

ANNUAL FINANCIAL REPORT

of the

**Galveston County Water
Control and Improvement
District No. 1**

**For the Year Ended
September 30, 2023**

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Galveston County Water Control and Improvement District No. 1

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the District restated beginning net position and fund balance within governmental activities and general fund due to corrections to unbilled utility receivables and pension deferred outflows of resources. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of changes in net pension liability (asset) and related ratios, the schedule of employer contributions to pension plan, and schedule of changes in the other postemployment benefits liabilities and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information ("TSI") schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The TSI 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. Such information 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 TSI is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
February 9, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2023

As management of the Galveston County Water Control & Improvement District No. 1 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2023.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows (net position) at September 30, 2023 by \$36,747,594.
- The District's total net position increased by \$2,282,344. Unrestricted net position of \$5,847,820 makes up 16% of total net position.
- The District's governmental funds reported combined ending fund balances of \$13,537,810 at September 30, 2023, and an increase of \$2,062,289 from the prior fiscal year. This includes an increase of \$91,286 in the general fund, an increase of \$544,587 in the debt service fund, and an increase of \$1,426,416 in the capital projects fund.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$3,144,923 or 27% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the District's assets and liabilities 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 is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District include administrative expenses, personnel, purchased bulk water, contract services, repairs/maintenance, utilities, and lease expenses. The District does not have any business-type activities.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are considered to be governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, which are considered major funds.

Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

The District adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided to demonstrate compliance with the general fund budget.

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The fund financial statements provide more information about the District's most significant funds, not the District as a whole.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension and Other Postemployment Benefits ("OPEB") to its employees. A budgetary comparison schedule for the general fund has been included to comply with GASB Statement No. 34. Additionally, Texas Supplementary Information (TSI) has been included to comply with state reporting requirements.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$36,747,594 at the close of the most recent fiscal year.

An important portion of the District's net position, is \$29,869,842, which reflects its investments in capital assets (e.g., land, building, machinery, equipment, infrastructure, etc.), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		
	2023	2022	Variance
Current and other assets	\$ 19,894,681	\$ 15,413,807	\$ 4,480,874
Capital assets, net	43,839,568	37,722,428	6,117,140
Total Assets	63,734,249	53,136,235	10,598,014
Deferred outflows of resources	1,331,742	1,179,352	152,390
Long-term liabilities	21,588,931	14,578,594	7,010,337
Other liabilities	6,617,037	2,471,244	4,145,793
Total Liabilities	28,205,968	17,049,838	11,156,130
Deferred inflows of resources	112,429	2,800,499	2,912,928
Net position:			
Net investment in capital	29,869,842	30,113,204	(243,362)
Restricted	1,029,932	533,120	496,812
Unrestricted	5,847,820	3,818,926	2,028,894
Total Net Position	\$ 36,747,594	\$ 34,465,250	\$ 2,282,344

The District's net position increased \$2,282,344 to \$36,747,594. Capital assets increased by \$6,117,140 primarily due to the District investing significant funds in smart meter infrastructure. Other liabilities increased by \$4,145,793 as a result of greater payables outstanding for new capital asset purchases during the year. Long-term liabilities increased by \$7,010,337 due to the issuance of note payable to purchase the aforementioned smart meter infrastructure.

Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

Statement of Activities:

The following table provides a summary of the District's changes in net position for the years ended September 30:

	Governmental Activities		
	2023	2022	Variance
Revenues			
Property taxes	\$ 2,439,723	\$ 1,771,999	\$ 667,724
Charges for services	11,086,204	9,770,888	1,315,316
Grant revenues	259,600	699,450	(439,850)
Other revenues	823,970	218,595	605,375
Total Revenues	<u>14,609,497</u>	<u>12,460,932</u>	<u>2,148,565</u>
Expenses			
Expenses for services	9,879,637	8,933,658	945,979
Depreciation	1,771,369	1,609,348	162,021
Interest and fees on debt	644,647	639,269	5,378
Total Expenses	<u>12,327,153</u>	<u>11,182,275</u>	<u>1,144,878</u>
Change in Net Position	2,282,344	1,278,657	1,003,687
Beginning Net Position	<u>34,465,250</u>	<u>33,186,593</u>	<u>1,278,657</u>
Ending Net Position	<u>\$ 36,747,594</u>	<u>\$ 34,465,250</u>	<u>\$ 2,282,344</u>

Property taxes increased by \$667,724 primarily due to a greater property values in the current year. Charges for services increased by \$1,315,316 primarily due to greater water/sewer consumption and an increase in water services rates in the current year. Expenses for services increased by \$945,979 primarily due to greater personnel costs, insurance expenses, and repairs.

Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

Financial Analysis of Governmental Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's governing body.

The District's governmental funds reflect a combined fund balance of \$13,537,810. Of this, \$3,144,923 is unassigned and available for day-to-day operations of the District and \$7,622,830 is restricted for debt service and capital projects. The District has non-spendable funds of \$571,782 that consists of inventories and prepaid expenses.

General fund balance increased by \$91,286 primarily due to greater than expected revenues in the current year. Debt service fund balance increased by \$544,587 as a result of transfers in from the general fund in the current year. Capital projects fund balance decreased by \$1,426,416 primarily a result of the note issuance in the current year.

General Fund Budgetary Highlights

- Actual general fund revenues were greater than final budgeted revenues by \$914,275 during the year.
- Total general fund expenditures were over the final budget by \$173,031.
- Expenditures exceeded appropriations at the legal level of control (fund level) by \$850,540, which includes a budget overage of \$677,509 for transfers (out).

Capital Assets

At the end of the year, the District's governmental activities funds had invested \$43,839,568 in a variety of capital assets and infrastructure, net of depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34.

Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

A summary of the District's capital asset balances as of yearend and changes from the prior year is included in the table below:

	2023	2022	Change
Land	\$ 206,449	\$ 115,316	91,133
Construction in progress	6,395,826	2,906,328	3,489,498
Water system	25,456,736	24,627,512	829,224
Building & improvements	2,573,651	2,573,651	-
Vehicles & equipment	5,091,789	4,264,285	827,504
Sewer system	41,298,101	38,705,274	2,592,827
Right-to-use assets	1,144,714	1,144,714	-
Less: Accumulated depreciation	(38,327,698)	(36,614,652)	(1,713,046)
Total	\$ 43,839,568	\$ 37,722,428	\$ 6,117,140

Major capital asset additions during the current year include the following:

- Investment in smart meter infrastructure totaling \$4,855,401 (financed through note payable).
- Manhole replacements and improvements totaling \$519,534.
- Improvements to three lift stations totaling \$2,018,574.
- Purchased two new generators for \$253,853.
- Purchased Mustang Cat for \$160,351.
- Purchased a Vactor sewer cleaning truck mounted on a Western Star Freightliner chassis for \$548,643.
- Wastewater improvement plant improvements totaling \$575,841.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

Long-Term Debt

At the end of the year, the District reported total long-term debt of \$19,961,842 (net of premiums). Total long-term debt increased by \$5,518,856 when compared to the prior year.

