

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

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

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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, 2019, 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, 2019, 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, 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, the Schedule of District Contributions-Pension, the Schedule of Changes in Net Other Postemployment Benefit Liability and Related Ratios, and the Schedule of District Contributions-Other Postemployment Benefits 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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 27, 2020

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2019**

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, 2019. 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, 2019**

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 \$32,195,015 as of September 30, 2019. 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, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

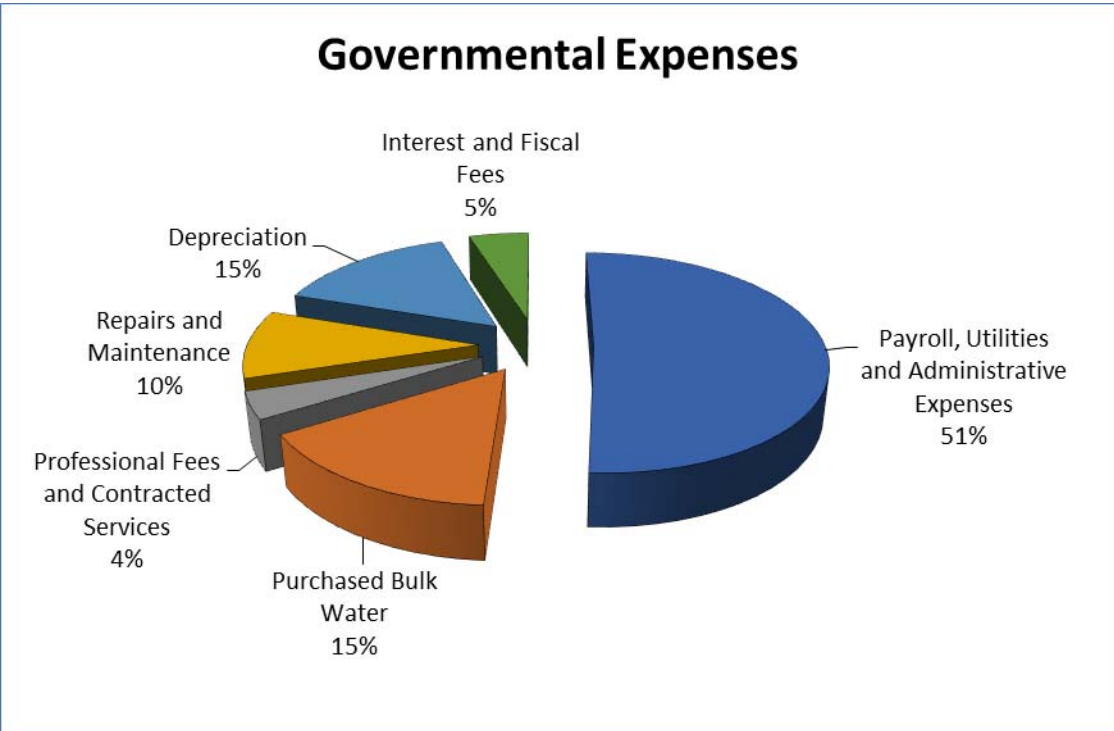
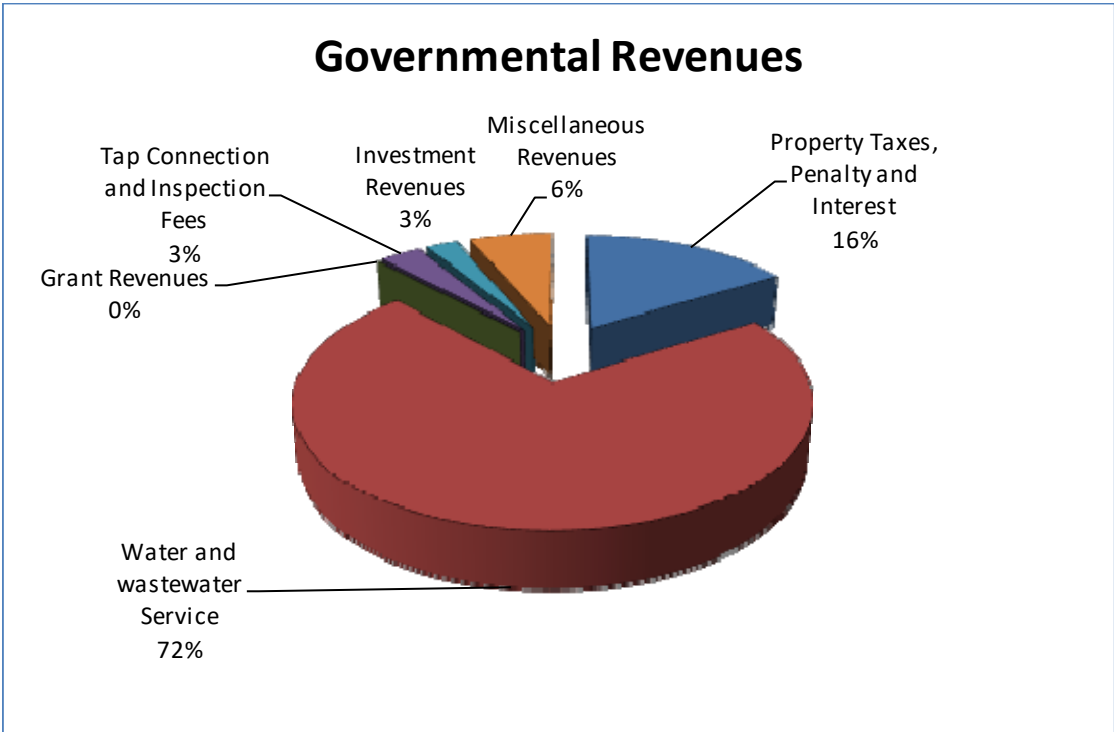
The following is a comparative analysis of government-wide changes in net position:

	<u>Summary of Changes in the Statement of Net Position</u>		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 12,398,244	\$ 13,792,427	\$ (1,394,183)
Capital Assets (Net of Accumulated Depreciation)	32,311,544	31,318,098	993,446
Total Assets	<u>\$ 44,709,788</u>	<u>\$ 45,110,525</u>	<u>\$ (400,737)</u>
Deferred Outflows of Resources	\$ 1,873,198	\$ 972,799	\$ 900,399
Long -Term Liabilities	\$ 8,985,129	\$ 9,800,705	\$ 815,576
Other Liabilities	4,859,577	3,550,820	(1,308,757)
Total Liabilities	<u>\$ 13,844,706</u>	<u>\$ 13,351,525</u>	<u>\$ (493,181)</u>
Deferred Inflows of Resources	\$ 543,265	\$ 731,441	\$ 188,176
Net Position:			
Net Investment in Capital Assets	\$ 25,002,374	\$ 24,031,218	\$ 971,156
Restricted	1,541,508	2,605,530	(1,064,022)
Unrestricted	5,651,133	5,363,610	287,523
Total Net Position	<u>\$ 32,195,015</u>	<u>\$ 32,000,358</u>	<u>\$ 194,657</u>

