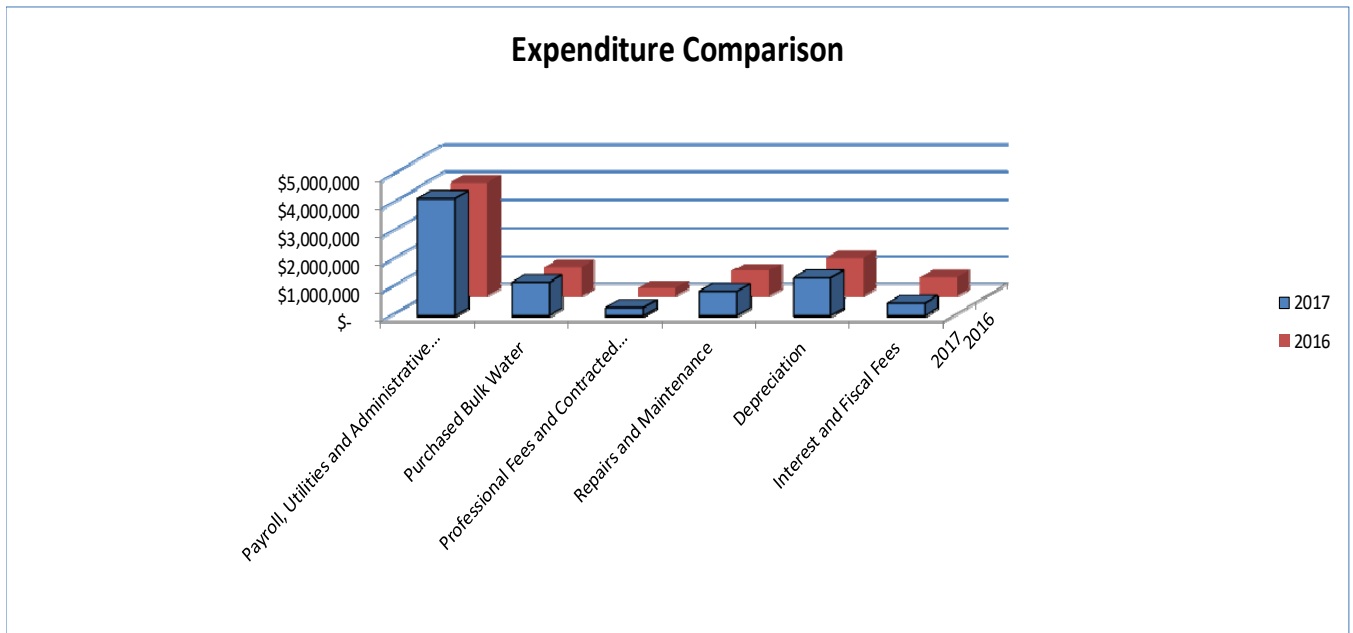
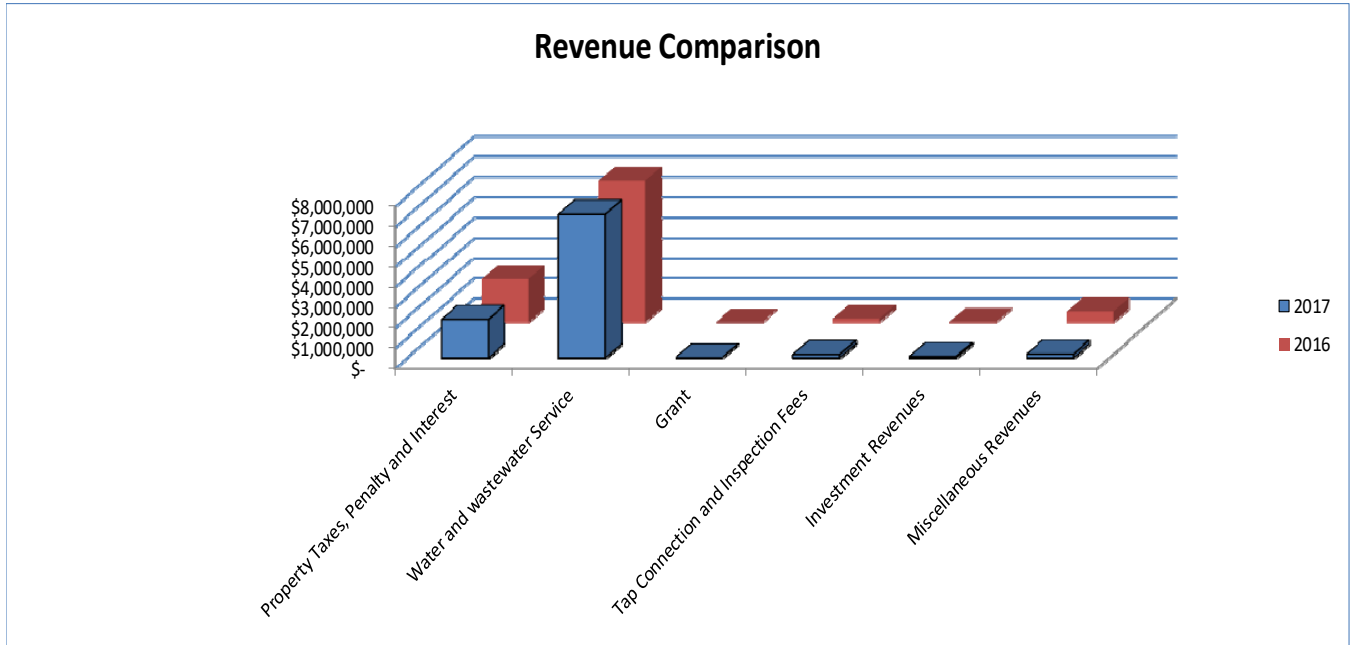
The following table provides a summary of the District's operations for the years ending September 30, 2017, and September 30, 2016. The District's net position increased by \$999,130, accounting for a 3.3% growth in net position.

	<u>Summary of Changes in the Statement of Activities</u>		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,746,451	\$ 1,972,980	\$ (226,529)
Charges for Services	7,491,092	7,405,451	85,641
Other Revenues	199,187	506,938	(307,751)
Total Revenues	<u>\$ 9,436,730</u>	<u>\$ 9,885,369</u>	<u>\$ (448,639)</u>
Expenses for Services	<u>8,312,027</u>	<u>8,441,223</u>	<u>129,196</u>
Change in Net Position			
Before Extraordinary Item	\$ 1,124,703	\$ 1,444,146	\$ (319,443)
Extraordinary Item	(125,573)		(125,573)
Change in Net Position			
After Extraordinary Item	\$ 999,130	\$ 1,444,146	\$ (445,016)
Net Position, Beginning of Year	<u>29,828,633</u>	<u>28,384,487</u>	<u>1,444,146</u>
Net Position, End of Year	<u>\$ 30,827,763</u>	<u>\$ 29,828,633</u>	<u>\$ 999,130</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2017**



**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2017**



**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

The District’s combined fund balances as of September 30, 2017, were \$11,457,108, an increase of \$396,913 from the prior year.

The General Fund fund balance increased by \$451,676, primarily due to service revenues exceeding operating and administrative expenditures.

The Debt Service Fund fund balance increased by \$16,423, primarily due to the structure of the District’s outstanding debt.

The Capital Projects Fund fund balance decreased by \$71,186, primarily due to payment of current capital outlay costs from proceeds of bonds issued in a prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the fiscal year to increase the budgeted amount for capital outlay. Actual revenue was \$831,923 less than budgeted revenue primarily due to lower than expected grant revenue. Actual expenditures were \$1,359,680 lower than budgeted expenditures primarily due to lower than expected capital outlay.