Standard and Poor's has issued a rating of "A-" to the Series 2016 Unlimited Tax Bonds, "A+" to the Series 2020 Revenue Refunding Notes, and "A-" to the Series 2022 Unlimited Tax Bonds. The Series 2016 Unlimited Tax Bonds, the Series 2020 Revenue Refunding Notes, and the Series 2022 Unlimited Tax Bonds carry insured ratings of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. Credit enhanced ratings provided through bond insurance policies are subject to change based on changes to the ratings of the insurers.

Galveston County Water Control and Improvement District No. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

Economic Factors

The District is located in Galveston County, Texas. The District remains financially viable allowing it to continue providing quality services to its residents.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government'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.

FINANCIAL STATEMENTS

Galveston County Water Control and Improvement District No. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2023

Governmental Funds Balance Sheet				
	General	Debt Service	Capital Projects	Total
Assets				
Cash & cash equivalents	\$ 6,932,822	\$ 1,029,932	\$ 4,953,261	\$ 12,916,015
Restricted cash	-	-	4,234,322	4,234,322
Receivables, net	1,923,698	87,414	198,950	2,210,062
Other current assets	-	-	-	-
Due from other funds	133,730	-	-	133,730
Inventory	507,071	-	-	507,071
Prepaid items	64,711	-	-	64,711
Capital assets				
not being depreciated	-	-	-	-
Capital assets (net of accumulated depreciation)	-	-	-	-
Total Assets	<u>\$ 9,562,032</u>	<u>\$ 1,117,346</u>	<u>\$ 9,386,533</u>	<u>\$ 20,065,911</u>
Deferred Outflows of Resources				
Pension outflows	-	-	-	-
OPEB outflows	-	-	-	-
Deferred charge on refunding	-	-	-	-
Total Deferred Outflows	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 2,140,883	\$ -	\$ 2,659,905	\$ 4,800,788
Customer deposits	1,365,870	-	-	1,365,870
Accrued compensated absences	-	-	-	-
Accrued interest payable	-	-	-	-
Due to other funds	-	-	133,730	133,730
Long-term liabilities				
Net pension liability	-	-	-	-
OPEB liability	-	-	-	-
Debt due within one year	-	-	-	-
Debt due after one year	-	-	-	-
Total Liabilities	<u>\$ 3,506,753</u>	<u>\$ -</u>	<u>\$ 2,793,635</u>	<u>\$ 6,300,388</u>

<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ -	\$ 12,916,015
-	4,234,322
-	2,210,062
-	-
(133,730)	-
-	507,071
(37,500)	27,211
6,602,275	6,602,275
37,237,293	37,237,293
<u>\$ 43,668,338</u>	<u>\$ 63,734,249</u>
1,186,199	1,186,199
21,822	21,822
123,721	123,721
<u>1,331,742</u>	<u>1,331,742</u>
\$ -	\$ 4,800,788
-	1,365,870
301,666	301,666
148,713	148,713
(133,730)	-
1,525,040	1,525,040
102,049	102,049
1,002,613	1,002,613
18,959,229	18,959,229
<u>\$ 21,905,580</u>	<u>\$ 28,205,968</u>

Galveston County Water Control and Improvement District No. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (Continued)

September 30, 2023

Governmental Funds Balance Sheet				
	General	Debt Service	Capital Projects	Total
Deferred Inflows of Resources				
Pension inflows	\$ -	\$ -	\$ -	\$ -
OPEB inflows	-	-	-	-
Unavailable revenue - prop. taxes	140,299	87,414	-	227,713
Total Deferred Inflows	<u>140,299</u>	<u>87,414</u>	<u>-</u>	<u>227,713</u>
Fund balances/Net position				
Fund Balances:				
Nonspendable:				
Inventory	507,071	-	-	507,071
Prepaid items	64,711	-	-	64,711
Restricted for:				
Debt service	-	1,029,932	-	1,029,932
Capital projects	-	-	6,592,898	6,592,898
Committed for:				
Capital assets software	250,000	-	-	250,000
Vehicle replacement	99,915	-	-	99,915
System Maintenance	1,776,626	-	-	1,776,626
Self-insured insurance	71,734	-	-	71,734
Unassigned	3,144,923	-	-	3,144,923
Total Fund Balances	<u>5,914,980</u>	<u>1,029,932</u>	<u>6,592,898</u>	<u>13,537,810</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 9,562,032</u>	<u>\$ 1,117,346</u>	<u>\$ 9,386,533</u>	<u>\$ 20,065,911</u>
Net Position:				
Net investment in capital assets				
Restricted for debt service				
Unrestricted				

Total Net Position

See Notes to Financial Statements.

Adjustments	Statement of Net Position
\$ 76,920	\$ 76,920
35,509	35,509
(227,713)	-
(115,284)	112,429

(507,071)	-
(64,711)	-
(1,029,932)	-
(6,592,898)	-
(250,000)	-
(99,915)	-
(1,776,626)	-
(71,734)	-
(3,144,923)	-
(13,537,810)	-

29,869,842	29,869,842
1,029,932	1,029,932
5,847,820	5,847,820
\$ 36,747,594	\$ 36,747,594

Galveston County Water Control and Improvement District No. 1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Year Ended September 30, 2023

Governmental Change in Fund Balances				
	General	Debt Service	Capital Projects	Total
Revenues				
Charges for water/sewer services	\$ 10,237,085	\$ -	\$ -	\$ 10,237,085
Charges for garbage services	302,549	-	-	302,549
Property taxes	1,771,202	646,434	-	2,417,636
Penalty and interest	202,159	-	-	202,159
Tap connection and inspection fees	344,411	-	-	344,411
Investment income	178,874	5,046	407,273	591,193
Miscellaneous income	232,777	-	-	232,777
Capital grant	-	-	259,600	259,600
Total Revenues	13,269,057	651,480	666,873	14,587,410
Expenditures/Expenses				
Service Operations:				
Personnel	4,230,280	-	-	4,230,280
Purchased bulk water	1,791,374	-	-	1,791,374
Professional fees	65,612	-	-	65,612
Contracted services	648,232	25,511	-	673,743
Repairs and maintenance	1,293,506	-	135,711	1,429,217
Administrative expenses	1,028,674	-	-	1,028,674
Utilities	396,456	-	-	396,456
Other	-	1,176	-	1,176
Depreciation	-	-	-	-
Capital Outlay	2,283,763	-	5,604,746	7,888,509
Debt Service:				
Principal	68,876	823,594	-	892,470
Interest	18,088	609,522	-	627,610
Total Expenditures/Expenses	11,824,861	1,459,803	5,771,957	19,056,621
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	1,444,196	(808,323)	(5,105,084)	(4,469,211)

Adjustments	Statement of Activities
\$ -	\$ 10,237,085
-	302,549
22,087	2,439,723
-	202,159
-	344,411
-	591,193
-	232,777
-	259,600
22,087	14,609,497
270,605	4,500,885
-	1,791,374
-	65,612
(7,500)	666,243
-	1,429,217
-	1,028,674
-	396,456
-	1,176
1,771,369	1,771,369
(7,888,509)	-
(892,470)	-
17,037	644,647
(6,729,468)	12,327,153
6,751,555	2,282,344