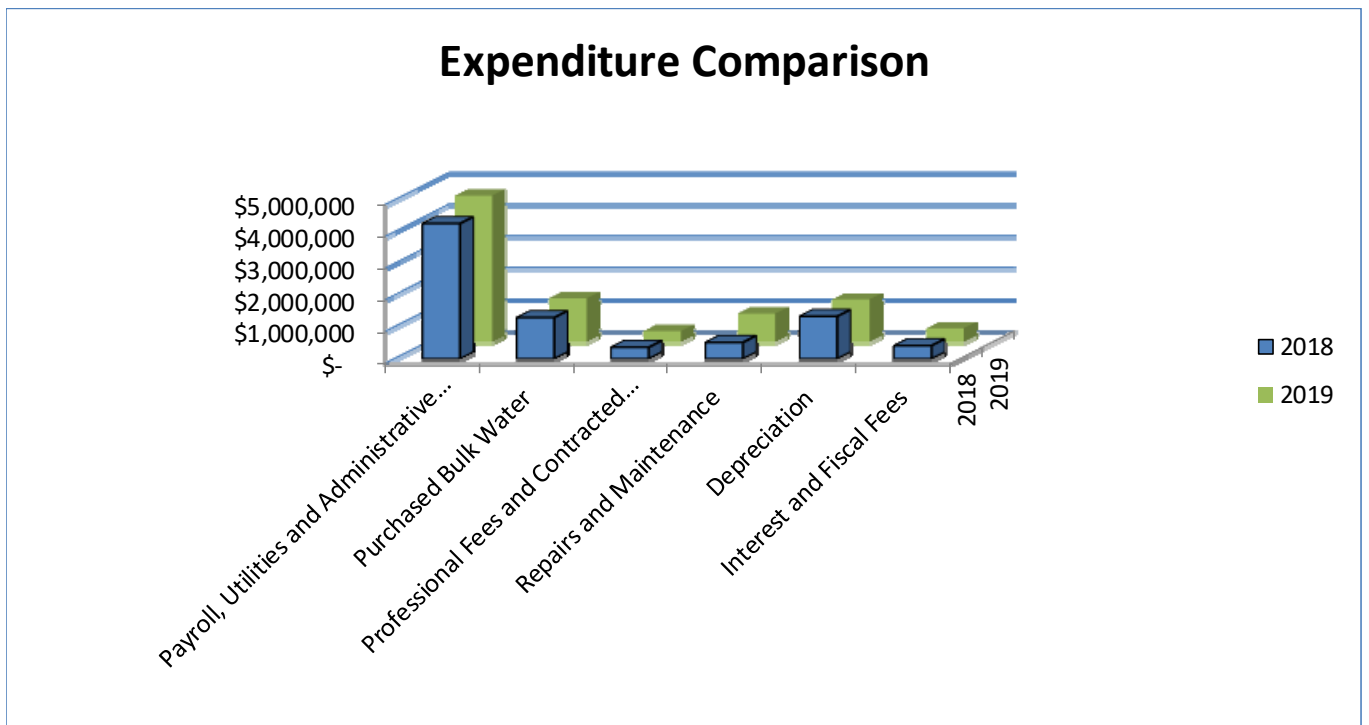
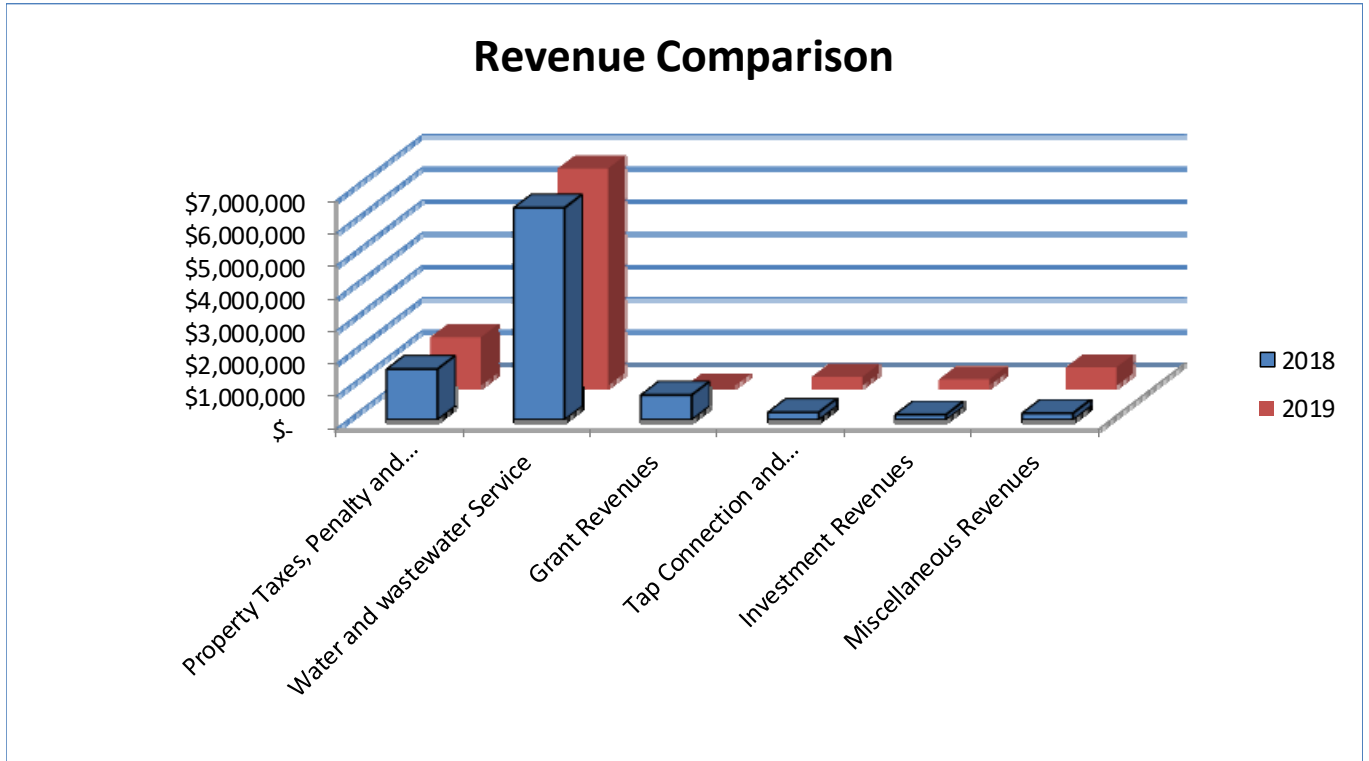
The following table provides a summary of the District's operations for the years ending September 30, 2019, and September 30, 2018. The District's net position increased by \$194,657.

	<u>Summary of Changes in the Statement of Activities</u>		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,357,194	\$ 1,427,465	\$ (70,271)
Charges for Services	7,189,873	6,901,222	288,651
Grant Revenues	746,763	754,783	(754,783)
Other Revenues	746,763	286,245	460,518
Total Revenues	<u>\$ 9,293,830</u>	<u>\$ 9,369,715</u>	<u>\$ (75,885)</u>
Expenses for Services	9,099,173	8,197,120	(902,053)
Change in Net Position	\$ 194,657	\$ 1,172,595	\$ (977,938)
Net Position, Beginning of Year	32,000,358	30,827,763	1,172,595
Net Position, End of Year	<u>\$ 32,195,015</u>	<u>\$ 32,000,358</u>	<u>\$ 194,657</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2019**



**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2019**



**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

The District’s combined fund balances as of September 30, 2019, were \$10,086,230, a decrease of \$1,315,188 from the prior year.

The General Fund fund balance increased by \$575,292, primarily due to service revenues exceeding operating and administrative expenditures.

The Debt Service Fund fund balance decreased by \$1,057,614, primarily due to the structure of the District’s outstanding debt.

The Capital Projects Fund fund balance decreased by \$832,866, 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 did not amend the budget during the fiscal year. Actual revenue was \$209,469 more than budgeted revenue primarily due to higher than expected tap and miscellaneous revenues offset by lower than anticipated service revenues. Miscellaneous revenues included \$403,617 in insurance and FEMA reimbursements for prior losses. Actual expenditures were \$364,016 lower than budgeted expenditures primarily due to lower than expected capital outlay costs.