LONG-TERM DEBT ACTIVITY

As of the fiscal year end, the District had total bond debt payable of \$11,170,000. The changes in the debt position of the District during the fiscal year ended September 30, 2017, are summarized as follows:

Bond Debt Payable, October 1, 2016	\$ 12,325,000
Less: Bond Principal Paid	<u>1,155,000</u>
Bond Debt Payable, September 30, 2017	<u>\$ 11,170,000</u>

Standard and Poor’s has issued a rating of “A+” to the Series 2012 Refunding Revenue Notes. The Series 2016 Unlimited Tax Bonds carry an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual Assurance Company. The above ratings were the same for the current and prior fiscal years.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2017**

CAPITAL ASSETS

Capital assets as of September 30, 2017, total \$30,666,960 (net of accumulated depreciation), and include land, buildings and equipment as well as the water and wastewater systems. Significant capital asset activity during the current fiscal year included water line repairs, sewer line rehabilitation and repairs including the 20" line on Oleander Drive and the 10" line on Palm Drive, a backhoe, and the two Ford F-150 trucks. Hurricane Harvey made landfall on the Texas coast August 26, 2017 and led to several days of heavy rainfall. Much of the District was inundated by flood waters. Capital asset losses are still being evaluated. Additional information on the District's capital assets can be found in Note 6 and Note 19 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 115,316	\$ 115,316	\$
Construction in Progress	99,162	3,915	95,247
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	284,949	277,817	7,132
Vehicles	493,762	535,516	(41,754)
Equipment	151,058	180,673	(29,615)
Water System	9,230,887	9,367,489	(136,602)
Wastewater System	20,291,826	20,788,540	(496,714)
Total Net Capital Assets	\$ 30,666,960	\$ 31,269,266	\$ (602,306)

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Galveston County Water Control and Improvement District No. 1, P. O. Box 307, Dickinson, Texas 77539.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 1,782,307	\$ 657,875
Investments	4,585,591	1,806,554
Receivables:		
Property Taxes (Net of Allowance of \$43,747)	51,797	97,049
Penalty and Interest on Delinquent Taxes	27,813	76,063
Service Accounts (Net of Allowance for Doubtful Accounts of \$21,748)	444,666	
Prepaid Costs	86,009	
Inventory	274,543	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 7,252,726	\$ 2,637,541
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Plan Charges	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 7,252,726	\$ 2,637,541

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 3,437,544	\$ 2,440,182	\$	\$ 2,440,182
	9,829,689		9,829,689
	148,846		148,846
	103,876		103,876
	444,666		444,666
	86,009		86,009
	274,543		274,543
		115,316	115,316
		99,162	99,162
		<u>30,452,482</u>	<u>30,452,482</u>
<u>\$ 3,437,544</u>	<u>\$ 13,327,811</u>	<u>\$ 30,666,960</u>	<u>\$ 43,994,771</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,256,761</u>	<u>\$ 1,256,761</u>
<u>\$ 3,437,544</u>	<u>\$ 13,327,811</u>	<u>\$ 31,923,721</u>	<u>\$ 45,251,532</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2017**

	<u>General Fund</u>	<u>Debt Service Fund</u>
LIABILITIES		
Accounts Payable	\$ 530,013	\$
Accrued Interest Payable		
Security Deposits	1,080,444	
Net Pension Liability		
Long-Term Liabilities:		
Compensated Absences, Due Within One Year		
Bonds/Notes Payable, Due Within One Year		
Bonds/Notes Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 1,610,457</u>	<u>\$ -0-</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 51,797	\$ 97,049
Penalty and Interest on Delinquent Taxes	27,813	76,063
Deferred Pension Plan Charges		
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 79,610</u>	<u>\$ 173,112</u>
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 86,009	\$
Inventory	274,543	
Restricted for Authorized Construction		
Restricted for Debt Service		783,634
Committed:		
Capital Maintenance Projects	350,000	
Capital Asset-Software	250,000	
Vehicle Replacement	99,915	
Inflow and Infiltration	1,147,220	
Self-Insured Insurance	133,985	
Assigned for Debt Service		1,680,795
Unassigned	<u>3,220,987</u>	
TOTAL FUND BALANCES	<u>\$ 5,562,659</u>	<u>\$ 2,464,429</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 7,252,726</u>	<u>\$ 2,637,541</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 7,524	\$ 537,537	\$	\$ 537,537
		38,040	38,040
	1,080,444		1,080,444
		1,076,133	1,076,133
		220,382	220,382
		780,000	780,000
		<u>10,611,281</u>	<u>10,611,281</u>
<u>\$ 7,524</u>	<u>\$ 1,617,981</u>	<u>\$ 12,725,836</u>	<u>\$ 14,343,817</u>
\$	\$ 148,846	\$ (148,846)	\$
	103,876	(103,876)	
		<u>79,952</u>	<u>79,952</u>
<u>\$ -0-</u>	<u>\$ 252,722</u>	<u>\$ (172,770)</u>	<u>\$ 79,952</u>
\$	\$ 86,009	\$ (86,009)	\$
	274,543	(274,543)	
3,430,020	3,430,020	(3,430,020)	
	783,634	(783,634)	
	350,000	(350,000)	
	250,000	(250,000)	
	99,915	(99,915)	
	1,147,220	(1,147,220)	
	133,985	(133,985)	
	1,680,795	(1,680,795)	
	<u>3,220,987</u>	<u>(3,220,987)</u>	
<u>\$ 3,430,020</u>	<u>\$ 11,457,108</u>	<u>\$ (11,457,108)</u>	<u>\$ - 0 -</u>
<u>\$ 3,437,544</u>	<u>\$ 13,327,811</u>		
		\$ 22,705,699	\$ 22,705,699
		2,599,501	2,599,501
		<u>5,522,563</u>	<u>5,522,563</u>
		<u>\$ 30,827,763</u>	<u>\$ 30,827,763</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Total Fund Balances - Governmental Funds \$ 11,457,108

Amounts reported for governmental activities in the Statement of Net Position are different because:

Certain pension plan charges that are not immediately recognized are recorded as deferred inflows or deferred outflows of resources. 1,176,809

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 30,666,960

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District. 252,722

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Compensated Absences	\$ (220,382)	
Accrued Interest Payable	(38,040)	
Net Pension Liability	(1,076,133)	
Bonds/Notes Payable Within One Year	(780,000)	
Bonds/Notes Payable After One Year	<u>(10,611,281)</u>	<u>(12,725,836)</u>

Total Net Position - Governmental Activities \$ 30,827,763

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

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 1,030,345	\$ 720,002
Water Service	3,710,858	
Wastewater Service	3,399,957	
League City Interconnect Fees	464	
Texas City Maintenance Fees	28,651	
Out of District Surcharge	32,720	
Grant Revenues	33,648	
Penalty and Interest	121,175	25,475
Tap Connection and Inspection Fees	171,753	
Investment Revenues	32,474	12,869
Miscellaneous Revenues	129,783	
TOTAL REVENUES	\$ 8,691,828	\$ 758,346
EXPENDITURES/EXPENSES		
Service Operations:		
Payroll	\$ 3,124,947	
Purchased Bulk Water	1,183,072	
Professional Fees	58,239	
Contracted Services	201,425	30,300
Repairs and Maintenance	861,661	
Utilities	381,445	
Administrative Expenses	707,295	1,450
Depreciation		
Capital Outlay	802,872	
Debt Service:		
Bond Principal		1,155,000
Bond Interest		474,369
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	\$ 7,320,956	\$ 1,661,119
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 1,370,872	\$ (902,773)
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (919,196)	\$ 919,196
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM	\$ 451,676	\$ 16,423
EXTRAORDINARY ITEM		
Hurricane Harvey Flood Capital Asset Losses	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCES AFTER EXTRAORDINARY ITEM	\$ 451,676	\$ 16,423
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION OCTOBER 1, 2016	5,110,983	2,448,006
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2017	\$ 5,562,659	\$ 2,464,429

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,750,347	\$ (3,896)	\$ 1,746,451
	3,710,858		3,710,858
	3,399,957		3,399,957
	464		464
	28,651		28,651
	32,720		32,720
	33,648	(33,648)	
	146,650	39	146,689
	171,753		171,753
24,061	69,404		69,404
	129,783		129,783
<u>\$ 24,061</u>	<u>\$ 9,474,235</u>	<u>\$ (37,505)</u>	<u>\$ 9,436,730</u>
\$	\$ 3,124,947	(28,263)	\$ 3,096,684
	1,183,072		1,183,072
	58,239		58,239
	231,725		231,725
	861,661		861,661
	381,445		381,445
	708,745		708,745
95,247	898,119	1,341,204 (898,119)	1,341,204
	1,155,000	(1,155,000)	
	474,369	(25,117)	449,252
<u>\$ 95,247</u>	<u>\$ 9,077,322</u>	<u>\$ (765,295)</u>	<u>\$ 8,312,027</u>
<u>\$ (71,186)</u>	<u>\$ 396,913</u>	<u>\$ 727,790</u>	<u>\$ 1,124,703</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>\$ (71,186)</u>	<u>\$ 396,913</u>	<u>\$ 727,790</u>	<u>\$ 1,124,703</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (125,573)</u>	<u>\$ (125,573)</u>
\$ (71,186)	\$ 396,913	\$ (396,913) 999,130	\$ 999,130
<u>3,501,206</u>	<u>11,060,195</u>	<u>18,768,438</u>	<u>29,828,633</u>
<u>\$ 3,430,020</u>	<u>\$ 11,457,108</u>	<u>\$ 19,370,655</u>	<u>\$ 30,827,763</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Net Change in Fund Balances - Governmental Funds	\$	396,913
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(3,896)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		39
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(1,341,204)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		738,898
The changes in the net pension liability, deferred pension plan charges, and compensated absences payable are reflected as an expense in the government-wide financial statements.		28,263
Governmental funds report bond and lease principal payments as expenditures. However, in the Statement of Net Position, bond and lease principal payments are reported as decreases in long-term liabilities.		1,155,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		<u>25,117</u>
Change in Net Position - Governmental Activities	\$	<u>999,130</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1. CREATION OF DISTRICT

Galveston County Water Control and Improvement District No. 1 of Galveston County, Texas (the "District") was created in July 1938 by the Galveston County Commissioner's Court as a Fresh Water Supply District. On February 3, 1939, the District was converted to a Water Control and Improvement District under provisions of Article 7880-143 of the Revised Civil Statutes of the State of Texas. Pursuant to the provisions of Chapter 51 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, and storm sewer drainage. The District is also empowered to contract for or operate and maintain a fire department to perform all fire-fighting activities within the District. The District provides water, wastewater and solid waste disposal services at this time. The Board of Directors held its first meeting on July 9, 1938, and the first bonds were sold on February 8, 1939.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the "Commission").