Galveston County Water Control and Improvement District No. 1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (Continued)

For the Year Ended September 30, 2023

	Governmental Change in Fund Balances			
	General	Debt Service	Capital Projects	Total
Other Financing Sources (Uses)				
Debt issuance	-	-	6,531,500	6,531,500
Transfers in	-	1,352,910	-	1,352,910
Transfers (out)	(1,352,910)	-	-	(1,352,910)
Total Other Financing Sources				
(Uses)	(1,352,910)	1,352,910	6,531,500	6,531,500
Net Change in Fund Balances	91,286	544,587	1,426,416	2,062,289
Net Change in Net Position				
Beginning Fund Balances/ Net Position	5,823,694	485,345	5,166,482	11,475,521
Ending Fund Balances/ Net Position	<u>\$ 5,914,980</u>	<u>\$ 1,029,932</u>	<u>\$ 6,592,898</u>	<u>\$ 13,537,810</u>

See Notes to Financial Statements.

Adjustments	Statement of Activities
(6,531,500)	-
(1,352,910)	-
1,352,910	-
(6,531,500)	-
220,055	-
	2,282,344
22,989,729	34,465,250
<u>\$ 23,209,784</u>	<u>\$ 36,747,594</u>

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Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

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 49 and 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and accounting policies of the District are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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’s significant accounting policies are described below.

A. Reporting Entity

The District has adopted Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The District is governed by a Board of Directors consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is considered to be the primary

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

government as well as the reporting entity. There are no other organizations which meet the criteria for inclusion herein as part of the financial reporting entity.

B. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government reported the following major governmental funds:

The *general fund* is used to account for the operations of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water, wastewater, and solid waste disposal. Expenditures include all costs associated with the daily operations of the District.

The *debt service fund* is used to account for the payment of interest and principal on all long-term debt of the District. The primary source of revenue for debt service is property tax pursuant to requirements of the District's bond resolutions. Expenditures include costs incurred in assessing and providing these services.

The *capital projects fund* is used to account for financial resources restricted, committed, or assigned for acquisition or construction of facilities and related costs.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net position and statement of activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by the measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes and interest associated with the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. *Cash and cash equivalents*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash equivalents consist of investment pools that are stated at cost, which approximates market value.

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 are reported using the pools' share price.

Credit Risk – Investments. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At year end, the District's investment in the TexPool investment pool was rated AAAM by Standard & Poor's.

Interest Rate Risk – Investments. 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 the investment pool to have a maturity of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year Ended September 30, 2023

2. *Fair Value*

The District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. *Receivables and Interfund Transactions*

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as "due from other funds" or "due to other funds" on the combined balance sheet.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water lines, sewer lines, and storm sewers), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	40 years
Water and wastewater facilities	10 to 45 years
All other equipment	3 to 20 years

5. *Inventories and prepaid items*

Inventory consisting of supplies and materials are stated at costs. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year Ended September 30, 2023

7. *Net position flow assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. *Fund balance flow assumptions*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied.

Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. *Compensated absences*

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation, sick, and compensatory time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

It is the District's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the District's governmental funds recognize accrued compensated absences when it is paid.

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.

10. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists of bonds payable and lease liabilities.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

11. Leases

The District recognizes lease liabilities with an initial, individual value of \$20,000 or more.

Lessee: The District is a lessee for noncancellable lease of office space within the City of Dickinson city hall complex. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the full-accrual financial statements.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as capital assets and lease liabilities are reported as long-term debt on the statement of net position.

12. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

F. Revenues and expenditures/expense

1. *Program revenues*

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property taxes*

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.

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

NOTE 4 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

An annual unappropriated budget is adopted for all funds by the Board of Directors prior to the beginning of the year. Management may not amend the budget without the approval of the Board. The budgetary legal level of control is determined to be the fund level.

The District has adopted a non-appropriated budget in accordance with Title 30 of the Texas Administrative Code, Section 293.97. The budget is prepared using the same method of accounting as for financial reporting and a budgetary comparison schedule for the general fund is presented as supplementary information to the basic financial statements.

- A. Expenditures Exceeding Appropriations

For the year ended September 30, 2023, expenditures exceeded appropriations at the legal level of control within the general fund by a total of \$850,545. This includes an overage of \$677,509 for budgeted transfers out to other funds.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

NOTE 5 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District requires funds on deposit at the depository bank to be collateralized by securities. As of yearend, the District's FDIC coverage and pledged securities exceeded the bank balances.

The District's investment in bonds were rated AAA+ by Standard & Poor's and Aaa by Moody's.

Interest rate risk: In compliance with the District's Investment Policy, as of September 30, 2023, the District minimized the interest rate risk, related to current events market turmoil in the portfolio by: a. Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity., and b. Investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.

As of September 30, 2023, the District had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (years)</u>
Investment pools	\$ 9,018,716	0.08
	<u>\$ 9,018,716</u>	<u>0.08</u>

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

B. Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are remeasured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The District's financial instruments consist of cash and cash equivalents, investments in certificates of deposits maturing in greater than three months, bonds, accounts payable and accounts receivable. The estimated fair value of cash, cash equivalents, investments, accounts payable and accounts receivable approximate their carrying amounts due to the short-term nature of these instruments. Certificates of deposit with a year or less maturity are recorded at face value.

C. Receivables

The following comprise the receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Maintenance taxes	\$ 140,294	\$ 87,414	\$ -	\$ 227,708
Utilities	1,627,472	-	-	1,627,472
Other	99,414	-	-	99,414
Grants	-	-	198,950	198,950
Allowance	(54,570)	-	-	(54,570)
	<u>\$ 1,812,610</u>	<u>\$ 87,414</u>	<u>\$ 198,950</u>	<u>\$ 2,098,974</u>

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

D. Capital Assets

A summary of changes in capital assets for the year ended is as follows:

	Beginning Balances	Increases	(Decreases)	Ending Balances
Capital assets, not being depreciated:				
Land and land improvements	\$ 115,316	\$ 91,133	\$ -	\$ 206,449
Construction in progress	2,906,328	5,709,755	(2,220,257)	6,395,826
Total capital assets not being depreciated	3,021,644	5,800,888	(2,220,257)	6,602,275
Capital assets, being depreciated:				
Water system	24,627,512	627,540	201,684	25,456,736
Building and improvements	2,573,651	-	-	2,573,651
Vehicles and equipment	4,264,285	885,827	(58,323)	5,091,789
Sewer system	38,705,274	574,254	2,018,573	41,298,101
Right-of-use assets	1,144,714	-	-	1,144,714
Total capital assets being depreciated	71,315,436	2,087,621	2,161,934	75,564,991
Less accumulated depreciation				
Water system	(13,498,213)	(571,030)	-	(14,069,243)
Building and improvements	(460,129)	(59,511)	-	(519,640)
Vehicles and equipment	(2,706,024)	(199,221)	58,323	(2,846,922)
Sewer system	(19,310,960)	(869,409)	-	(20,180,369)
Right-of-use assets	(639,326)	(72,198)	-	(711,524)
Total accumulated depreciation	(36,614,652)	(1,771,369)	58,323	(38,327,698)
Net capital assets being depreciated	34,700,784	316,252	2,220,257	37,237,293
Total Capital Assets	\$ 37,722,428	\$ 6,117,140	\$ -	\$ 43,839,568