LONG-TERM DEBT ACTIVITY

As of the fiscal year end, the District had total bond debt payable of \$9,600,000. The changes in the debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows:

Bond Debt Payable, October 1, 2018	\$ 10,390,000
Less: Bond Principal Paid	<u>790,000</u>
Bond Debt Payable, September 30, 2019	<u>\$ 9,600,000</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, 2019**

CAPITAL ASSETS

Capital assets as of September 30, 2019, total \$32,311,544 (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 emergency repairs to the sewer trunk line at Nichols and FM 517, disaster recovery expenses, and replacement of the Falco facility. Additional information on the District's capital assets can be found in Note 6.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 115,316	\$ 115,316	\$
Construction in Progress	1,945,107	277,431	1,667,676
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	280,179	297,217	(17,038)
Vehicles	526,783	592,500	(65,717)
Equipment	91,829	121,444	(29,615)
Water System	9,250,933	9,562,816	(311,883)
Wastewater System	20,101,397	20,351,374	(249,977)
Total Net Capital Assets	\$ 32,311,544	\$ 31,318,098	\$ 993,446

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, 2019**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 1,978,710	\$ 673,670
Investments	5,098,160	777,656
Receivables:		
Property Taxes (Net of Allowance of \$42,493)	65,817	65,337
Penalty and Interest on Delinquent Taxes	33,720	59,434
Service Accounts (Net of Allowance for Doubtful Accounts of \$14,212)	303,324	
Prepaid Costs	76,113	
Inventory	337,536	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 7,893,380	\$ 1,576,097
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Plan Charges	\$	\$
Deferred Other Postemployment Benefit Charges		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 7,893,380	\$ 1,576,097

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>
\$ 2,928,767	\$ 2,652,380	\$	\$ 2,652,380
	8,804,583		8,804,583
	131,154		131,154
	93,154		93,154
	303,324		303,324
	76,113		76,113
	337,536		337,536
		115,316	115,316
		1,945,107	1,945,107
		30,251,121	30,251,121
<u>\$ 2,928,767</u>	<u>\$ 12,398,244</u>	<u>\$ 32,311,544</u>	<u>\$ 44,709,788</u>
\$	\$	\$ 1,857,256	\$ 1,857,256
		15,942	15,942
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,873,198</u>	<u>\$ 1,873,198</u>
<u>\$ 2,928,767</u>	<u>\$ 12,398,244</u>	<u>\$ 34,184,742</u>	<u>\$ 46,582,986</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, 2019**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 509,331	\$
Accrued Interest Payable		
Security Deposits	1,120,567	
Net Pension Liability		
Net Other Postemployment Benefit 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	\$ 1,629,898	\$ -0-
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 65,817	\$ 65,337
Penalty and Interest on Delinquent Taxes	33,720	59,434
Deferred Pension Plan Charges		
Deferred Other Postemployment Benefit Charges		
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 99,537	\$ 124,771
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 76,113	\$
Inventory	337,536	
Restricted for Authorized Construction		
Restricted for Debt Service		850,019
Committed:		
Capital Maintenance Projects	350,000	
Capital Asset-Software	250,000	
Vehicle Replacement	99,915	
Inflow and Infiltration	1,823,241	
Self-Insured Insurance	112,453	
Assigned for Debt Service		601,307
Unassigned	3,114,687	
TOTAL FUND BALANCES	\$ 6,163,945	\$ 1,451,326
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,893,380	\$ 1,576,097
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 457,808	\$ 967,139	\$	\$ 967,139
		34,589	34,589
	1,120,567		1,120,567
		1,591,924	1,591,924
		95,756	95,756
		254,602	254,602
		795,000	795,000
		8,985,129	8,985,129
<u>\$ 457,808</u>	<u>\$ 2,087,706</u>	<u>\$ 11,757,000</u>	<u>\$ 13,844,706</u>
\$	\$ 131,154	\$ (131,154)	\$
	93,154	(93,154)	
		534,163	534,163
		9,102	9,102
<u>\$ -0-</u>	<u>\$ 224,308</u>	<u>\$ 318,957</u>	<u>\$ 543,265</u>
\$	\$ 76,113	\$ (76,113)	\$
	337,536	(337,536)	
2,470,959	2,470,959	(2,470,959)	
	850,019	(850,019)	
	350,000	(350,000)	
	250,000	(250,000)	
	99,915	(99,915)	
	1,823,241	(1,823,241)	
	112,453	(112,453)	
	601,307	(601,307)	
	3,114,687	(3,114,687)	
<u>\$ 2,470,959</u>	<u>\$ 10,086,230</u>	<u>\$ (10,086,230)</u>	<u>\$ - 0 -</u>
<u>\$ 2,928,767</u>	<u>\$ 12,398,244</u>		
		\$ 25,002,374	\$ 25,002,374
		1,541,508	1,541,508
		5,651,133	5,651,133
		<u>\$ 32,195,015</u>	<u>\$ 32,195,015</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, 2019**

Total Fund Balances - Governmental Funds \$ 10,086,230

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

Certain pension plan charges and other postemployment benefit charges that are not immediately recognized are recorded as deferred inflows or deferred outflows of resources. 1,329,933

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 32,311,544

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District. 224,308

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	\$	(254,602)	
Accrued Interest Payable		(34,589)	
Net Pension Liability		(1,591,924)	
Net Other Postemployment Benefit Liability		(95,756)	
Bonds/Notes Payable Within One Year		(795,000)	
Bonds/Notes Payable After One Year		<u>(8,985,129)</u>	<u>(11,757,000)</u>

Total Net Position - Governmental Activities \$ 32,195,015

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, 2019**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 1,053,282	\$ 301,211
Water Service	3,484,669	
Wastewater Service	3,196,172	
Texas City Maintenance Fees	27,461	
Out of District Surcharge	35,233	
Penalty and Interest	133,941	14,635
Tap Connection and Inspection Fees	294,967	
Investment Revenues	113,608	23,007
Miscellaneous Revenues	525,846	
TOTAL REVENUES	\$ 8,865,179	\$ 338,853
EXPENDITURES/EXPENSES		
Service Operations:		
Payroll	\$ 3,375,234	
Purchased Bulk Water	1,393,382	
Professional Fees	62,523	
Contracted Services	276,519	19,955
Repairs and Maintenance	911,575	
Utilities	334,704	
Administrative Expenses	662,785	1,450
Depreciation		
Capital Outlay	682,214	
Debt Service:		
Bond Principal		790,000
Bond Interest		425,505
TOTAL EXPENDITURES/EXPENSES	\$ 7,698,936	\$ 1,236,910
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 1,166,243	\$ (898,057)
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (590,951)	\$ (159,557)
NET CHANGE IN FUND BALANCES	\$ 575,292	\$ (1,057,614)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION		
OCTOBER 1, 2018	5,588,653	2,508,940
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2019	\$ 6,163,945	\$ 1,451,326

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,354,493	\$ 2,701	\$ 1,357,194
	3,484,669		3,484,669
	3,196,172		3,196,172
	27,461		27,461
	35,233		35,233
	148,576	2,795	151,371
	294,967		294,967
84,302	220,917		220,917
	525,846		525,846
\$ 84,302	\$ 9,288,334	\$ 5,496	\$ 9,293,830
\$	\$ 3,375,234	257,374	\$ 3,632,608
	1,393,382		1,393,382
	62,523		62,523
	296,474		296,474
	911,575		911,575
	334,704		334,704
	664,235		664,235
1,667,676	2,349,890	1,356,444	1,356,444
		(2,349,890)	
	790,000	(790,000)	
	425,505	21,723	447,228
\$ 1,667,676	\$ 10,603,522	\$ (1,504,349)	\$ 9,099,173
\$ (1,583,374)	\$ (1,315,188)	\$ 1,509,845	\$ 194,657
\$ 750,508	\$ -0-	\$ -0-	\$ -0-
\$ (832,866)	\$ (1,315,188)	\$ 1,315,188	\$
		194,657	194,657
3,303,825	11,401,418	20,598,940	32,000,358
\$ 2,470,959	\$ 10,086,230	\$ 22,108,785	\$ 32,195,015

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, 2019**

Net Change in Fund Balances - Governmental Funds	\$ (1,315,188)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	2,701
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.	2,795
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.	(1,356,444)
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.	2,349,890
The changes in the net pension liability, deferred pension plan charges, other postemployment benefit changes, and compensated absences payable are reflected as an expense in the government-wide financial statements.	(257,374)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	790,000
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.	(21,723)
Change in Net Position - Governmental Activities	<u>\$ 194,657</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, 2019**

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).