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated to obtain net total revenues and expenses of the government-wide Statements of Activities.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds. All of the governmental funds are considered major funds.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$20,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
All Other Equipment	3-20

Inventory

Inventory consisting of supplies and materials are stated at cost. Inventory, used for the maintenance and operations of the water and sewer facilities, are recorded as expenditures when the supplies and materials are purchased. A portion of the fund balance is recorded as nonspendable to reflect inventory quantities considered necessary for the District's continuing operations, generally in an amount equal to inventory values on hand at the end of the fiscal year.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for all funds. The budget was amended during the current fiscal year.

Pensions

For employees of the District, a pension plan has been established and is managed by an independent plan administrator (see Note 9). The Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only. Directors do not participate in the pension plan.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Board. In October 2011 and by action in fiscal year 2013, the Board committed a portion of the fund balance to Inflow and Infiltration, Capital Maintenance Projects in the amount of \$350,000, Self-Insured Insurances, Vehicle Replacement in the amount of \$300,000, and Capital Asset-Software in the amount of \$250,000. Due to board approved activity fiscal year 2015, the Vehicle Replacement portion equals \$99,915. The dollar amounts for Inflow and Infiltration and Self-Insured Insurances were set by current year activity. See Notes 8 and 12.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has assigned \$1,680,795 of its Debt Service Fund fund balance to pay future debt service. The Series 2010 Revenue Notes and the Series 2012 Revenue Refunding Notes do not require a tax levy, but only a reserve fund. This assigned amount is the portion of the Debt Service Fund remaining after repayment of the Series 2003 Unlimited Tax Refunding Bonds and prior to levy of debt service tax funds for repayment of the Series 2016 Unlimited Tax Bonds. This amount may be used for any lawful purposes of the District. As of the date of this report, the Board intends to use the funds for debt service payment. See Notes 3, 4 and 5.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 3. BONDS AND REVENUE NOTES PAYABLE

	Series 2010 Revenue Notes	Series 2012 Refunding Revenue Notes	Series 2016 Tax Bonds
Amount Outstanding - September 30, 2017	\$ 6,150,000	\$ 2,130,000	\$ 2,890,000
Interest Rates	3.49% -5.44%	2.00% - 2.25%	2.50% - 4.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2018/2034	March 1, 2018/2021	March 1, 2018/2031
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	Non-Callable	Non-Callable	March 1, 2025*

* Or any date thereafter, in whole or in part, in any order to be determined by the District, at a redemption price of par plus accrued interest to the redemption date. Series 2016 term bonds maturing on March 1, 2027, March 1, 2029, and March 1, 2031, are subject to mandatory redemption by random selection beginning March 1, 2026, March 1, 2028, and March 1, 2030, respectively.

The following is a summary of transactions regarding bonds and revenue notes payable for the year ended September 30, 2017:

	October 1, 2016	Additions	Retirements	September 30, 2017
Bonds/Notes Payable	\$ 12,325,000	\$	\$ 1,155,000	\$ 11,170,000
Unamortized Discounts	(14,489)		(3,693)	(10,796)
Unamortized Premiums	256,346		24,269	232,077
Bonds/Notes Payable, Net	<u>\$ 12,566,857</u>	<u>\$ -0-</u>	<u>\$ 1,175,576</u>	<u>\$ 11,391,281</u>
		Amount Due Within One Year		\$ 780,000
		Amount Due After One Year		<u>10,611,281</u>
		Bonds/Notes Payable, Net		<u>\$ 11,391,281</u>

On May 9, 2015, the voters of the District approved the authorization of an additional \$9,200,000 in original tax bonds. The District has issued \$28,275,500 of its available bond authorization of \$33,985,500.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 3. BONDS AND REVENUE NOTES PAYABLE (Continued)

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

Fiscal Year	Principal	Interest	Total
2018	\$ 780,000	\$ 446,212	\$ 1,226,212
2019	790,000	425,506	1,215,506
2020	795,000	403,816	1,198,816
2021	805,000	381,828	1,186,828
2022	255,000	365,870	620,870
2023-2027	3,065,000	1,473,285	4,538,285
2028-2032	3,435,000	741,584	4,176,584
2033-2034	1,245,000	68,680	1,313,680
	<u>\$ 11,170,000</u>	<u>\$ 4,306,781</u>	<u>\$ 15,476,781</u>

The Series 2016 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 Series 2010 Revenue Notes and Series 2012 Refunding Revenue Notes constitute special obligations of the District that shall be payable solely from, and shall be equally and ratably secured by a first lien on the net revenues, as collected and received by the District, from the operation and ownership of the system, which net revenues shall, in the manner herein provided, be set aside for and pledged to the payment of the notes in the Debt Service Fund and Reserve Fund.

During the current fiscal year, the District levied an ad valorem debt service tax rate of \$0.068300 per \$100 of assessed valuation, which resulted in a tax levy of \$712,695 on the adjusted taxable valuation of \$1,042,518,634 for the 2016 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for maintenance tax levy.

The District's tax calendar is as follows:

Levy Date - October 1, or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Upon receipt but not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

The resolutions authorizing the sale of the 2012 Refunding Revenue Notes and the 2010 Revenue Notes require the District to pay into a reserve fund approximately equal monthly installment amounts sufficient to accumulate within 60 months to the reserve fund requirement. The reserve fund requirement is defined as the average annual principal and interest requirements of the outstanding notes. The reserve fund requirement may be redetermined each year by the District. The reserve fund requirement at year end is \$729,211. The District transferred funds in compliance with the resolutions.

The 2016 Bond Resolutions state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided through the life of the bonds.

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$2,440,182 and the bank balance was \$2,490,381. The District was not exposed to custodial credit risk as of the fiscal year-end.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2017, as listed below:

	Cash
GENERAL FUND	\$ 1,782,307
DEBT SERVICE FUND	657,875
TOTAL DEPOSITS	\$ 2,440,182

Investments

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

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

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2017, the District had the following investments and maturities:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities of Less Than 1 Year</u>
<u>GENERAL FUND</u>		
TexPool	\$4,585,591	\$4,585,591
<u>DEBT SERVICE FUND</u>		
TexPool	1,806,554	1,806,554
<u>CAPITAL PROJECTS FUND</u>		
TexPool	<u>3,437,544</u>	<u>3,437,544</u>
TOTAL INVESTMENTS	<u>\$9,829,689</u>	<u>\$9,829,689</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2017, the District's investment in TexPool was rated AAAM by Standard and Poor's. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

All cash and investments of the Debt Service Fund are restricted or assigned for the payment of debt service and the cost of assessing and collecting taxes. See Notes 2 and 4. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017:

	October 1, 2016	Increases	Decreases	September 30, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 115,316	\$	\$	\$ 115,316
Construction in Progress	<u>3,915</u>	<u>904,623</u>	<u>809,376</u>	<u>99,162</u>
Total Capital Assets Not Being Depreciated	<u>\$ 119,231</u>	<u>\$ 904,623</u>	<u>\$ 809,376</u>	<u>\$ 214,478</u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 780,935	\$ 70,314	\$ 190,566	\$ 660,683
Vehicles	1,850,129	140,083	193,634	1,796,578
Equipment	1,041,031			1,041,031
Water System	20,194,166	283,015		20,477,181
Wastewater System	<u>35,246,012</u>	<u>315,964</u>	<u>33,648</u>	<u>35,528,328</u>
Total Capital Assets Subject to Depreciation	<u>\$ 59,112,273</u>	<u>\$ 809,376</u>	<u>\$ 417,848</u>	<u>\$ 59,503,801</u>
Accumulated Depreciation				
Buildings and Improvements	\$ 503,118	\$ 19,078	\$ 146,462	\$ 375,734
Vehicles	1,314,613	93,864	105,661	1,302,816
Equipment	860,358	29,615		889,973
Water System	10,826,677	419,617		11,246,294
Wastewater System	<u>14,457,472</u>	<u>779,030</u>		<u>15,236,502</u>
Total Accumulated Depreciation	<u>\$ 27,962,238</u>	<u>\$ 1,341,204</u>	<u>\$ 252,123</u>	<u>\$ 29,051,319</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 31,150,035</u>	<u>\$ (531,828)</u>	<u>\$ 165,725</u>	<u>\$ 30,452,482</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 31,269,266</u>	<u>\$ 372,795</u>	<u>\$ 975,101</u>	<u>\$ 30,666,960</u>