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

E. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year ended. In general, the District uses the debt service fund to liquidate governmental long-term liabilities:

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Governmental Activities:					
Tax bonds - Series 2016	\$ 1,845,000	\$ -	\$ (205,000)	\$ 1,640,000	\$ 205,000
Refunding revenue notes - Series 2020	5,025,000	-	(320,000)	4,705,000	335,000
Tax bonds - Series 2022	5,710,000	-	(185,000)	5,525,000	195,000
Note payable (smart meters)	-	6,531,500	(113,594)	6,417,906	195,803
Plus: Premium	1,402,598	-	(120,174)	1,282,424	-
Lease liabilities	460,388	-	(68,876)	391,512	71,810
Total Governmental Activities	<u>\$ 14,442,986</u>	<u>\$ 6,531,500</u>	<u>\$ (1,012,644)</u>	<u>\$ 19,961,842</u>	<u>\$ 1,002,613</u>
					<u>\$ 18,959,229</u>
				Long-term liabilities due in more than one year	

On December 22, 2022, the District entered into a note payable agreement in the amount of \$6,531,500. The note bears interest of 5.23% and is payable on June 1 and December 1 of each year. The note will mature on December 1, 2042.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Long-term debt at year end was comprised of the following:

Description	Interest Rates	Original Balance	Current Balance
Tax Bonds			
Unlimited tax bonds - Series 2016			
- maturity 3/1/31, callable 3/1/25*	2.5%-4.0%	\$ 3,490,000	\$ 1,640,000
Unlimited tax bonds - Series 2022			
- maturity 3/1/42, callable 3/1/31*	3.0%-5.0%	5,710,000	5,525,000
Notes payable			
Refunding Revenue Note - Series 2020			
- maturity 3/1/34, callable 3/1/29*	2.0%-5.0%	5,025,000	4,705,000
Note payable (smart meters) issued 2023			
- maturity 12/1/42	5.23%	6,531,500	6,417,906
Lease Liabilities - Building			
Office building lease - 2007			
- maturity 2029	5.0%	526,474	391,512
Total Governmental Activities		<u>\$ 21,282,974</u>	<u>\$ 18,679,418</u>

* 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, 2029, and 2031, are subject to mandatory redemption. Series 2022 term bonds maturing on March 1, 2031, 2035, 2038, and 2042, are subject to mandatory redemption.

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 all its available bond authorization of \$33,985,500.

The Series 2016 and Series 2022 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 2020 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.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

The annual requirements to amortize debt issues outstanding at year ending were as follows:

Year Ending September 30,	Unlimited Tax Bonds		
	Principal	Interest	Total
2024	\$ 400,000	\$ 242,150	\$ 642,150
2025	410,000	223,949	633,949
2026	420,000	206,787	626,787
2027	430,000	190,662	620,662
2028	440,000	174,037	614,037
2029	455,000	156,787	611,787
2030	465,000	138,655	603,655
2031	480,000	119,643	599,643
2032	285,000	105,675	390,675
2033	295,000	96,975	391,975
2034	305,000	87,975	392,975
2035	315,000	78,675	393,675
2036	320,000	69,150	389,150
2037	330,000	59,400	389,400
2038	340,000	49,350	389,350
2039	350,000	39,000	389,000
2040	365,000	28,275	393,275
2041	375,000	17,175	392,175
2042	385,000	5,775	390,775
Totals	<u>\$ 7,165,000</u>	<u>\$ 2,090,095</u>	<u>\$ 9,255,095</u>

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Year Ending September 30,	Notes Payable		
	Principal	Interest	Total
2024	\$ 530,803	\$ 515,554	\$ 1,046,357
2025	556,177	488,055	1,044,232
2026	592,101	459,006	1,051,107
2027	618,604	428,378	1,046,982
2028	655,716	396,141	1,051,857
2029	683,470	362,262	1,045,732
2030	716,900	326,832	1,043,732
2031	756,041	291,941	1,047,982
2032	780,932	260,275	1,041,207
2033	806,612	232,370	1,038,982
2034	833,122	205,860	1,038,982
2035	345,507	183,425	528,932
2036	363,813	165,119	528,932
2037	383,090	145,842	528,932
2038	403,387	125,545	528,932
2039	424,760	104,172	528,932
2040	447,266	81,666	528,932
2041	470,963	57,969	528,932
2042	495,917	33,015	528,932
2043	257,725	6,740	264,465
Totals	\$ 11,122,906	\$ 4,870,167	\$ 15,993,073

Year Ending September 30,	Lease Liability - Building		
	Principal	Interest	Total
2024	\$ 71,810	\$ 15,154	\$ 86,964
2025	74,894	12,071	86,965
2026	78,136	8,828	86,964
2027	81,544	5,420	86,964
2028	85,128	1,837	86,965
Totals	\$ 391,512	\$ 43,310	\$ 434,822

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

F. Other Long-Term Liabilities

The following is a summary of changes in the District's total other long-term liabilities for the year ended. In general, the District uses the general fund to liquidate governmental compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 257,623	\$ 260,526	\$ (216,483)	\$ 301,666	\$ 271,499
Total Governmental Activities	<u>\$ 257,623</u>	<u>\$ 260,526</u>	<u>\$ (216,483)</u>	<u>\$ 301,666</u>	<u>\$ 271,499</u>
Long-term liabilities due in more than one year				<u>\$ 30,167</u>	

G. Interfund Receivables, Payables, And Transfers

The compositions of interfund due to/from balances as of the year ended September 30, 2023 were as follows:

	<u>Payable Fund:</u>	
	<u>Capital Projects</u>	
<u>Receivable Fund:</u>		<u>Total</u>
General	\$ 133,730	\$ 133,730
Total	<u>\$ 133,730</u>	<u>\$ 133,730</u>

Transfers between the primary government funds during the 2023 year were as follows:

	<u>Transfers In:</u>	
	<u>Debt</u>	
<u>Transfers Out:</u>	<u>Service</u>	<u>Total</u>
General	\$ 1,352,910	\$ 1,352,910
Capital projects	-	-
Total	<u>\$ 1,352,910</u>	<u>\$ 1,352,910</u>

The outstanding balances between funds result mainly from the time lag between the dates that the payments between funds are made.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

NOTE 6 – OTHER INFORMATION

A. League City Contract

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. No actual sale of water has taken place since February 2017.

B. 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 30-year agreement expired September 30, 2020. The District has made verbal arrangements with Texas City to continue the terms of the agreement until further notice. For the year ended September 30, 2023, Texas City paid the District \$36,523 for these services.