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019**

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, 2019**

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. 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
Vehicles and 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, 2019**

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 General Fund budget was not amended during the current fiscal year. The Debt Service Fund and Capital Projects Fund budgets were amended to allocate \$750,508 of available Debt Service Fund funds to be transferred to the Capital Projects Fund to provide for a portion of the Falco facility replacement.

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, 2019**

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 in 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 13.

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 \$601,307 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, \$1,680,795 less \$328,980 transferred to the General Fund to provide for a portion of the emergency repairs to the sewer trunk line at Nichols and FM 517 and \$750,508 transferred to the Capital Projects Fund to provide for a portion of the Falco facility replacement. 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, 2019**

NOTE 3. BONDS AND REVENUE NOTES PAYABLE

	Series 2010 Revenue Notes	Series 2012 Refunding Revenue Notes	Series 2016 Tax Bonds
Amount Outstanding - September 30, 2019	\$ 6,050,000	\$ 1,080,000	\$ 2,470,000
Interest Rates	4.14% -5.44%	2.00% - 2.25%	2.50% - 4.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2020/2034	March 1, 2020/2021	March 1, 2020/2031
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, 2019:

	October 1, 2018	Additions	Retirements	September 30, 2019
Bonds/Notes Payable	\$ 10,390,000	\$	\$ 790,000	\$ 9,600,000
Unamortized Discounts	(7,103)		(3,693)	(3,410)
Unamortized Premiums	207,808		24,269	183,539
Bonds/Notes Payable, Net	<u>\$ 10,590,705</u>	<u>\$ -0-</u>	<u>\$ 810,576</u>	<u>\$ 9,780,129</u>
		Amount Due Within One Year		\$ 795,000
		Amount Due After One Year		8,985,129
		Bonds/Notes Payable, Net		<u>\$ 9,780,129</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, 2019**

NOTE 3. BONDS AND REVENUE NOTES PAYABLE (Continued)

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

Fiscal Year	Principal	Interest	Total
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
2025-2029	3,280,000	1,196,265	4,476,265
2030-2034	3,300,000	417,169	3,717,169
	<u>\$ 9,600,000</u>	<u>\$ 3,435,063</u>	<u>\$ 13,035,063</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 \$0.028011 per \$100 of assessed valuation, which resulted in a tax levy of \$297,273 on the adjusted taxable valuation of \$1,059,803,116 for the 2018 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, 2019**

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 \$702,592. 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 \$2,652,380 and the bank balance was \$2,563,668. 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, 2019**

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, 2019, as listed below:

	Cash
GENERAL FUND	\$ 1,978,710
DEBT SERVICE FUND	673,670
TOTAL DEPOSITS	\$ 2,652,380

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 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, 2019**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2019, 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	\$ 5,098,160	\$ 5,098,160
<u>DEBT SERVICE FUND</u>		
TexPool	777,656	777,656
<u>CAPITAL PROJECTS FUND</u>		
TexPool	<u>2,928,767</u>	<u>2,928,767</u>
TOTAL INVESTMENTS	<u>\$ 8,804,583</u>	<u>\$ 8,804,583</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2019, 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, 2019**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019:

	October 1, 2018	Increases	Decreases	September 30, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 115,316	\$	\$	\$ 115,316
Construction in Progress	<u>277,431</u>	<u>2,349,890</u>	<u>682,214</u>	<u>1,945,107</u>
Total Capital Assets Not Being Depreciated	<u>\$ 392,747</u>	<u>\$ 2,349,890</u>	<u>\$ 682,214</u>	<u>\$ 2,060,423</u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 689,274	\$	\$	\$ 689,274
Vehicles	1,980,251			1,980,251
Equipment	1,041,031			1,041,031
Water System	21,234,955	130,800		21,365,755
Wastewater System	<u>36,370,551</u>	<u>551,414</u>		<u>36,921,965</u>
Total Capital Assets Subject to Depreciation	<u>\$ 61,316,062</u>	<u>\$ 682,214</u>	<u>\$ - 0 -</u>	<u>\$ 61,998,276</u>
Accumulated Depreciation				
Buildings and Improvements	\$ 392,057	\$ 17,038	\$	\$ 409,095
Vehicles	1,387,751	65,717		1,453,468
Equipment	919,587	29,615		949,202
Water System	11,672,139	442,683		12,114,822
Wastewater System	<u>16,019,177</u>	<u>801,391</u>		<u>16,820,568</u>
Total Accumulated Depreciation	<u>\$ 30,390,711</u>	<u>\$ 1,356,444</u>	<u>\$ - 0 -</u>	<u>\$ 31,747,155</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 30,925,351</u>	<u>\$ (674,230)</u>	<u>\$ - 0 -</u>	<u>\$ 30,251,121</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 31,318,098</u>	<u>\$ 1,675,660</u>	<u>\$ 682,214</u>	<u>\$ 32,311,544</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 \$0.100000 per \$100 of assessed valuation, which resulted in a tax levy of \$1,061,274 on the adjusted taxable valuation of \$1,059,803,116 for the 2018 tax year.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019 is as follows:

<u>Self-Insured Plans</u>	
Committed as of October 1, 2018	\$ 125,679
Contributions	24,496
Claims	<u>(37,722)</u>
Committed as of September 30, 2019	<u>\$ 112,453</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. TCDRS issues a publicly available comprehensive annual financial report (CAFR) which includes financial statements, notes and required supplementary information which can be obtained at TCDRS, Finance Division, Barton Oaks Plaza IV Suite 500, 901 S. MoPac Expressway, Austin, Texas 78746 or at www.TCDRS.org.

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, 2019**

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, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled but not yet receiving benefits	28
Active employees	40

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). The required employer contribution rate was 11.25% for the months of the accounting years 2018 and 2019; however, the employer actually contributed using the actuarially determined rate of 12.75%, for the months of the accounting years 2018 and 2019.

The contribution rate payable by the employee members for calendar year 2018 and 2019 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, 2019**

NOTE 9. PENSION PLAN (Continued)

Annual Pension Cost

For the employer's accounting year ending September 30, 2019, the annual pension cost for the TCDRS plan for its employees was \$294,972, and the actual contributions were \$294,972.

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, 2018, the basis for determining the contribution rates for calendar year 2019. The December 31, 2018 actuarial valuation is the most recent valuation.

	<u>Actuarial Valuation Information</u>		
	12/31/16	12/31/17	12/31/18
Actuarial valuation date	12/31/16	12/31/17	12/31/18
Actuarial cost method	entry age	entry age	entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	8.8	8.7	10.5
Asset Valuation Method:			
Subdivision Accumulation Fund	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment return ¹	8.0%	8.0%	8.0%
Projected salary increases ¹	4.9%	4.9%	4.9%
Inflation	3.0%	2.75%	2.75%
Cost-of-living adjustments	0.0%	0.0%	0.0%

¹Includes inflation at the stated rate

**GALVESTON COUNTY WATER CONTROL AND
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016.

Mortality rates were based on the following: 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after that.