NOTE 7. MAINTENANCE TAX

On November 2, 1993, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.05 per \$100 of assessed valuation of taxable property within the District. On May 9, 2015, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.10 per \$100 of assessed valuation, which resulted in a tax levy of \$1,043,477 on the adjusted taxable valuation of \$1,042,518,634 for the 2016 tax year.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 8. SELF-INSURED PLANS

The District’s self-insurance program, which commenced March 1991, is used to account for dental, medical and vision insurance coverage for employees. Under the program, the District is obligated for claim payments. The District commits a discretionary amount each month which is reported as a commitment of fund balance. Employees contribute for dependent coverage. The District is liable only for the amount of the deductible of each plan. The commitment of fund balance as of September 30, 2017 is as follows:

<u>Self-Insured Plans</u>	
Committed as of October 1, 2016	\$ 142,400
Contributions	19,318
Claims	<u>(27,733)</u>
Committed as of September 30, 2017	<u>\$ 133,985</u>

NOTE 9. PENSION PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 700 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. PENSION PLAN (Continued)

Plan Description (Continued)

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. At the valuation date of December 31, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled but not yet receiving benefits	31
Active employees	37

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer has elected to pay a 1.5% higher rate to reduce the Unfunded Accrued Actuarial Liability (UAAL). For the months of the accounting year 2016, the required employer contribution rate was 11.09%; however, the employer actually contributed using the actuarially determined rate of 12.59%, and 13.25% for the months of the accounting year in 2017. The required employer contribution rate for the Plan Year 2017 was 11.75%

The contribution rate payable by the employee members for calendar year 2016 and 2017 is 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. PENSION PLAN (Continued)

Annual Pension Cost

For the employer's accounting year ending September 30, 2017, the annual pension cost for the TCDRS plan for its employees was \$289,719, and the actual contributions were \$439,702.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB parameters based on the actuarial valuations as of December 31, 2016, the basis for determining the contribution rates for calendar year 2017. The December 31, 2016 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

	<u>12/31/14</u>	<u>12/31/15</u>	<u>12/31/16</u>
Actuarial valuation date	<u>Entry age</u>	<u>Entry age</u>	<u>Entry age</u>
Actuarial cost method	Level	Level	Level
	percentage,	percentage,	percentage,
Amortization method	closed	closed	closed
Amortization period	<u>9.5</u>	<u>11.7</u>	<u>8.8</u>
Asset valuation method	<u>5 Year</u>	<u>5 Year</u>	<u>5 Year</u>
	Smoothed	Smoothed	Smoothed
	<u>Value</u>	<u>Value</u>	<u>Value</u>
Actuarial Assumptions:			
Investment return ¹	8.00%	8.00%	8.00%
Projected salary increases ¹	4.90%	4.90%	4.90%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	0.00%	0.00%	0.00%

¹ Includes inflation at the stated rate.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. PENSION PLAN (Continued)

Net Pension Liability

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions above, except as noted. The discount rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68. The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. The actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

Mortality rates were based on the following:

Depositing members - The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

Service retirees, beneficiaries and non-depositing members - The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.

Disabled retirees - RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MO-2014 Ultimate scale after that with no age adjustment for males and a two-year set-forward for females.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The numbers shown are based on January 2017 information for a 7-10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon. The most recent analysis was performed in 2013.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. PENSION PLAN (Continued)

Net Pension Liability (Continued)

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities-Developed Markets	10.00%	4.70%
International Equities-Emerging Markets	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLPs)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. PENSION PLAN (Continued)

Net Pension Liability (Continued)

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net position (b)	Net Position Liability (a)-(b)
Balances of December 31, 2015	\$ 12,883,579	\$ 11,656,072	\$ 1,227,507
Changes for the year:			
Service cost	285,375		285,375
Interest on total pension liability	1,041,383		1,041,383
Effect of plan changes			
Effect of economic/demographic (gains) or losses	30,556		30,556
Effect of assumption changes or inputs			
Refund of contributions	(23,536)	(23,536)	
Benefit payments	(316,915)	(316,915)	
Administrative expenses		(9,383)	9,383
Member contributions		141,855	(141,855)
Net investment income		863,525	(863,525)
Employer contributions		455,136	(455,136)
Other		57,555	(57,555)
Balances of December 31, 2016	<u>\$ 13,900,442</u>	<u>\$ 12,824,309</u>	<u>\$ 1,076,133</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. PENSION PLAN (Continued)

Net Pension Liability (Continued)

Sensitivity Analysis - The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$ 15,838,098	\$ 13,900,442	\$ 12,284,302
Fiduciary net position	<u>12,824,309</u>	<u>12,824,309</u>	<u>12,824,309</u>
Net pension liability	<u>\$ 3,013,790</u>	<u>\$ 1,076,133</u>	<u>\$ (540,006)</u>

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 79,952	\$ 67,167
Changes of assumptions	-0-	51,000
Net difference between projected and actual earnings	-0-	800,282

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 289,095
2018	289,095
2019	235,653
2020	24,655
2021	-0-
Thereafter	-0-

The District made plan contributions subsequent to the measurement date and prior to the fiscal year-end of \$338,311, which are recorded as deferred outflows of resources.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. CONTRACTS FOR WATER AND SEWER SERVICES

LEAGUE CITY CONTRACT

On January 1, 1987, the District executed a Revised Water Supply Agreement with the City of League City (the "City"), replacing a previous Water Supply Agreement dated March 10, 1983. The agreement provides for the City to take or pay for, whether taken or not, 150,000 gallons of water per day. Beginning January 1, 1988, the gallons of water billed on a daily basis will be adjusted to equal the average daily usage of water by the City through the interconnect over the preceding year.

Each party will be responsible for maintenance of the interconnect facilities on their side of the interconnect valve. The City will be billed for the greater of the take or pay amount or the actual amount of water taken for the month. The amount billed monthly will be based upon the average monthly cost of maintenance and operation of the Ecret Pump Station and transmission lines. The average cost will be that average per the prior 12 months experience.

On October 19, 2009, the District executed an amendment to the January 1, 1987, Revised Water Supply Agreement with the City. The amendment was effective December 8, 2009 and permits the District to sell and deliver to the City, upon their request, 150,000 gallons per day of water with a maximum of 1,000,000 gallons per day provided the District has excess water available.

Excess available water is defined as any water capacity remaining to the District after the District's per day consumption deducted from 2.937 million gallons per day, the District's current take or pay amount. The District's water capacity use shall be primary, and the City shall only be entitled to any remaining excess capacity if available. In the event that the District's water pressure falls below 40 psi the District has the right to curtail the sale of water and delivery to the City. The City shall pay the agreed upon sum of \$1.95 per 1,000 gallons water taken. All other terms, conditions and provisions in the January 1, 1987 Revised Water Supply Agreement remains in place and continued to have full force and effect until either the District or the City gives a 30-day written notice for termination.

TEXAS CITY CONTRACT

On September 17, 1990, the District executed an Out-Of-District Water and Sewer Agreement with the City of Texas City ("Texas City"). The agreement provides for the District to provide water and sewer service to multiple tracts of land in Texas City since the land is closer to utilities available from the District. Per the District's Rate Order, out-of-district customers pay 150% of water and sewer fees of in-district customers. Under this agreement, Texas City residents purchasing water and sewer from the District will pay 100% of the in-district water and sewer fees and Texas City will pay the additional 50%. This agreement will remain in force and effect for a term of 30 years. For the year ended September 30, 2017, Texas City paid the District \$28,651 for these services.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 11. SURFACE WATER SUPPLY CONTRACT

On August 7, 1981, the District executed The Mainland Water Project Customer Contract with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"). The purpose of that agreement was to convert the District from ground water to surface water. This surface water supply is received by the District near its east boundary line and then distributed throughout the District via the District's own distribution system.

The Authority represents that a supply of surface water is available to the District through the Thomas S. Mackey Surface Water Plant and the Mainland Water Transmission Line System. The District acknowledged that because the water to be supplied under the terms of this Agreement will be supplied by means of the Authority's Industrial Division to the Mainland System, the Authority must comply with certain provisions of the Industrial Division Customer Contracts and certain long-term Water Supply Contracts with the Brazos River Authority.