C. Surface Water Supply Contract

The District's water supply is obtained through a wholesale water supply contract with the Gulf Coast Water Authority. 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"), for 1,500,000 gallons per day of treated surface water. The purpose of that agreement was to convert

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

the District from ground water to surface water in response to the growing problem of land subsidence throughout Galveston County and surrounding counties. On May 19, 1983, the District and the Authority agreed to increase the reserve contract quantity to 2,500,000 gallons per day. 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 57,600,000 gallons per day. Originally, this surface water supply was only received by the District near its east boundary line and then distributed throughout the District via the District's own distribution system, however today the District is also connected to the Authority's transmission lines near its western boundary on the Highway 6 extension. 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 6 B.).

Effective June 18, 1998, the Authority initiated a contract to construct the 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 Authority's water treatment plant is 4,165,000 gallons per day. On August 15, 2002, and as amended May 15, 2014, the District signed a separate contract with the Authority to transfer 500,000 gallons per day from its east side take point reserve contract quantity to its west side take point reserve contract quantity. Effective April 21, 2014, the Authority and District signed an amendment which moved the operation and maintenance cost of the surface water treatment plant from a take or pay formula to pay for what you take; intended to reward customers of the Authority who encourage water conservation by their customers. This contract extended the life of the original agreement to December 31, 2027. The District paid \$1,791,374 for treated water delivered to the District in the current year.

D. Grant Program

On May 21, 2021, the Texas General Land Office Community Development and Revitalization division (GLO-CDR) approved the District's grant application for the Mitigation Harvey Round 1 HUD Most Impacted and Distressed Competition. The funds were awarded under the Community Development Block Grant Disaster Recovery (CDBG-DR) in the amount of \$8,107,921 to be used for water system

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

improvements. The funds were awarded under contract 22-085-035-D279 and require a \$81,079 District match. As of fiscal year-end, the District has received \$259,600 under this program, of which \$198,980 is recorded as grants receivable.

E. Fire Protection

The Dickinson Volunteer Fire Department (VFD) provides fire protection services to the citizens of the District and the City of Dickinson. 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 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. A "connection" means a Single- Family Residential Unit or each commercial or industrial establishment to which drinking water is supplied from the District's water system. The District will bill its customers a monthly fee for fire protection equal to the amount to be paid to the VFD. The agreement will be in effect for 15 years with automatic one-year renewals. For the year ended September 30, 2023, the District's total collections remitted to VFD were \$622,230.

F. Solid Waste Service Agreement

On December 9, 2019, the District executed an Interlocal Agreement for Solid Waste Management Services (SWMS) with the City of Dickinson to provide solid waste management services to all residential and commercial customers within the City of Dickinson. The District will contract with a solid waste collection service provider. The District will bill customers. From the amount collected, the District will pay the solid waste contractor, the District will retain a portion for an administrative fee, and the District will remit a portion to the City for a franchise fee. The SWMS agreement is for 4 years. For the year ended September 30, 2023, the District's total collections for solid waste services were \$1,988,033. This includes the District's revenue portion of \$302,549. Total Solid Waste Fund Balance included in General Fund is \$530,882.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, cybersecurity, errors and omissions and natural disasters. The

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

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, cybersecurity 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.

H. Maintenance Tax

The District has committed maintenance tax proceeds to fund the cost of system maintenance. On October 1, 2022, the reserve was \$1,799,838. In the current fiscal year, the reserved fund generated \$1,793,667 in total revenue including maintenance tax revenues of \$1,771,202. Expenditures of the fund for system maintenance were \$1,816,879, resulting in a committed fund balance at the fiscal year-end of \$1,776,626.

I. Employer-Funded Insurance Benefits

Effective February 2021, the District implemented a Health Reimbursement Arrangement (HRA) plan to cover qualified medical, dental and vision expenses for its employees up to a fixed dollar amount per year. At the time of enrollment, employees are provided with a reimbursement amount that is tax-free and is based on the employee's elected medical insurance coverage level. All employees in the same coverage level receives the same HRA contribution. Unused amounts do not roll over from one year to the next but remain with the District.

Prior to implementation of the new HRA plan, in March 2019, the District replaced the self-insured medical deductible reimbursement plan with a group hospital confinement indemnity insurance plan administered by an external insurance provider. The employer-funded plan reimburses eligible medical out-of-pocket expenses to employees. This plan was discontinued January 2022. An earlier modification to the employer provided insurance benefits happened in December 2015, the District replaced the self-insured group insurance benefits for dental and vision with an external insurance provider. Reimbursements for orthodontics continue to be an employer self-insured benefit with established limits and eligible requirements.

The District commits a discretionary amount each month which is reported as a commitment of fund balance. Employees contribute dependent coverage.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

The commitment of the employer provided insurance fund balance as of September 30, 2023 is as follows:

Self-Insured Plans	
Committed as of Sept 30, 2022	\$ 81,134
Contributions	41,728
Claims	(51,128)
Committed as of Sept 30, 2023	<u>\$ 71,734</u>

NOTE 6 – RETIREMENT BENEFITS

A. Retirement Plans

Defined Benefit Pension Plan

1. Plan Description

The District provides retirement and death benefits for all its eligible employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of nearly 800 nontraditional defined contribution benefit plans. TCDRS, in the aggregate, issues an annual comprehensive financial report ("ACFR") on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

2. Benefits Provided

The plan provisions are adopted by the District within the options available in 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.

Benefit amounts are determined by the sum of the employee's contribution to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

employer's commitment to contribute. At retirement or death, 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.

3. Funding Policy

The District 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 District contributed using the ADCR of 15.65% for calendar year 2023 and 15.49% for calendar year 2022.

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar years 2023 and 2022. The District may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

4. Contributions

	9/30/2023	9/30/2022
Annual Determined Contribution Cost (ADRC)	\$ 432,336	\$ 343,231
Actual Contributions Made	\$ 432,336	\$ 382,069
Percentage of APC Made	100%	100%
Contribution deficiency (excess)	\$ -	\$ (38,838)

The required contribution rates for fiscal year 2023 were determined as part of the December 31, 2022 actuarial valuation.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Additional information as of the three latest actuarial valuations also follows:

Valuation Date	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent of	Level Percent of	Level Percent of
	payroll, closed	payroll, closed	payroll, closed
Amortization Period	20.0 years	18.8 years	14.6 years
in years			
Asset Valuation Method	5-year Smoothed	5-year Smoothed	5-year Smoothed
	Fund	Fund	Market
Actuarial Assumptions:			
Investment Rate of	7.5%	7.5%	7.5%
Return *			
Projected Salary	4.60%	2.25%	2.25%
Increases *			
* Includes Inflation at	2.50%	2.50%	2.50%
stated-rate			
Cost-of Living			
Adjustments	0.0%	n/a	n/a

Employees covered by benefit terms

At the December 31, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	32
Active employees	41
Total	96

5. Net Pension Liability

The District's Net Pension Liability (Asset) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	4.70% per year; varies by age and service
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table.