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 2019 information for a 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 2017.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	10.50 %	5.40 %
Private Equity	18.00	8.40
Global Equities	2.50	5.70
International Equities-Developed Markets	10.00	5.40
International Equities-Emerging Markets	7.00	5.90
Investment-Grade Bonds	3.00	1.60
Strategic Credit	12.00	4.39
Direct Lending	11.00	7.95
Distressed Debt	2.00	7.20
REIT Equities	2.00	4.15
Master Limited Partnerships (MLPs)	3.00	5.35
Private Real Estate Partnerships	6.00	6.30
Hedge Funds	13.00	3.90
	100.00 %	

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 9. PENSION PLAN (Continued)

Net Pension Liability (Continued)

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances of December 31, 2017	\$ 15,021,260	\$ 14,781,343	\$ 239,917
Changes for the year:			
Service Costs	288,312		288,312
Interest on total pension liability	1,224,645		1,224,645
Effect of plan changes	52,874		52,874
Effect of economic/demographic gains or losses	31,391		31,391
Refund of contributions	(38,051)	(38,051)	
Benefit payments	(350,513)	(350,513)	
Administrative Expense		(11,757)	11,757
Member contributions		150,726	(150,726)
Net investment income		(273,847)	273,847
Employer contributions		374,536	(374,536)
Other		5,557	(5,557)
Balances of December 31, 2018	\$ 16,229,918	\$ 14,637,994	\$ 1,591,924

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 9. PENSION PLAN (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 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 18,405,563	\$ 16,229,918	\$ 14,386,282
Piduciary net position	14,637,994	14,637,994	14,637,994
Net pension liability/(asset)	<u>\$ 3,767,569</u>	<u>\$ 1,591,924</u>	<u>\$ (251,712)</u>

At the valuation date of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 73,598	\$ 26,650
Changes of assumptions	17,000	8,735
Net differences between projected and actual earnings	1,438,790	498,778
Contributions subsequent to the measurement date	<u>327,868</u>	
Total	<u>\$ 1,857,256</u>	<u>\$ 534,163</u>

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:	
2019	\$ 384,700
2020	173,701
2021	135,282
2022	301,541
2023	-0-
Thereafter	-0-

The District made plan contributions subsequent to the measurement date and prior to the fiscal year-end of \$327,869, which are recorded as deferred outflows of resources.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description - Group Term Life Program

The District participates in the retiree Group Term Life program for the Texas County & District Retirement System (TCDRS), which is a statewide, multiple-employer, public employee retirement system. All full-time and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year and are eligible for the TCDRS OPEB plan. Only employers that have elected participation in the retiree Group Term Life program are included in the OPEB plan. The plan provides a \$5,000 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the retiree GTL program. Other plan specifics include: the OPEB benefit is a fixed \$5,000 lump-sum benefit; no future increases are assumed in the \$5,000 benefit amount; benefit terms are established under the TCDRS Act; participation in the retiree GTL program is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year.

Contributions made to the retiree GTL Program are held in the GTL fund. The GTL fund does not meet the requirements of a trust under Paragraph 4b of GASB 75, as the assets of the GTL fund can be used to pay active GTL benefits which are not part of the OPEB plan. Benefit terms are established under the TCDRS Act. For the months of the accounting years 2018, the required employer contribution rate was 0.38%; and for the months of the accounting years 2019 the required employer contribution rate was 0.40%. The District's contributions to the GTL program for the fiscal year ending September 30, 2019, were \$9,124.

Participation in the retiree GTL program is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The District's contribution rate for the retiree GTL program is calculated annually on an actuarial basis and is equal to the cost of providing a one-year death benefit equal to \$5,000.

TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System; P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

The retiree death benefit paid from the GTL program is an OPEB benefit. The OPEB program is treated as an unfunded trust, because the GTL trust covers both actives and retirees and is not segregated. At the valuation date of December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled but not yet receiving benefits	13
Active employees	40

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions Used for GASB Calculations

All actuarial assumptions and methods that determined the total OPEB liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 - December 31, 2016, except where required to be different by GASB 75.

Valuation Timing - Actuarially determined contribution rates are calculated on a calendar year basis 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

Amortization Method

- *Recognition of economic/demographic gains or losses* - Straight-Line amortization over Expected Working Life
- *Recognition of assumptions changes or inputs* - Straight-Line amortization over Expected Working Life

Asset Valuation Method - Does not apply

Inflation - Does not apply

Salary Increases - Does not apply

Investment Rate of Return (Discount Rate) - 4.10% 20 Year Bond GO Index published by bondbuyer.com as of December 27, 2018

Cost-of-Living Adjustment - Does not apply

Mortality rates were based on the following:

Depositing members – 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate Scale after 2014.

Service retirees, beneficiaries and non-depositing members – 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Disabled retirees - 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate

The total OPEB liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions discussed below. The discount rate reflects the long-term rate of return funding valuation assumption of 3.44%. The TCDRS GTL program is treated as an unfunded OPEB plan because the GTL trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 4.10% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2018. At transition, GASB 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end.

	Changes in Total OPEB Liability
Balances of December 31, 2017	\$ 101,815
Changes for the year:	
Service Costs	2,278
Interest on total OPEB liability	3,518
Effect of economic/demographic gains or losses	2,727
Effect of assumption changes or inputs	(10,922)
Benefit payments	(3,660)
Balances of December 31, 2018	\$ 95,756

Sensitivity Analysis - The following presents the total OPEB liability of the District, calculated using the discount rate of 4.10%, as well as what the District total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.10%) or 1 percentage point higher (5.10%) than the current rate.

	1% Decrease 3.10%	Current Discount Rate 4.10%	1% Increase 5.10%
Total OPEB liability	\$ 113,051	\$ 95,756	\$ 82,217

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

At the valuation date of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,954	\$
Changes of assumptions	3,347	9,102
Contributions subsequent to the measurement date	6,641	
Total	\$ 15,942	\$ 9,102

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

Year ended December 31:		
2019	\$	392
2020		392
2021		392
2022		393
2023		(1,370)
Thereafter		-0-

The District made plan contributions subsequent to the measurement date and prior to the fiscal year-end of \$6,641, which are recorded as deferred outflows of resources

NOTE 11. 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 11. CONTRACTS FOR WATER AND SEWER SERVICES Continued)

LEAGUE CITY CONTRACT (Continued)

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, 2019, Texas City paid the District \$27,461 for these services.

NOTE 12. 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 12. SURFACE WATER SUPPLY CONTRACT (Continued)

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 \$1,393,382.

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.

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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 13. INFLOW AND INFILTRATION RESERVE

The District has committed maintenance tax proceeds to fund the cost of inflow and infiltration reduction. On October 1, 2018, the reserve was \$1,170,219. In the current fiscal year, the reserved fund generated \$1,414,143 in total revenue including maintenance tax revenues of \$1,053,282. Expenditures of the fund for correcting inflow and infiltration problems were \$683,539, offset by insurance recovery of \$349,629, and there was a transfer of \$77,582 to the General Fund, resulting in a committed fund balance at the fiscal year-end of \$1,823,241.

NOTE 14. 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, 2019, the District has accrued \$254,602 in compensated absences.

Compensated Absences	
Accrued Compensated absences as of October 1, 2018	\$210,563
Additions	217,997
Payments	(173,958)
Accrued Compensated absences as of September 30, 2019	\$254,602

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 15. 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 16. 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
2020	\$ 86,964
2021	86,965
2022	86,965
2023	86,964
2024	86,964
2025-2028	347,858
Total	\$ 782,680

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, 2019 was \$86,964.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 16. 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, 2019	82,500
Amounts to be recognized in the next five years and beyond:	
Rent Expense, 2020	\$ 7,500
Rent Expense, 2021	7,500
Rent Expense, 2022	7,500
Rent Expense, 2023	7,500
Rent Expense, 2024	7,500
Rent Expense to be recognized, thru 2028	<u>30,000</u>
Total Expense remaining to be recognized	<u>\$ 67,500</u>

NOTE 17. INTERFUND TRANSFERS

During the current fiscal year, the General Fund transferred \$919,931 to the Debt Service Fund to provide for a portion of the District’s debt service payments. The Debt Service Fund transferred \$328,980 to the General Fund to provide for a portion of the emergency repairs to the sewer trunk line at Nichols and FM 517. The Debt Service Fund transferred \$750,508 to the Capital Projects Fund to provide for a portion of the Falco facility replacement.

NOTE 18. GRANT PROGRAM

The City of Dickinson (the “City”) and the District were jointly awarded community development funds by the U.S. Department of Housing and Urban Development CDBG Program passed through the Texas Department of Agriculture. The funds were awarded under CFDA 14.228 under B-19-DC-48-0001 in the amount of \$350,000, to be used for water improvements. As of fiscal year-end, the District has not received any funds under this program.