Effective July 1, 1986, the District increased its reserved capacity from 2,500,000 to 3,500,000 gallons per day in the original Mainland Project. This action was taken by the District in order for it to sell up to 1,000,000 gallons per day of surface water to the City of League City (See Note 10). The Mainland Project at that time included a surface water treatment plant with a capacity of 18,000,000 gallons per day which has subsequently been expanded to 50,000,000 gallons per day. At that time, the Authority also completed a South Project to furnish water to Galveston Island and the Highway 6 communities of Tiki Island, Bayou Vista, Hitchcock, and Galveston County WCID No. 8 in Santa Fe, Texas. The Highway 6 transmission line further extends northward to furnish water to the City of League City, Texas.

On September 19, 2000, the District agreed to accept an additional 665,000 gallons per day of the Authority's remaining capacity in their surface water plant. Therefore, the total reserved capacity the District now has in the GCWA water treatment plant is 4,165,000 gallons per day.

Charges to the District include its allocated share of Mainland System Raw Water Charges to provide for the Industrial Division Payments and Mainland System Operation Charges relating to the operation, maintenance and repair of the Mainland System, expanded to include the cost of operating the Alta Loma Wells which was included in the Fifth Amendment to the contract dated June 18, 1998. The term of agreement is through December 21, 2022, and thereafter until payment in full of the principal, premium, if any, and interest on all Mainland Project Bond and all related fees to be paid under any bond resolution or indenture securing the same. The cost of water to the District during the current fiscal year was \$1,183,072.

On August 15, 2002, and as amended May 15, 2014, the District signed a separate contract with the Authority for the purchase of additional water through an interruptible water supply contract.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 11. SURFACE WATER SUPPLY CONTRACT (Continued)

This contract allows the District to connect and draw water from the Authority's South project line on the far west of the District, as needed and as available. There is no take or pay provision or debt service charges related to this contract. The District entered into this contract to insure an adequate water supply was available to the rapidly developing growth that is occurring on the west side of the District.

NOTE 12. INFLOW AND INFILTRATION RESERVE

The District has committed maintenance tax proceeds to fund the cost of inflow and infiltration reduction. On October 1, 2016, the reserve was \$989,131. In the current fiscal year, the reserved fund generated \$1,076,633 in total revenue including maintenance tax revenues of \$1,030,345. Expenditures of the fund for correcting inflow and infiltration problems were \$573,544, and there was a transfer of \$345,000 to the General Fund, resulting in a committed fund balance at the fiscal year-end of \$1,147,220.

NOTE 13. COMPENSATED ABSENCES

It is the policy of the District that employees in full-time positions will be eligible for sick leave, compensatory time, vacations, holidays, funerals, administrative leave, and jury duty with full straight-time pay. Full-time employees eligible for sick leave will be allowed to accumulate 6.67 hours for each month of service or 10 days per year not to exceed 960 hours (120 days) as long as the District employs them. However, any employee who has 960 hours (120 days) accumulated on January 1 of each year will be allowed to utilize up to 120 hours (15 days) of sick leave during that year without affecting the 960 hours (120 days) previously accumulated, but the maximum amount of sick leave hours that will be paid to employees in good standing at termination is limited to 160 hours (20 days). The District also allows accumulation of compensatory time not to exceed 40 hours (5 days). Full-time employees are allowed to accumulate vacation time upon approval of the General Manager. It is also the District's policy to prohibit the accumulation of hours for holidays, funerals, administrative leave and jury duty. For the year ended September 30, 2017, the District has accrued \$220,382 in compensated absences.

Compensated Absences	
Accrued Compensated absences as of October 1, 2016	\$221,943
Additions	163,769
Payments	<u>(165,330)</u>
Accrued Compensated absences as of September 30, 2017	<u>\$220,382</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 14. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, mobile equipment, law enforcement, crime coverage, errors and omissions and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML’s management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 15. OPERATING LEASE

In 2007 the District entered into a 22-year noncancelable operating lease with the City of Dickinson for office building space. Future minimum operating lease commitments are as follows:

Year Ending September 30	Amount
2018	\$ 86,964
2019	86,964
2020	86,964
2021	86,965
2022	86,965
2023-2027	434,821
2028	86,965
Total	\$ 956,608

Scheduled lease payments (“Base Rent”) are to be made annually through 2027. Upon final payment in 2027, the District agrees to pay as Base Rent, 29.18% of the insurance premiums and annual cost of and repairs to the Building until September 30, 2029, the end of the lease term. The Base Rent for the final two years of the lease is not included in the schedule above. The lease is automatically renewable for 15 years (for up to three terms or a total of 45 years) beginning at the conclusion of the original term. Rental expense for the fiscal year ended September 30, 2017 was \$86,964.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 15. OPERATING LEASE (Continued)

At the time the District entered into the lease, it paid a \$150,000 advance payment. The pre-paid lease expense is to be amortized over the life of the lease as follows:

City of Dickinson City Hall/WCID NO. 1 Prepaid Lease	\$ 150,000
Amortization expense recognized as of September 30, 2017	67,500
Amounts to be recognized in the next five years and beyond:	
Rent Expense, 2018	\$ 7,500
Rent Expense, 2019	7,500
Rent Expense, 2020	7,500
Rent Expense, 2021	7,500
Rent Expense, 2022	7,500
Rent Expense to be recognized, thru 2028	<u>45,000</u>
Total Expense remaining to be recognized	<u>\$ 82,500</u>

NOTE 16. INTERFUND TRANSFERS

During the current fiscal year, the General Fund transferred \$919,196 to the Debt Service Fund to provide for a portion of the District's debt service payments.

NOTE 17. GRANT PROGRAM

Galveston County was awarded 2014 Community Development Block Grant funds under CFDA 14.218 and contract 7214180 in the amount of \$350,000. These funds are passed through the Texas Department of Agriculture. This grant requires a 20% match by the County. To date, the County has expended \$70,158 in engineering funds to meet the \$70,000 matching requirement and the District reimbursed the County in the prior year. The County completed the project under the budgeted amount, therefore the 20% match amount was reduced. The County refunded \$33,648 in the current year.

NOTE 18. FIRE PROTECTION SERVICES AGREEMENT

The District currently solicits monthly donations on behalf of the Dickinson Volunteer Fire Department (VFD). The VFD is volunteer and provides fire protection services to the citizens of the District and the City of Dickinson.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 18. FIRE PROTECTION SERVICES AGREEMENT (Continued)

On July 18, 2016, the District executed a Fire Protection Services Agreement (Agreement) with the VFD. The District requested approval from the Texas Commission on Environmental Quality (the Commission) of a fire plan based upon the Agreement and, following Commission approval, submitted the Fire Plan and Agreement to voters for approval. The measure passed in an election November 7, 2017, subsequent to fiscal year-end.

The VFD will continue to provide fire protection services as defined in the agreement to citizens within the VFD service area. The District will bill its customers a monthly fee for fire protection equal to the amount to be paid to the VFD. The District will pay the VFD a monthly charge of \$5.00 for each residential connection and \$10.00 for each commercial or industrial connection, provided each customer has paid the District its current monthly payment. The agreement will be in effect for 15 years with automatic one-year renewals.

NOTE 19. HURRICANE HARVEY

The Houston area, including Galveston County, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 26, 2017, and historic levels of rainfall during the succeeding days. Hurricane Harvey could have an adverse impact on the Houston region's economy, including business activity and development in the region. A significant number of structures within the District flooded during Hurricane Harvey.

The Tax Base Value for 2018 and future years will likely experience a negative impact. The District has recorded \$125,573 in capital asset losses related to Hurricane Harvey. The total loss is estimated between \$280,000 and \$415,000, with anticipated insurance coverage of approximately \$230,000.

The District is located on the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues and the necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected and, therefore, the District's ability to pay its obligations, including the Bonds, could be adversely impacted.