Actuarial assumptions used in the December 31, 2022, valuation 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 68.

The long-term expected rate of return on pension plan investments is 7.50% gross of administrative expenses. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

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 capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2023 information for a 10-year time horizon.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected minus inflation) (2)
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (5)	25.00%	7.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
International Equities – Developed	MSCI World Ex USA (net) Index	5.00%	4.95%
International Equities – Emerging	MSCI Emerging Markets (net) Index	6.00%	4.95%
Investment - Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.25%
Distressed Debt	Cambridge Associates Distressed Securities Index (3)	4.00%	7.60%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (4)	6.00%	5.70%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-day U.S. Treasury	2.00%	0.20%

(1) Target asset allocation adopted at the March 2023 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 2.3%, per Cliffwater's 2023 capital market assumptions.

(3) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability (Asset):

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at 12/31/21	\$ 21,272,782	\$ 22,854,829	\$ (1,582,047)
Changes for the year:			
Service Cost	368,521	-	368,521
Interest on total pension liability ⁽¹⁾	1,612,532	-	1,612,532
Effect of plan changes ⁽²⁾	317,050	-	317,050
Difference in expected and actual gains or losses	58,977	-	58,977
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(8,716)	(8,716)	-
Benefit payments	(854,650)	(854,650)	-
Administrative expense	-	(12,448)	12,448
Member contributions	-	186,085	(186,085)
Net investment income	-	(1,317,143)	1,317,143
Employer contributions	-	411,780	(411,780)
Other ⁽³⁾	-	(18,281)	18,281
Net changes	1,493,714	(1,613,373)	3,107,087
Balance at 12/31/22	\$ 22,766,496	\$ 21,241,456	\$ 1,525,040

- (1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.
- (2) No plan changes valued.
- (3) Relates to allocation of system-wide items.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Sensitivity of the net pension liability / (asset) to changes in the discount rate

The following presents the net pension liability / (asset) of the District, calculated using the discount rate of 7.60%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate:

1% Decrease 6.60%	Current Single Rate Assumption 7.60%	1% Increase 8.60%
\$ 4,408,583	\$ 1,525,040	\$ (919,191)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the internet at <https://www.tcdrs.com>.

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended September 30, 2023, the District recognized pension expense of \$657,396.

At September 30, 2023, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Investment earnings	\$ 418,135	\$ -
Changes in actuarial assumptions	456,242	-
Differences between expected and actual economic experience	-	(76,920)
Contributions subsequent to the measurement date	311,822	-
Total	\$ 1,186,199	\$ (76,920)

The District reported \$311,822 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2024.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2023	\$	(60,972)
2024		166,683
2025		83,134
2026		608,612
2027		-
Thereafter		-
	\$	<u>797,457</u>

B. Other Postemployment Benefits

1. Plan Description

The District participates in the retiree Group Term Life ("GTL") program for the TCDRS, which is a statewide, agent multiple-employer, public employee retirement system. The benefit terms of this program are established under the TCDRS Act. Participation in the retiree GTL program is optional and the employer may elect to opt out (or opt into) coverage as of January 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.

2. Benefits Provided

The benefits provided by this program are as follows:

- All full and part-time non-temporary employees participate in the plan, regardless of the number of hours the work in a year and are eligible for the TCDRS pension plan. Only employers that have elected participate in the retiree GTL program are included in the OPEB plan.
- They provide a \$5,000 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the GTL program.
- The OPEB benefit is a fixed \$5,000 lump-sum benefit amount.
- No future increases are assumed in the \$5,000 benefit amount.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

Employees covered by benefit terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	11
Active employees	41
Total	71

3. Contributions and Actuarial Information

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust as defined by paragraph 4 of GASB Statement No. 75.

4. Total OPEB Liability

The District's Postemployment Benefits Other Than Pensions Liability for the benefit plan was measured as of December 31, 2022, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Discount Rate	3.72%
Amortization Method	Straight-line over expected working life

Mortality rates for active members, retirees, and beneficiaries were based on the general employees amount-weighted mortality table, with projections of 100% of the MP-2021 Ultimate scale after 2010.

All actuarial assumptions that determined the total OPEB liability as of December 31, 2022 were based on the results of an actuarial experience study for the period January 1,

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

2013 - December 31, 2016, except where required to be different by GASB 75. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability of the District, calculated using the discount rate of 3.72%, as well as what the County's OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.72%) or 1-percentage-point higher (4.72%) than the current rate:

Discount Rate		
1% Decrease	Current Discount Rate	1% Increase
2.72%	3.72%	4.72
\$ 121,691	\$ 102,049	\$ 86,581

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/2021	\$ 135,608
Changes for the year:	
Service Cost	4,049
Interest	2,825
Difference between expected and actual experience	140
Changes of assumptions	(35,522)
Benefit payments	(5,051)
Net changes	(33,559)
Balance at 12/31/2022	\$ 102,049

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the District recognized OPEB expense of \$6,751.

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

At September 30, 2023, the District reported deferred outflows/inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 1,086	\$ (5,269)
Changes in assumptions	13,398	(30,240)
Contributions subsequent to the measurement date	7,338	-
Total	<u>\$ 21,822</u>	<u>\$ (35,509)</u>

The District reported \$7,338 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2024.

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	
2023	\$ (1,890)
2024	(6,026)
2025	(6,031)
2026	(7,078)
2022	-
	<u>\$ (21,025)</u>

Galveston County Water Control and Improvement District No. 1

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

NOTE 8 – PRIOR YEAR RESTATEMENTS

The District adjusted prior year utility receivables and pension outflows due to errors. As a result, The District restated prior year general fund balance and governmental activities net position as follows:

	General Fund	Governmental Activities
Prior year ending fund balance/net position, as reported	\$ 5,194,520	33,967,700
Correction to unbilled utility receivables	629,174	629,174
Adjustment to pension deferred outflows of resources	-	(131,624)
Restated beginning fund balance/net position	<u>\$ 5,823,694</u>	<u>\$ 34,465,250</u>

NOTE 9 – SUBSEQUENT EVENTS

We have evaluated subsequent events through February 9, 2024 the date the financial statements were issued. There were no subsequent events through this date which materially impact the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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Galveston County Water Control and Improvement District No. 1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended September 30, 2023