NOTE 19. 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, 2019**

NOTE 19. 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.

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.

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

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019

**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, 2019**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 1,056,634	\$ 1,053,282	\$ (3,352)
Water Service	3,770,941	3,484,669	(286,272)
Wastewater Service	3,305,628	3,196,172	(109,456)
Texas City Maintenance Fees	28,361	27,461	(900)
Out of District Surcharge	33,315	35,233	1,918
Penalty and Interest	142,800	133,941	(8,859)
Tap Connection and Inspection Fees	145,036	294,967	149,931
Investment Revenues	83,633	113,608	29,975
Miscellaneous Revenues	89,362	525,846	436,484
TOTAL REVENUES	\$ 8,655,710	\$ 8,865,179	\$ 209,469
EXPENDITURES			
Services Operations:			
Payroll	\$ 3,406,674	\$ 3,375,234	\$ 31,440
Purchased Bulk Water	1,414,243	1,393,382	20,861
Professional Fees	124,700	62,523	62,177
Contracted Services	224,300	276,519	(52,219)
Repairs and Maintenance	864,949	911,575	(46,626)
Utilities	367,850	334,704	33,146
Administrative Expenses	664,984	662,785	2,199
Capital Outlay	995,252	682,214	313,038
TOTAL EXPENDITURES	\$ 8,062,952	\$ 7,698,936	\$ 364,016
EXCESS (DEFICIENCY) OF			
REVENUES OVER EXPENDITURES	\$ 592,758	\$ 1,166,243	\$ 573,485
OTHER FINANCING SOURCES(USES)			
Transfer (Out)	\$ (592,758)	\$ (590,951)	\$ 1,807
NET CHANGE IN FUND BALANCE	\$ -0-	\$ 575,292	\$ 575,292
FUND BALANCE - OCTOBER 1, 2018	5,588,653	5,588,653	
FUND BALANCE - SEPTEMBER 30, 2019	\$ 5,588,653	\$ 6,163,945	\$ 575,292

The Board of Directors did not amend the General Fund budget during the fiscal year.

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, 2019**

	Year Ended December 31,				
	2014	2015	2016	2017	2018
Total Pension Liability					
Service Cost	\$ 260,251	\$ 257,071	\$ 285,375	\$ 289,323	\$ 288,312
Interest on total pension liability	896,243	975,992	1,041,383	1,135,127	1,224,645
Effect of plan changes	0	(41,727)	0	0	52,874
Effect of economic/demographic (gains) or losses	106,808	(133,252)	30,556	72,527	31,391
Effect of assumption changes or inputs		85,000		(17,470)	0
Benefit payments/refunds of contributions	(280,604)	(316,915)	(340,451)	(358,689)	(388,564)
Net change in total pension liability	\$ 982,698	\$ 826,169	\$ 1,016,863	\$ 1,120,818	\$ 1,208,658
Total pension liability, beginning	11,074,712	12,057,410	12,883,579	13,900,442	15,021,260
Total pension liability, ending (a)	<u>\$ 12,057,410</u>	<u>\$ 12,883,579</u>	<u>\$ 13,900,442</u>	<u>\$ 15,021,260</u>	<u>\$ 16,229,918</u>
Fiduciary Net Position					
Employer contributions	\$ 256,264	\$ 246,203	\$ 455,136	\$ 295,113	\$ 374,536
Member contributions	134,876	137,433	141,855	155,909	150,726
Investment income net of investment expenses	733,079	(142,323)	863,525	1,873,387	(273,847)
Benefit payments/refunds of contributions	(280,604)	(316,915)	(340,451)	(358,689)	(388,564)
Administrative Expense	(8,707)	(8,420)	(9,383)	(9,830)	(11,757)
Other	26,296	18,510	57,555	1,144	5,557
Net change in fiduciary net position	\$ 861,204	\$ (65,512)	\$ 1,168,237	\$ 1,957,034	\$ (143,349)
Fiduciary net position, beginning	10,860,380	11,721,584	11,656,072	12,824,309	14,781,343
Fiduciary net position, ending (b)	<u>\$ 11,721,584</u>	<u>\$ 11,656,072</u>	<u>\$ 12,824,309</u>	<u>\$ 14,781,343</u>	<u>\$ 14,637,994</u>
Net pension liability/(asset), ending = (a) - (b)	<u>\$ 335,826</u>	<u>\$ 1,227,507</u>	<u>\$ 1,076,133</u>	<u>\$ 239,917</u>	<u>\$ 1,591,924</u>
Fiduciary net position as a percentage of total pension liability	97.21%	90.47%	92.26%	98.40%	90.19%
Pensionable covered payroll	\$ 1,926,799	\$ 1,963,335	\$ 2,026,501	\$ 2,227,272	\$ 2,153,225
Net pension liability as a percentage of covered payroll	17.43%	62.52%	53.10%	10.77%	73.93%

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF DISTRICT CONTRIBUTIONS-PENSION
SEPTEMBER 30, 2019**

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	Actual Contribution as a Percentage of Covered Payroll
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%
2017	\$ 243,886	\$ 295,113	\$ (51,227)	\$2,227,272	13.2%
2018	\$ 236,209	\$ 374,536	\$ (138,327)	\$2,153,225	17.4%

⁽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, 2018 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	8.10%
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.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS
LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2019**

	Year Ended December 31,	
	2017	2018
Total OPEB Liability		
Service Cost	\$ 2,075	\$ 2,278
Interest on total OPEB liability	3,398	3,518
Effect of plan changes	0	0
Effect of economic/demographic (gains) or losses	5,522	2,727
Effect of assumption changes or inputs	5,021	(10,922)
Benefit payments/refunds of contributions	(4,009)	(3,660)
Net change in total OPEB liability	\$ 12,007	\$ (6,059)
Total OPEB liability, beginning	89,808	101,815
Total OPEB liability, ending	\$ 101,815	\$ 95,756
OPEB covered payroll	\$ 2,227,272	\$ 2,153,225
Net OPEB liability as a percentage of covered payroll	4.57%	4.45%

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF DISTRICT CONTRIBUTIONS –
OTHER POSTEMPLOYMENT BENEFITS
SEPTEMBER 30, 2019**

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	OPEB Covered Payroll ⁽¹⁾	Actual Contribution as a Percentage of Covered Payroll
2017	\$ 8,686	\$ 8,686	\$ - 0 -	\$2,227,272	0.39%
2018	\$ 8,182	\$ 8,182	\$ - 0 -	\$2,153,225	0.38%

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

⁽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, 2018 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
Amortization Method	Straight-line method over expected working life
Asset Valuation Method	Does not apply
Inflation	Does not apply
Salary Increases	Does not apply
Investment Rate of Return	4.10%; 20-year Bond GO Index published by bondbuyer.com as of December 27, 2018
Cost-of-Living Adjustments	Does not apply
Retirement, Disability, Termination	Same as funding valuation
Mortality	Same as funding valuation, See Note 10

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, 2019

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective September 4, 2018.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 9.90	-0-	N	\$ 1.90 \$ 5.10 \$ 5.35 \$ 5.60	0,001 – 2,000 gallons 2,001 – 6,000 gallons 6,001 – 12,000 gallons 12,001 gallons and up
WASTEWATER:	\$ 14.80	-0-	N	\$ 2.60	0,001 and up

SURCHARGE:

Commission 0.5% of actual
Regulatory water and
Assessments sewer bill

District employs winter averaging for wastewater usage?