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 1,040,231	\$ 1,040,231	\$ 1,030,345	\$ (9,886)
Water Service	3,690,323	3,690,323	3,710,858	20,535
Wastewater Service	3,361,072	3,361,072	3,399,957	38,885
League City Interconnect Fees			464	464
Texas City Maintenance Fees	30,099	30,099	28,651	(1,448)
Out of District Surcharge	34,210	34,210	32,720	(1,490)
Grant Revenues	944,800	944,800	33,648	(911,152)
Penalty and Interest	104,000	104,000	121,175	17,175
Tap Connection and Inspection Fees	150,000	150,000	171,753	21,753
Investment Revenues	15,024	15,024	32,474	17,450
Miscellaneous Revenues	153,992	153,992	129,783	(24,209)
TOTAL REVENUES	<u>\$ 9,523,751</u>	<u>\$ 9,523,751</u>	<u>\$ 8,691,828</u>	<u>\$ (831,923)</u>
EXPENDITURES				
Services Operations:				
Payroll	\$ 3,236,684	\$ 3,236,684	\$ 3,124,947	\$ 111,737
Purchased Bulk Water	1,190,493	1,190,493	1,183,072	7,421
Professional Fees	99,000	99,000	58,239	40,761
Contracted Services	230,210	230,210	201,425	28,785
Repairs and Maintenance	944,484	944,484	861,661	82,823
Utilities	392,300	392,300	381,445	10,855
Administrative Expenses	807,537	807,537	707,295	100,242
Capital Outlay	1,765,028	1,779,928	802,872	977,056
TOTAL EXPENDITURES	<u>\$ 8,665,736</u>	<u>\$ 8,680,636</u>	<u>\$ 7,320,956</u>	<u>\$ 1,359,680</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	<u>\$ 858,015</u>	<u>\$ 843,115</u>	<u>\$ 1,370,872</u>	<u>\$ 527,757</u>
OTHER FINANCING SOURCES(USES)				
Transfer (Out)	<u>\$ (919,196)</u>	<u>\$ (919,196)</u>	<u>\$ (919,196)</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (61,181)</u>	<u>\$ (76,081)</u>	<u>\$ 451,676</u>	<u>\$ 527,757</u>
FUND BALANCE - OCTOBER 1, 2016	<u>5,110,983</u>	<u>5,110,983</u>	<u>5,110,983</u>	
FUND BALANCE - SEPTEMBER 30, 2017	<u><u>\$ 5,049,802</u></u>	<u><u>\$ 5,034,902</u></u>	<u><u>\$ 5,562,659</u></u>	<u><u>\$ 527,757</u></u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2017**

	Year Ended - December 31		
	2014	2015	2016
Total Pension Liability			
Service cost	\$ 260,251	\$ 257,071	\$ 285,375
Interest on total pension liability	896,243	975,992	1,041,383
Effect of plan changes	-0-	(41,727)	
Effect of assumption changes or inputs	-0-	85,000	
Effect of economic/demographic (gains) or losses	106,808	(133,252)	30,556
Refund of contributions/benefit payments	<u>(280,604)</u>	<u>(316,915)</u>	<u>(340,451)</u>
Net change in total pension liability	\$ 982,698	\$ 826,169	\$ 1,016,863
Total pension liability, beginning	<u>11,074,712</u>	<u>12,057,410</u>	<u>12,883,579</u>
Total pension liability, ending (a)	<u>\$ 12,057,410</u>	<u>\$ 12,883,579</u>	<u>\$ 13,900,442</u>
Fiduciary Net Position			
Employer contributions	\$ 256,264	\$ 246,203	\$ 455,136
Member contributions	134,876	137,433	141,855
Investment income net of investment expenses	733,079	(142,323)	863,525
Benefit payments/refunds of contributions	(280,604)	(316,915)	(340,451)
Administrative expenses	(8,707)	(8,420)	(9,383)
Other	<u>26,296</u>	<u>18,510</u>	<u>57,555</u>
Net change in fiduciary net position	\$ 861,204	\$ (65,512)	\$ 1,168,237
Fiduciary net position, beginning	<u>10,860,380</u>	<u>11,721,584</u>	<u>11,656,072</u>
Fiduciary net position, ending (b)	<u>\$ 11,721,584</u>	<u>\$ 11,656,072</u>	<u>\$ 12,824,309</u>
Net pension liability, ending = (a) – (b)	<u>\$ 335,826</u>	<u>\$ 1,227,507</u>	<u>\$ 1,076,133</u>
Fiduciary net position as a % of total pension liability	97.21%	90.47%	92.26%
Pensionable covered payroll	\$ 1,926,799	\$ 1,963,335	\$ 2,026,501
Net pension liability as a % of covered payroll	17.43%	62.52%	53.10%

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF DISTRICT CONTRIBUTIONS
SEPTEMBER 30, 2017**

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	Actual Contribution as a % of Covered Payroll
2007	\$ 153,477	\$ 168,948	\$ (15,741)	\$1,547,143	10.9%
2008	\$ 156,676	\$ 182,360	\$ (25,685)	\$1,712,302	10.6%
2009	\$ 147,774	\$ 171,920	\$ (24,146)	\$1,609,740	10.7%
2010	\$ 182,613	\$ 258,070	\$ (75,457)	\$1,697,143	15.2%
2011	\$ 201,558	\$ 279,117	\$ (77,559)	\$1,837,352	15.2%
2012	\$ 208,562	\$ 311,721	\$(103,159)	\$1,877,249	16.6%
2013	\$ 219,446	\$ 297,748	\$ (78,302)	\$1,886,896	15.8%
2014	\$ 227,362	\$ 256,264	\$ (28,902)	\$1,926,799	13.3%
2015	\$ 216,752	\$ 246,203	\$ (29,451)	\$1,963,335	12.5%
2016	\$ 224,739	\$ 455,136	\$(230,397)	\$2,026,501	22.5%

⁽¹⁾Payroll is calculated based on contributions as reported to TCDRS.

All actuarial methods and assumptions used for this analysis were the same as those used in the December 31, 2016 funding valuation. Following are the key assumptions and methods used in this analysis.

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	Same as funding valuation
Salary Increases	Same as funding valuation
Investment Rate of Return	8.00%
Cost-of-Living Adjustments	Cost-of Living Adjustments for the District are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Same as funding valuation
Mortality	Same as funding valuation, See Note 9

See accompanying independent auditor's report.

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

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

SEPTEMBER 30, 2017

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> X </u>	Retail Water	<u> X </u>	Wholesale Water	<u> </u>	Drainage
<u> X </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective September 8, 2015.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 9.25	-0-	N	\$ 1.75	0,001 – 2,000 gallons
				\$ 4.75	2,001 – 6,000 gallons
				\$ 5.00	6,001 – 12,000 gallons
				\$ 5.25	12,001 gallons and up
WASTEWATER:	\$ 14.80	-0-	N	\$ 2.50	0,001 and up

SURCHARGE:

Commission	0.5% of actual
Regulatory Assessments	water and sewer bill

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$51.75 Wastewater: \$39.80 Surcharge: \$0.46 Total: \$92.01

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	7,981	7,310	x 1.0	7,310
1"	326	305	x 2.5	763
1½"	31	26	x 5.0	130
2"	149	142	x 8.0	1,136
3"	27	23	x 15.0	345
4"	17	17	x 25.0	425
6"	7	7	x 50.0	350
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>8,538</u>	<u>7,830</u>		<u>10,459</u>
Total Wastewater Connections	<u>8,314</u>	<u>7,643</u>	x 1.0	<u>7,643</u>

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

Gallons pumped into system:	-0-	
Gallons billed to customers:	668,170,000	Water Accountability Ratio: 84.82% (Gallons billed and sold/Gallons pumped and purchased)
Gallons purchased:	794,178,000	From: <u>Gulf Coast Water Authority</u>
Gallons sold:	5,471,000	To: <u>City of Texas City, Texas</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Galveston County, Texas

Is the District located within a city?

Entirely _____ Partly X Not at all _____

Cities in which District is located:

Dickinson, Texas, League City, Texas and Texas City, Texas

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely _____ Partly X Not at all _____

ETJ's in which District is located:

Texas City, Texas, Dickinson, Texas and League City, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

PERSONNEL EXPENDITURES (Including Benefits)	<u>\$ 3,124,947</u>
PROFESSIONAL FEES:	
Auditing	\$ 32,000
Engineering	8,808
Legal	<u>17,431</u>
TOTAL PROFESSIONAL FEES	<u>\$ 58,239</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 1,183,072</u>
CONTRACTED SERVICES:	
Management and Consulting	\$ 23,737
Janitorial	9,403
Garbage	2,299
Security	7,648
Sludge Hauling	88,163
Billing Statement Services	<u>70,175</u>
TOTAL CONTRACTED SERVICES	<u>\$ 201,425</u>
UTILITIES:	
Electricity, Natural Gas, Telephone	<u>\$ 381,445</u>
REPAIRS AND MAINTENANCE	<u>\$ 861,661</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