	Original & Final Budget	Actual	Variance Positive (Negative)
Revenues			
Charges for water/sewer service	\$ 9,407,527	\$ 10,237,085	\$ 829,558
Charges for garbage services	307,415	302,549	(4,866)
Property taxes	1,823,543	1,771,202	(52,341)
Penalty and interest	220,238	202,159	(18,079)
Tap connection and inspection fees	412,000	344,411	(67,589)
Investment income	12,000	178,874	166,874
Miscellaneous income	172,059	232,777	60,718
Total Revenues	<u>12,354,782</u>	<u>13,269,057</u>	<u>914,275</u>
Expenditures			
Personnel	4,292,673	4,230,280	62,393
Purchased bulk water	1,814,954	1,791,374	23,580
Professional fees	86,000	65,612	20,388
Contracted services	828,040	648,232	179,808
Repairs and maintenance	1,281,935	1,293,506	(11,571)
Administrative expenses	994,475	1,028,674	(34,199)
Utilities	357,300	396,456	(39,156)
Capital outlay	1,909,489	2,283,763	(374,274)
Debt Service:			
Principal	68,876	68,876	-
Interest	18,088	18,088	-
Total Expenditures	<u>11,651,830</u>	<u>11,824,861</u>	<u>(173,031) *</u>
Other Financing Sources (Uses)			
Transfers in	36,685	-	(36,685)
Transfers (out)	(675,401)	(1,352,910)	(677,509) *
Total Other Financing Sources (Uses)	<u>(638,716)</u>	<u>(1,352,910)</u>	<u>(714,194)</u>
Net Change in Fund Balance	<u>\$ 64,236</u>	<u>\$ 91,286</u>	<u>\$ 27,050</u>
Beginning Fund Balance		<u>5,823,694</u>	
Ending Fund Balance		<u>\$ 5,914,980</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.
2. * Expenditures exceeded appropriations at legal level of control.

Galveston County Water Control and Improvement District No. 1

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Years Ended:

	12/31/2022	12/31/2021	12/31/2020
Total pension liability			
Service cost	\$ 368,521	\$ 356,430	\$ 305,299
Interest	1,612,532	1,517,024	1,427,877
Changes in benefit terms	317,050	353,278	-
Differences between expected and actual experience	58,977	(230,514)	(53,445)
Changes of assumptions	-	(5,612)	1,147,623
Benefit payments, including refunds of participant contributions	(863,366)	(632,885)	(461,224)
Net change in total pension liability	1,493,714	1,357,721	2,366,130
Total pension liability - beginning	21,272,782	19,915,061	17,548,931
Total pension liability - ending (a)	22,766,496	21,272,782	19,915,061
Plan fiduciary net position			
Contributions - employer	\$ 411,780	\$ 318,450	\$ 310,101
Contributions - members	186,085	174,017	169,454
Net investment income	(1,317,143)	4,130,062	1,766,862
Benefit payments, including refunds of participant contributions	(863,366)	(632,885)	(461,224)
Administrative expenses	(12,448)	(12,365)	(13,812)
Other	(18,281)	1,221	2,237
Net change in plan fiduciary net position	(1,613,373)	3,978,500	1,773,618
Plan fiduciary net position - beginning	22,854,829	18,876,329	17,102,711
Plan fiduciary net position - ending (b)	\$ 21,241,456	\$ 22,854,829	\$ 18,876,329
Fund's net pension liability - ending (a) - (b)	\$ 1,525,040	\$ (1,582,047)	\$ 1,038,732
Plan fiduciary net position as a percentage of the total pension liability	93.30%	107.44%	94.78%
Covered payroll	\$ 2,658,359	\$ 2,485,951	\$ 2,420,772
Fund's net pension liability as a percentage of covered payroll	57.37%	-63.64%	42.91%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten calendar years. However, until a full ten-year trend is compiled, only available information is shown.

<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u> ¹
\$ 310,646	\$ 288,312	\$ 289,323	\$ 285,375	\$ 257,071	\$ 260,251
1,324,172	1,224,645	1,135,127	1,041,383	975,992	896,243
-	52,874	-	-	(41,727)	-
77,401	31,391	72,527	30,556	(133,252)	106,808
-	-	(17,470)	-	85,000	-
(393,206)	(388,564)	(358,689)	(340,451)	(316,915)	(280,604)
<u>1,319,013</u>	<u>1,208,658</u>	<u>1,120,818</u>	<u>1,016,863</u>	<u>826,169</u>	<u>982,698</u>
<u>16,229,918</u>	<u>15,021,260</u>	<u>13,900,442</u>	<u>12,883,579</u>	<u>12,057,410</u>	<u>11,074,712</u>
<u>17,548,931</u>	<u>16,229,918</u>	<u>15,021,260</u>	<u>13,900,442</u>	<u>12,883,579</u>	<u>12,057,410</u>
\$ 298,526	\$ 374,536	\$ 295,113	\$ 455,136	\$ 246,203	\$ 256,264
163,896	150,726	155,909	141,855	137,433	134,876
2,403,782	(273,847)	1,873,387	863,525	(142,323)	733,079
(393,206)	(388,564)	(358,689)	(340,451)	(316,915)	(280,604)
(13,033)	(11,757)	(9,830)	(9,383)	(8,420)	(8,707)
4,752	5,557	1,144	57,555	18,510	26,296
<u>2,464,717</u>	<u>(143,349)</u>	<u>1,957,034</u>	<u>1,168,237</u>	<u>(65,512)</u>	<u>861,204</u>
<u>14,637,994</u>	<u>14,781,343</u>	<u>12,824,309</u>	<u>11,656,072</u>	<u>11,721,584</u>	<u>10,860,380</u>
<u>\$ 17,102,711</u>	<u>\$ 14,637,994</u>	<u>\$ 14,781,343</u>	<u>\$ 12,824,309</u>	<u>\$ 11,656,072</u>	<u>\$ 11,721,584</u>
<u>\$ 446,220</u>	<u>\$ 1,591,924</u>	<u>\$ 239,917</u>	<u>\$ 1,076,133</u>	<u>\$ 1,227,507</u>	<u>\$ 335,826</u>
97.46%	90.19%	98.40%	92.26%	90.47%	97.21%
\$ 2,341,376	\$ 2,153,225	\$ 2,227,272	\$ 2,026,501	\$ 1,963,355	\$ 1,926,799
19.06%	73.93%	10.77%	53.10%	62.52%	17.43%

Galveston County Water Control and Improvement District No. 1

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	9/30/2023	9/30/2022	9/30/2021
Actuarially determined employer contributions	\$ 432,336	\$ 343,231	\$ 277,779
Contributions in relation to the actuarially	\$ 432,336	\$ 382,069	\$ 314,620
Contribution deficiency (excess)	\$ -	\$ (38,838)	\$ (36,841)
Annual covered payroll	\$ 2,770,483	\$ 2,589,207	\$ 2,456,052
Employer contributions as a percentage of covered	15.61%	14.76%	12.81%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	14.6 years (longest amortization ladder)
Asset Valuation Method	5 Year smoothed market
Inflation	2.5%
Salary Increases	4.7% average over career
Investment Rate of Return	7.50% net of administrative and investment expenses
Retirement Age	Average age at service retirement for recent retirees is 61.