 X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$55.50 Wastewater: \$40.80 Surcharge: \$0.48 Total: \$96.78

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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"	8,096	7,520	x 1.0	7,520
1"	354	329	x 2.5	823
1½"	32	27	x 5.0	135
2"	157	149	x 8.0	1,192
3"	27	27	x 15.0	405
4"	19	19	x 25.0	475
6"	7	7	x 50.0	350
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>8,692</u>	<u>8,078</u>		<u>10,900</u>
Total Wastewater Connections	<u>8,544</u>	<u>7,964</u>	x 1.0	<u>7,964</u>

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

Gallons billed to customers:	585,660,000	Water Accountability Ratio: 74.3% (Gallons billed and sold/Gallons pumped and purchased)
Gallons purchased:	794,863,000	From: <u>Gulf Coast Water Authority</u>
Gallons sold:	4,896,000	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, 2019**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Galveston County, Texas

Is the District located within a city?

Entirely Partly Not at all

Cities in which District is located:

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

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

Entirely Partly Not at all

ETJ's in which District is located:

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

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

PERSONNEL EXPENDITURES (Including Benefits)	<u>\$ 3,375,234</u>
PROFESSIONAL FEES:	
Auditing	\$ 38,000
Legal	<u>24,523</u>
TOTAL PROFESSIONAL FEES	<u>\$ 62,523</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 1,393,382</u>
CONTRACTED SERVICES:	
Management and Consulting	\$ 51,046
Janitorial	9,750
Garbage	2,397
Security	10,908
Sludge Hauling	129,230
Billing Statement Services	<u>73,188</u>
TOTAL CONTRACTED SERVICES	<u>\$ 276,519</u>
UTILITIES:	
Electricity, Natural Gas, Telephone	<u>\$ 334,704</u>
REPAIRS AND MAINTENANCE	<u>\$ 911,575</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, 2019**

ADMINISTRATIVE AND OTHER EXPENDITURES:

Board Expenditures	\$	1,742
Bad Debt Expense		13,001
Credit Card Charges		42,248
Director Fees		21,000
Dues		9,243
Education and Training		47,545
Events		15,502
Fuel		39,050
Information Technology		10,240
Insurance		164,358
Laboratory Fees		53,515
Equipment Lease Payments		36,357
Legal Notices		1,732
Office Supplies and Postage		22,169
Regulatory Assessment		52,676
Risk Management		16,098
Safety Materials and Supplies		20,984
SIMF/SIVF/SIDF		37,720
Subsidence District Fees		2,196
Uniform/Floor Mat Rental		21,240
Other		<u>34,169</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$	<u>662,785</u>
 CAPITAL OUTLAY	 \$	 <u>682,214</u>
 TOTAL EXPENDITURES	 \$	 <u><u>7,698,936</u></u>

Number of persons employed by the District: 42 Full-Time 0 Part-Time

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
INVESTMENTS
SEPTEMBER 30, 2019**

<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	\$ 5,098,160	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 777,656	\$ - 0 -
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0004	Varies	Daily	\$ 2,928,767	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 8,804,583</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, 2019**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - OCTOBER 1, 2018	\$	63,810	\$	107,563
Adjustments to Beginning Balance		<u>806</u>	\$	<u>64,616</u>
			\$	<u>(2,586)</u>
			\$	104,977
Original 2018 Tax Levy	\$	1,020,732	\$	285,917
Adjustment to 2018 Tax Levy		<u>40,542</u>	<u>1,061,274</u>	<u>11,356</u>
TOTAL TO BE ACCOUNTED FOR		\$	1,125,890	\$
				402,250
TAX COLLECTIONS:				
Prior Years	\$	17,527	\$	11,086
Current Year		<u>1,035,755</u>	<u>1,053,282</u>	<u>290,125</u>
				<u>301,211</u>
TAXES RECEIVABLE - SEPTEMBER 30, 2019		<u>\$</u>	<u>72,608</u>	<u>\$</u>
				<u>101,039</u>
TAXES RECEIVABLE BY YEAR:				
2018	\$	25,519	\$	7,148
2017		14,991		4,008
2016		8,519		5,818
2015		4,487		8,364
2014		2,511		7,618
2013 and prior		<u>16,581</u>		<u>68,083</u>
TOTAL	\$	72,608	\$	101,039
Allowance for Uncollectible Accounts		<u>(6,791)</u>		<u>(35,702)</u>
	\$	<u>65,817</u>	\$	<u>65,337</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, 2019**

	2018	2017	2016	2015
PROPERTY VALUATIONS:				
Land	\$ 247,043,746	\$ 241,284,154	\$ 223,821,565	\$ 220,284,855
Improvements	879,581,788	1,063,497,062	868,912,322	834,362,743
Personal Property	103,287,362	103,650,155	109,873,693	97,707,460
Exemptions	<u>(170,109,780)</u>	<u>(258,247,579)</u>	<u>(160,088,946)</u>	<u>(165,542,514)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 1,059,803,116</u>	<u>\$ 1,150,183,792</u>	<u>\$ 1,042,518,634</u>	<u>\$ 986,812,544</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.028011	\$ 0.026285	\$ 0.068300	\$ 0.130500
Maintenance	<u>0.100000</u>	<u>0.098323</u>	<u>0.100000</u>	<u>0.070000</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.128011</u>	<u>\$ 0.124608</u>	<u>\$ 0.168300</u>	<u>\$ 0.200500</u>
ADJUSTED TAX LEVY*	<u>\$ 1,358,547</u>	<u>\$ 1,433,221</u>	<u>\$ 1,756,172</u>	<u>\$ 1,980,055</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.60 %</u>	<u>98.67 %</u>	<u>99.18 %</u>	<u>99.35 %</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, 2019**

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
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>\$ 6,050,000</u>	<u>\$ 2,976,670</u>	<u>\$ 9,026,670</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019**

SERIES - 2012 REFUNDING

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
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>\$ 1,080,000</u>	<u>\$ 22,368</u>	<u>\$ 1,102,368</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS,
SEPTEMBER 30, 2019**

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
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>\$ 2,470,000</u>	<u>\$ 436,025</u>	<u>\$ 2,906,025</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, 2019**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
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>\$ 9,600,000</u>	<u>\$ 3,435,063</u>	<u>\$ 13,035,063</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, 2019**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2018
Galveston County Water Control and Improvement District No. 1 Revenue Notes - Series 2010 (2)	\$ 6,500,000	\$ 6,100,000
Galveston County Water Control and Improvement District No. 1 Revenue Refunding Notes - Series 2012 (2)	4,645,000	1,610,000
Galveston County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2016 (1)	<u>3,490,000</u>	<u>2,680,000</u>
TOTAL	<u><u>\$ 14,635,000</u></u>	<u><u>\$ 10,390,000</u></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><u>\$ 5,710,000</u></u>

Debt Service Fund cash and investment balances as of September 30, 2019: \$ 1,451,326

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 869,004

See Note 3 for interest rates, 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

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 50,000	\$ 311,692	\$ 6,050,000	Wells Fargo Bank N.A. Houston, TX
	530,000	28,238	1,080,000	Wells Fargo Bank N.A. Dallas, TX
	210,000	85,575	2,470,000	BOKF, N.A. Austin, TX
<u>\$ - 0 -</u>	<u>\$ 790,000</u>	<u>\$ 425,505</u>	<u>\$ 9,600,000</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		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 1,053,282	\$ 1,123,963	\$ 1,030,345
Water Service	3,484,669	3,368,313	3,710,858
Wastewater Service	3,196,172	3,124,534	3,399,957
Texas City Maintenance Fees	27,461	29,675	28,651
Out of District Surcharge	35,233	34,407	32,720
Grant Revenues		754,783	33,648
Penalty and Interest	133,941	107,519	121,175
Tap Connection and Inspection Fees	294,967	223,290	171,753
Investment Revenues	113,608	71,949	32,474
Miscellaneous Revenues	525,846	133,928	130,247
TOTAL REVENUES	\$ 8,865,179	\$ 8,972,361	\$ 8,691,828
EXPENDITURES			
Payroll	\$ 3,375,234	\$ 3,124,710	\$ 3,124,947
Purchased Bulk Water	1,393,382	1,300,325	1,183,072
Professional Fees	62,523	76,642	58,239
Contracted Services	276,519	256,625	201,425
Repairs and Maintenance	911,575	516,799	861,661
Utilities	334,704	289,208	381,445
Administrative Expenses	662,785	647,559	707,295
Capital Outlay	682,214	1,812,261	802,872
Debt Service:			
Capital Lease Principal			
Interest and Fiscal Fees			
TOTAL EXPENDITURES	\$ 7,698,936	\$ 8,024,129	\$ 7,320,956
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,166,243	\$ 948,232	\$ 1,370,872
OTHER FINANCING SOURCES (USES)			
Transfers (Out)	\$ (590,951)	\$ (922,238)	\$ (919,196)
NET CHANGE IN FUND BALANCE	\$ 575,292	\$ 25,994	\$ 451,676
BEGINNING FUND BALANCE	5,588,653	5,562,659	5,110,983
ENDING FUND BALANCE	\$ 6,163,945	\$ 5,588,653	\$ 5,562,659