ADMINISTRATIVE AND OTHER EXPENDITURES:	
Board Expenditures	\$ 881
Bad Debt Expense	20,044
Credit Card Charges	71,536
Director Fees	15,900
Dues	9,274
Education and Training	53,368
Fuel	36,400
Information Technology	11,840
Insurance	152,576
Laboratory Fees	36,695
Equipment Lease Payments	19,098
Legal Notices	2,306
Office Supplies and Postage	20,852
Regulatory Assessment	50,966
Safety Materials and Supplies	21,887
SIMF/SIVF/SIDF	27,733
Subsidence District Fees	22,492
Uniform/Floor Mat Rental	19,174
Volunteer Fire Department	23,616
Other	<u>90,657</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 707,295</u>
CAPITAL OUTLAY	<u>\$ 802,872</u>
TOTAL EXPENDITURES	<u><u>\$ 7,320,956</u></u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
INVESTMENTS
SEPTEMBER 30, 2017**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 4,585,591	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 1,806,554	\$ - 0 -
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0004	Varies	Daily	\$ 3,437,544	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 9,829,689</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
OCTOBER 1, 2016	\$	47,008	\$	148,290
Adjustments to Beginning				
Balance		<u>(1,924)</u>	\$	<u>(6,606)</u>
		\$	45,084	\$
			<u>141,684</u>	
Original 2016 Tax Levy	\$	1,005,487	\$	686,748
Adjustment to 2016 Tax Levy		<u>37,990</u>	<u>1,043,477</u>	<u>25,947</u>
			<u>712,695</u>	
TOTAL TO BE				
ACCOUNTED FOR		\$	1,088,561	\$
				854,379
TAX COLLECTIONS:				
Prior Years	\$	10,223	\$	23,259
Current Year		<u>1,020,122</u>	<u>1,030,345</u>	<u>696,743</u>
				<u>720,002</u>
TAXES RECEIVABLE -				
SEPTEMBER 30, 2017		<u>\$</u>	<u>58,216</u>	<u>\$</u>
				<u>134,377</u>
TAXES RECEIVABLE BY				
YEAR:				
2016		\$	23,355	\$
2015			8,740	16,293
2014			3,777	11,458
2013			2,593	8,058
2012			2,265	7,111
2011 and prior			<u>17,486</u>	<u>75,505</u>
TOTAL		\$	58,216	\$
Allowance for Uncollectible Accounts			<u>(6,419)</u>	<u>(37,328)</u>
		<u>\$</u>	<u>51,797</u>	<u>\$</u>
				<u>97,049</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	2016	2015	2014	2013
PROPERTY VALUATIONS:				
Land	\$ 223,821,565	\$ 220,284,855	\$ 213,778,815	\$ 212,804,955
Improvements	868,912,322	834,362,743	727,483,589	710,399,416
Personal Property	109,873,693	97,707,460	93,862,780	83,737,877
Exemptions	<u>(160,088,946)</u>	<u>(165,542,514)</u>	<u>(137,574,855)</u>	<u>(129,519,966)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 1,042,518,634</u>	<u>\$ 986,812,544</u>	<u>\$ 897,550,329</u>	<u>\$ 877,422,282</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.068300	\$ 0.130500	\$ 0.151673	\$ 0.155402
Maintenance	<u>0.100000</u>	<u>0.070000</u>	<u>0.050000</u>	<u>0.050000</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.168300</u>	<u>\$ 0.200500</u>	<u>\$ 0.201673</u>	<u>\$ 0.205402</u>
ADJUSTED TAX LEVY*	<u>\$ 1,756,172</u>	<u>\$ 1,980,955</u>	<u>\$ 1,811,613</u>	<u>\$ 1,802,319</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.76 %</u>	<u>98.74 %</u>	<u>99.16 %</u>	<u>99.41 %</u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.05 per \$100 of assessed valuation approved by voters on November 2, 1993. On May 9, 2015, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District.

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2017**

S E R I E S - 2 0 1 0

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 50,000	\$ 313,500	\$ 363,500
2019	50,000	311,693	361,693
2020	50,000	309,723	359,723
2021	50,000	307,603	357,603
2022	50,000	305,395	355,395
2023	370,000	295,689	665,689
2024	385,000	278,076	663,076
2025	405,000	259,146	664,146
2026	430,000	238,515	668,515
2027	450,000	216,334	666,334
2028	475,000	192,674	667,674
2029	495,000	167,621	662,621
2030	520,000	141,152	661,152
2031	550,000	112,981	662,981
2032	575,000	83,081	658,081
2033	605,000	51,272	656,272
2034	640,000	17,408	657,408
	<u>\$ 6,150,000</u>	<u>\$ 3,601,863</u>	<u>\$ 9,751,863</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2017**

SERIES - 2012 REFUNDING

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 520,000	\$ 38,737	\$ 558,737
2019	530,000	28,238	558,238
2020	535,000	16,918	551,918
2021	545,000	5,450	550,450
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
	<u>\$ 2,130,000</u>	<u>\$ 89,343</u>	<u>\$ 2,219,343</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS,
SEPTEMBER 30, 2017**

S E R I E S - 2 0 1 6

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1 September 1	Total
2018	\$ 210,000	\$ 93,975	\$ 303,975
2019	210,000	85,575	295,575
2020	210,000	77,175	287,175
2021	210,000	68,775	278,775
2022	205,000	60,475	265,475
2023	205,000	52,275	257,275
2024	205,000	44,075	249,075
2025	205,000	35,875	240,875
2026	205,000	29,212	234,212
2027	205,000	24,088	229,088
2028	205,000	18,962	223,962
2029	205,000	13,838	218,838
2030	205,000	8,456	213,456
2031	205,000	2,819	207,819
2032			
2033			
2034			
	<u>\$ 2,890,000</u>	<u>\$ 615,575</u>	<u>\$ 3,505,575</u>

See accompanying independent auditor's report

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2017**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 780,000	\$ 446,212	\$ 1,226,212
2019	790,000	425,506	1,215,506
2020	795,000	403,816	1,198,816
2021	805,000	381,828	1,186,828
2022	255,000	365,870	620,870
2023	575,000	347,964	922,964
2024	590,000	322,151	912,151
2025	610,000	295,021	905,021
2026	635,000	267,727	902,727
2027	655,000	240,422	895,422
2028	680,000	211,636	891,636
2029	700,000	181,459	881,459
2030	725,000	149,608	874,608
2031	755,000	115,800	870,800
2032	575,000	83,081	658,081
2033	605,000	51,272	656,272
2034	640,000	17,408	657,408
	<u>\$ 11,170,000</u>	<u>\$ 4,306,781</u>	<u>\$ 15,476,781</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2016
Galveston County Water Control and Improvement District No. 1 Revenue Notes - Series 2010 (2)	\$ 6,500,000	\$ 6,200,000
Galveston County Water Control and Improvement District No. 1 Revenue Refunding Notes - Series 2012 (2)	4,645,000	2,635,000
Galveston County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2016 (1)	<u>3,490,000</u>	<u>3,490,000</u>
TOTAL	<u>\$ 14,635,000</u>	<u>\$ 12,325,000</u>

Bond Authority:	Original Tax Bonds*
Amount Authorized by Voters	\$ 33,985,500
Amount Issued	<u>28,275,500</u>
Remaining to be Issued	<u>\$ 5,710,000</u>

Debt Service Fund cash and investment balances as of September 30, 2017: \$ 2,464,429

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 910,399

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

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

(1) The District is reported to have issued approximately fourteen (14) installments of tax bonds in the amount of \$24,785,500 prior to 2016. The Series 2003 Unlimited Tax Refunding Bonds refunded \$3,790,000 of Series 1993 Unlimited Tax Refunding Bonds and \$8,225,000 of Series 1994 Unlimited Tax Bonds. All tax bonds prior to 2016 are paid in full.

(2) The District has issued the following revenue notes: \$6,395,000 Series 2002-A, \$1,040,000 Series 2002-B, and \$6,500,000 Series 2010. The Series 2012 Revenue Refunding Notes refinanced the Series 2002 Notes.

See accompanying independent auditor's report

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding September 30, 2017	Paying Agent
	Principal	Interest		
\$	\$ 50,000	\$ 315,206	\$ 6,150,000	Wells Fargo Bank N.A. Houston, TX
	505,000	48,988	2,130,000	Wells Fargo Bank N.A. Dallas, TX
	<u>600,000</u>	<u>110,175</u>	<u>2,890,000</u>	BOKF, N.A. Austin, TX
<u>\$ - 0 -</u>	<u>\$ 1,155,000</u>	<u>\$ 474,369</u>	<u>\$ 11,170,000</u>	

Reconciliation of Original Tax Bonds Issued:

<u>Series</u>	<u>Amount</u>
2016	\$ 3,490,000
1994	9,000,000
1986	8,000,000
1982	3,205,000
1972	1,500,000
1967	398,500
1962	800,000
1961	700,000
1959	88,000
1958	110,000
1956	400,000
1953	59,000
1950	25,000
1950	500,000
	<u>\$ 28,275,500</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,030,345	\$ 684,204	\$ 449,628
Water Service	3,710,858	3,644,293	3,509,355
Wastewater Service	3,399,957	3,353,677	3,268,441
League City Interconnect Fees	464		634
Texas City Maintenance Fees	28,651	29,399	28,500
Out of District Surcharge	32,720	33,931	30,486
Grant Revenues	33,648		1,915,473
Penalty and Interest	121,175	127,039	97,215
Tap Connection and Inspection Fees	171,753	189,528	189,093
Investment Revenues	32,474	13,691	2,688
Miscellaneous Revenues	129,783	144,785	211,387
TOTAL REVENUES	\$ 8,691,828	\$ 8,220,547	\$ 9,702,900
EXPENDITURES			
Payroll	\$ 3,124,947	\$ 2,932,987	\$ 2,765,512
Purchased Bulk Water	1,183,072	1,076,349	814,691
Professional Fees	58,239	60,597	85,144
Contracted Services	201,425	205,648	219,067
Repairs and Maintenance	861,661	918,968	793,522
Utilities	381,445	392,333	366,581
Administrative Expenses	707,295	664,653	689,182
Capital Outlay	802,872	557,486	2,617,592
Debt Service:			
Capital Lease Principal		41,019	91,618
Interest and Fiscal Fees		2,981	3,990
TOTAL EXPENDITURES	\$ 7,320,956	\$ 6,853,021	\$ 8,446,899
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,370,872	\$ 1,367,526	\$ 1,256,001
OTHER FINANCING SOURCES (USES)			
Transfers (Out)	\$ (919,196)	\$ (920,803)	\$ (927,136)
NET CHANGE IN FUND BALANCE	\$ 451,676	\$ 446,723	\$ 328,865
BEGINNING FUND BALANCE	5,110,983	4,664,260	4,335,395
ENDING FUND BALANCE	\$ 5,562,659	\$ 5,110,983	\$ 4,664,260

See accompanying independent auditor's report

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 437,183	\$ 439,371	11.8 %	8.3 %	4.7 %	4.4 %	5.8 %
2,943,486	2,857,111	42.7	44.3	36.2	29.3	37.7
3,206,774	3,269,374	39.1	40.8	33.7	31.9	43.3
8						
26,601	26,624	0.3	0.4	0.3	0.3	0.4
26,741	19,843	0.4	0.4	0.3	0.3	0.3
2,816,327	442,636	0.4		19.7	28.0	5.9
79,093	77,381	1.4	1.5	1.0	0.8	0.9
212,688	174,142	2.0	2.3	1.9	2.1	2.3
1,756	4,342	0.4	0.2			0.1
289,766	246,065	1.5	1.8	2.2	2.9	3.3
<u>\$ 10,040,423</u>	<u>\$ 7,556,889</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 2,722,073	\$ 2,679,877	36.0 %	35.7 %	28.5 %	27.1 %	35.5 %
846,534	806,440	13.6	13.1	8.4	8.4	10.7
46,894	57,451	0.7	0.7	0.9	0.5	0.8
208,755	229,032	2.3	2.5	2.3	2.1	3.0
766,827	742,068	9.9	11.2	8.2	7.6	9.8
340,922	385,402	4.4	4.8	3.8	3.4	5.1
671,287	735,818	8.1	8.1	7.1	6.7	9.7
3,433,675	758,090	9.2	6.8	27.0	34.2	10.0
88,270	84,605		0.5	0.9	0.9	1.1
8,059	11,725				0.1	0.2
<u>\$ 9,133,296</u>	<u>\$ 6,490,508</u>	<u>84.2 %</u>	<u>83.4 %</u>	<u>87.1 %</u>	<u>91.0 %</u>	<u>85.9 %</u>
\$ 907,127	\$ 1,066,381	15.8 %	16.6 %	12.9 %	9.0 %	14.1 %
\$ (945,057)	\$ (904,972)					
\$ (37,930)	\$ 161,409					
<u>4,373,325</u>	<u>4,211,916</u>					
<u>\$ 4,335,395</u>	<u>\$ 4,373,325</u>					

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 720,002	\$ 1,287,019	\$ 1,365,662
Penalty and Interest	25,475	29,484	39,433
Miscellaneous Revenues	<u>12,869</u>	<u>5,698</u>	<u>1,371</u>
TOTAL REVENUES	<u>\$ 758,346</u>	<u>\$ 1,322,201</u>	<u>\$ 1,406,466</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 30,300	\$ 29,244	\$ 31,692
Debt Service Principal	1,155,000	1,875,000	1,820,000
Debt Service Interest and Fees	<u>475,819</u>	<u>438,409</u>	<u>466,345</u>
TOTAL EXPENDITURES	<u>\$ 1,661,119</u>	<u>\$ 2,342,653</u>	<u>\$ 2,318,037</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (902,773)</u>	<u>\$ (1,020,452)</u>	<u>\$ (911,571)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>\$ 919,196</u>	<u>\$ 920,803</u>	<u>\$ 927,136</u>
NET CHANGE IN FUND BALANCE	\$ 16,423	\$ (99,649)	\$ 15,565
BEGINNING FUND BALANCE	<u>2,448,006</u>	<u>2,547,655</u>	<u>2,532,090</u>
ENDING FUND BALANCE	<u>\$ 2,464,429</u>	<u>\$ 2,448,006</u>	<u>\$ 2,547,655</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>7,830</u>	<u>8,003</u>	<u>7,924</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>7,643</u>	<u>7,732</u>	<u>7,657</u>

See accompanying independent auditor's report

		Percentage of Total Revenues				
<u>2014</u>	<u>2013</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 1,360,177	\$ 1,365,472	94.9 %	97.4 %	97.1 %	97.3 %	97.2 %
36,650	37,037	3.4	2.2	2.8	2.6	2.6
<u>1,037</u>	<u>2,237</u>	<u>1.7</u>	<u>0.4</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>
<u>\$ 1,397,864</u>	<u>\$ 1,404,746</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 31,300	\$ 30,675	4.0 %	2.2 %	2.3 %	2.2 %	2.2 %
1,760,000	1,685,000	152.3	141.8	129.4	125.9	120.0
<u>525,431</u>	<u>577,974</u>	<u>62.7</u>	<u>33.2</u>	<u>33.2</u>	<u>37.6</u>	<u>41.1</u>
<u>\$ 2,316,731</u>	<u>\$ 2,293,649</u>	<u>219.0 %</u>	<u>177.2 %</u>	<u>164.9 %</u>	<u>165.7 %</u>	<u>163.3 %</u>
<u>\$ (918,867)</u>	<u>\$ (888,903)</u>	<u>(119.0) %</u>	<u>(77.2) %</u>	<u>(64.9) %</u>	<u>(65.7) %</u>	<u>(63.3) %</u>
<u>\$ 923,106</u>	<u>\$ 904,972</u>					
\$ 4,239	\$ 16,069					
<u>2,527,851</u>	<u>2,511,782</u>					
<u>\$ 2,532,090</u>	<u>\$ 2,527,851</u>					
<u>7,837</u>	<u>7,747</u>					
<u>7,571</u>	<u>7,406</u>					

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2017**

District Mailing Address - Galveston County Water Control and
Improvement District No. 1
P. O. Box 307
Dickinson, TX 77539

District Telephone Number - (281) 337-1576

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2017	Expenditures for Travel and Training for the year ended September 30, 2017	Title
John Mitchiner	05/16 05/20 (Elected)	\$ 4,350	\$ 5,273	President
Shamarion Barber	05/16 05/20 (Elected)	\$ 2,850	\$ 1,209	Vice President
William Gaffey	05/14 05/18 (Elected)	\$ 3,750	\$ 3,645	Secretary/ Treasurer
Jeffrey Spriggins	05/16 05/20 (Elected)	\$ 3,300	\$ 2,455	Director
Garland Copelin	08/17 05/18 (Appointed)	\$ 300	\$ -0-	Director
Jim McBride (deceased)	05/14 07/17 (Elected)	\$ 1,350	\$ 50	Director

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
August 22, 2017.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 21, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2017**

Key Administrative Personnel:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2017</u>	<u>Title</u>
David Paulissen	05/28/04	\$ 140,176	General Manager/ Investment Officer
Aurora Amaro, CPA	05/16/08	\$ 102,657	Chief Financial Officer/ Investment Officer
Nancy Click	08/28/98	\$ 85,248	Administrative Assistant to General Manager
Darrell Hartwick	09/01/77	\$ 98,012	Superintendent of Treatment Operations
Keith Morgan	07/30/04	\$ 97,527	Superintendent of Water and Wastewater
Consultants:			
Jon C. Pfennig, P.C.	12/01/99	\$ 17,431	General Counsel
Andrews Kurth LLP	10/19/10	\$ -0-	Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	09/17/12	\$ 32,160	Auditor
Linebarger Goggan Blair & Sampson LLP	08/01/03	\$ 10,526	Delinquent Tax Attorney
HDR Engineering, Inc.	08/01/06	\$ 94,863	Engineer
U.S. Capital Advisors	06/13	\$ -0-	Financial Advisor
Galveston County Tax Assessor	08/01/03	\$ 6,439	Tax Assessor Collector

See accompanying independent auditor's report