See accompanying independent auditor's report

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 684,204	\$ 449,628	11.9 %	12.6 %	11.8 %	8.3 %	4.7 %
3,644,293	3,509,355	39.3	37.5	42.7	44.3	36.2
3,353,677	3,268,441	36.1	34.8	39.1	40.8	33.7
29,399	28,500	0.3	0.3	0.3	0.4	0.3
33,931	30,486	0.4	0.4	0.4	0.4	0.3
	1,915,473		8.4	0.4		19.7
127,039	97,215	1.5	1.2	1.4	1.5	1.0
189,528	189,093	3.3	2.5	2.0	2.3	1.9
13,691	2,688	1.3	0.8	0.4	0.2	
144,785	212,021	5.9	1.5	1.5	1.8	2.2
<u>\$ 8,220,547</u>	<u>\$ 9,702,900</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 2,932,987	\$ 2,765,512	38.1 %	34.8 %	36.0 %	35.7 %	28.5 %
1,076,349	814,691	15.7	14.5	13.6	13.1	8.4
60,597	85,144	0.7	0.9	0.7	0.7	0.9
205,648	219,067	3.1	2.9	2.3	2.5	2.3
918,968	793,522	10.3	5.8	9.9	11.2	8.2
392,333	366,581	3.8	3.2	4.4	4.8	3.8
664,653	689,182	7.5	7.2	8.1	8.1	7.1
557,486	2,617,592	7.7	20.2	9.2	6.8	27.0
41,019	91,618				0.5	0.9
2,981	3,990					
<u>\$ 6,853,021</u>	<u>\$ 8,446,899</u>	<u>86.9 %</u>	<u>89.5 %</u>	<u>84.2 %</u>	<u>83.4 %</u>	<u>87.1 %</u>
<u>\$ 1,367,526</u>	<u>\$ 1,256,001</u>	<u>13.1 %</u>	<u>10.5 %</u>	<u>15.8 %</u>	<u>16.6 %</u>	<u>12.9 %</u>
<u>\$ (920,803)</u>	<u>\$ (927,136)</u>					
\$ 446,723	\$ 328,865					
<u>4,664,260</u>	<u>4,335,395</u>					
<u>\$ 5,110,983</u>	<u>\$ 4,664,260</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		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 301,211	\$ 323,895	\$ 720,002
Penalty and Interest	14,635	27,001	25,475
Miscellaneous Revenues	23,007	28,294	12,869
TOTAL REVENUES	<u>\$ 338,853</u>	<u>\$ 379,190</u>	<u>\$ 758,346</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 19,955	\$ 29,254	\$ 30,300
Debt Service Principal	790,000	780,000	1,155,000
Debt Service Interest and Fees	426,955	447,663	475,819
TOTAL EXPENDITURES	<u>\$ 1,236,910</u>	<u>\$ 1,256,917</u>	<u>\$ 1,661,119</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (898,057)</u>	<u>\$ (877,727)</u>	<u>\$ (902,773)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>\$ (159,557)</u>	<u>\$ 922,238</u>	<u>\$ 919,196</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,057,614)</u>	<u>\$ 44,511</u>	<u>\$ 16,423</u>
BEGINNING FUND BALANCE	<u>2,508,940</u>	<u>2,464,429</u>	<u>2,448,006</u>
ENDING FUND BALANCE	<u>\$ 1,451,326</u>	<u>\$ 2,508,940</u>	<u>\$ 2,464,429</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>8,078</u>	<u>7,951</u>	<u>7,830</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>7,964</u>	<u>7,768</u>	<u>7,643</u>

See accompanying independent auditor's report

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 1,287,019	\$ 1,365,662	88.9 %	85.4 %	94.9 %	97.4 %	97.1 %
29,484	39,433	4.3	7.1	3.4	2.2	2.8
5,698	1,371	6.8	7.5	1.7	0.4	0.1
<u>\$ 1,322,201</u>	<u>\$ 1,406,466</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 29,244	\$ 31,692	5.9 %	7.7 %	4.0 %	2.2 %	2.3 %
1,875,000	1,820,000	233.1	205.7	152.3	141.8	129.4
438,409	466,345	126.0	118.1	62.7	33.2	33.2
<u>\$ 2,342,653</u>	<u>\$ 2,318,037</u>	<u>365.0 %</u>	<u>331.5 %</u>	<u>219.0 %</u>	<u>177.2 %</u>	<u>164.9 %</u>
<u>\$ (1,020,452)</u>	<u>\$ (911,571)</u>	<u>(265.0) %</u>	<u>(231.5) %</u>	<u>(119.0) %</u>	<u>(77.2) %</u>	<u>(64.9) %</u>
<u>\$ 920,803</u>	<u>\$ 927,136</u>					
\$ (99,649)	\$ 15,565					
<u>2,547,655</u>	<u>2,532,090</u>					
<u>\$ 2,448,006</u>	<u>\$ 2,547,655</u>					
<u>8,003</u>	<u>7,924</u>					
<u>7,732</u>	<u>7,657</u>					

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2019**

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, 2019	Expenditures for Travel and Training for the year ended September 30, 2019	Title
John Mitchiner	05/16 05/20 (Elected)	\$ 4,950	\$ 6,264	President
Shamarion Barber	05/16 05/20 (Elected)	\$ 3,600	\$ 3,299	Vice President
William Gaffey	05/18 05/22 (Elected)	\$ 5,400	\$ 7,825	Secretary/ Treasurer
Jeffrey Spriggins	05/16 05/20 (Elected)	\$ 4,200	\$ 4,236	Director
Garland Copelin	05/18 05/22 (Elected)	\$ 2,850	\$ 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):
February 18, 2019.

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, 2019**

Key Administrative Personnel:	<u>Date Hired</u>	<u>Fees for the year ended September 30,2019</u>	<u>Title</u>
Russell D. Grubbs	09/26/18	\$ 138,993	General Manager/ Investment Officer
Aurora Amaro, CPA	05/16/08	\$ 107,614	Chief Financial Officer/ Investment Officer
Nancy Click	08/28/98	\$ 95,856	Administrative Assistant to General Manager
Darrell Hartwick	09/01/77	\$ 97,346	Superintendent of Treatment Operations
Keith Morgan	07/30/04	\$ 102,958	Superintendent of Water and Wastewater
Consultants:			
Andrews Kurth Kenyon LLP (terminated 10/18)	10/19/10	\$ 8,936	Former General Counsel
Baker Williams Matthiesen LLP	10/31/18	\$ 15,588	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/17/12	\$ 38,165	Auditor
Linebarger Goggan Blair & Sampson LLP	08/01/03	\$ 8,020	Delinquent Tax Attorney
HDR Engineering, Inc.	08/01/06	\$ 252,697	Engineer
U.S. Capital Advisors	06/13	\$ -0-	Financial Advisor
Galveston County Tax Assessor	08/01/03	\$ 3,029	Tax Assessor Collector

See accompanying independent auditor's report