Mortality

Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes

Employer contributions reflect that a 60% CPI COLA was adopted

<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>
\$ 272,966	\$ 260,268	\$ 239,482	\$ 248,341	\$ 231,832
\$ 309,222	\$ 294,972	\$ 271,011	\$ 280,480	\$ 260,794
<u>\$ (36,256)</u>	<u>\$ (34,704)</u>	<u>\$ (31,529)</u>	<u>\$ (32,139)</u>	<u>\$ (28,962)</u>
\$ 2,417,077	\$ 2,313,602	\$ 2,101,962	\$ 2,142,613	\$ 1,930,800
12.79%	12.75%	12.89%	13.09%	13.51%

Galveston County Water Control and Improvement District No. 1

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Year Ended:

	<u>12/31/2022</u>	<u>12/31/2021</u>	<u>12/31/2020</u>
Total OPEB liability			
Service cost	\$ 4,049	\$ 4,016	\$ 2,720
Interest	2,825	2,971	3,427
Changes in benefit terms	-		-
Differences between expected and actual experience	140	(7,032)	(2,096)
Changes of assumptions	(35,522)	2,009	14,418
Benefit payments, including refunds of participant contributions	(5,051)	(4,972)	(4,357)
Net change in total OPEB liability	<u>(33,559)</u>	<u>(3,008)</u>	<u>14,112</u>
Total OPEB liability - beginning	<u>\$ 135,608</u>	<u>\$ 138,616</u>	<u>\$ 124,504</u>
Total OPEB liability - ending	<u><u>\$ 102,049</u></u>	<u><u>\$ 135,608</u></u>	<u><u>\$ 138,616</u></u>
 Covered employee payroll	 \$ 2,658,359	 \$ 2,485,951	 \$ 2,420,712
City's total OPEB liability as a percentage of covered employee payroll	 3.84%	 5.45%	 5.73%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten calendar years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u> ¹
\$ 1,744	\$ 2,278	\$ 2,075
3,907	3,518	3,398
-	-	-
2,618	2,727	5,522
24,928	(10,922)	5,021
(4,449)	(3,660)	(4,009)
<u>28,748</u>	<u>(6,059)</u>	<u>12,007</u>
<u>\$ 95,756</u>	<u>\$ 101,815</u>	<u>\$ 89,808</u>
<u>\$ 124,504</u>	<u>\$ 95,756</u>	<u>\$ 101,815</u> ²
\$ 2,341,376	\$ 2,153,225	\$ 2,227,272
5.32%	4.45%	4.57%

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TEXAS SUPPLEMENTARY INFORMATION

Galveston County Water Control and Improvement District No. 1

TSI-1 SERVICES AND RATES

For the Year Ended September 30, 2023

1. Services provided by the District:

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

2. a. Retail rates based on 5/8" meter

The most prevalent type of meter (if not a 5/8"):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons Over Minimum	Usage Levels
Water	<u>\$ 13.51</u>	<u>1,000</u>	<u>N</u>	<u>\$3.45</u>	<u>1,001 to 2,000</u>
				<u>\$6.90</u>	<u>2,000 to 6,000</u>
				<u>\$7.19</u>	<u>6,001 to 12,000</u>
				<u>\$7.48</u>	<u>12,001 gallons & up</u>
Wastewater	<u>\$ 19.25</u>	<u>1,000</u>	<u>N</u>	<u>\$3.58</u>	<u>1,001 and up**</u>

Surcharge:

Commission Regulatory
Assessments

0.5% of actual water/sewer bill

Solid Waste \$ 21.64

District employs winter averaging for wastewater usage?

Yes _____ No _____ X _____

Total water and sewer charges per 10,000 gallons usage:

Water: \$76.77

Wastewater: \$55.05

Surcharge: \$0.66

Solid Waste: \$21.64

Fire: \$5.00

Total: \$159.12

** The maximum monthly sewer charge (the "cap") for Single-Family Residential account shall not exceed 10,000 gallons.

b. Retail Service Providers: Number of retail water and/or wastewater connections * within the District as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC) as noted:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
< 3/4"	8,083	7,859	x 1.0	7,859
1"	347	343	x 2.5	858
1 1/2"	20	19	x 5.0	95
2"	120	119	x 8.0	952
3"	22	22	x 15.0	330
4"	14	14	x 25.0	350
6"	8	7	x 50.0	350
8"	-	-	x 80.0	-
10"	-	-	x 115.0	-
Total water	<u>8,614</u>	<u>8,383</u>		<u>10,794</u>
Total wastewater	<u>8,351</u>	<u>8,079</u>	x 1.0	<u>8,123</u>

* Number of connections relates to water service, if provided. Otherwise, the number of wastewater connections should be provided.

Galveston County Water Control and Improvement District No. 1

TSI-1 SERVICES AND RATES

For the Year Ended September 30, 2023

3. Total Water Consumption (In Thousands) During the Fiscal Year:

Gallons pumped into system:	898,013,000	Water Accountability Ratio:
Gallons for flushing:	45,975,000	<u>77.6%</u>
Gallons billed to customers:	661,200,000	

4. Standby Fees: Does the District assess standby fees?

Yes No X

Does the District have Operation and Maintenance standby fees?

Yes No X

5. Location of District:

County in which District is located.

Galveston County

Is the District located entirely within one county?

Yes X No

Is the District located within a city?

Yes No Partly X

City in which District is located.

Dickinson, League City & Texas City, Texas

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

Entirely Partly X Not at all

ETJ's in which District is located.

League City & Texas City, Texas

Is the general membership of the Board appointed by an office outside the District?

If yes, by whom? Yes No X

Galveston County Water Control and Improvement District No. 1

TSI-2 GENERAL FUND EXPENDITURES (Page 1)

For the Years Ended September 30, 2023 and 2022

	2023	2022
<u>Current</u>		
Personnel Services (including benefits)	\$ 4,230,280	\$ 3,839,654
Professional Fees:		
Auditing	33,000	33,000
Legal	32,612	51,177
Subtotal	65,612	84,177
Purchased Services:		
Purchased water service	1,791,374	1,376,228
Contracted Services		
Management and consulting	424,373	511,396
Janitorial	10,715	10,500
Garbage	-	5,000
Security	5,805	4,647
Sludge hauling	126,944	134,319
Billing statement services	80,395	69,327
Subtotal	648,232	735,189
Utilities	396,456	330,388
Repairs and Maintenance	1,293,506	1,832,764
Capital Outlay	2,283,763	1,999,995
Administrative and Other		
Board expenditures	4,521	5,766
Bank charges	18,835	22,975
Credit card charges	92,529	82,249
Director fees	22,650	19,650
After hours dispatch	9,545	9,654
Dues	10,433	9,392
Education and training	57,096	54,226
Events	17,949	4,681
Fuel	52,992	74,387
Subtotal	286,550	282,980

Galveston County Water Control and Improvement District No. 1

TSI-2 GENERAL FUND EXPENDITURES (Page 2)

For the Years Ended September 30, 2023 and 2022

	2023	2022
Administrative and Other (continued)		
Health Dist - Pollution Control	13,744	13,028
Information technology	49,148	64,187
Insurance	334,712	227,175
Lab fees	69,137	52,151
Equipment/building lease payments	38,922	34,309
Bad debt expenses	32,584	26,380
Office supplies and postage	20,253	18,537
Regulatory assessment	53,316	77,990
Safety materials and supplies	45,474	24,759
Uniform/floor mat rental	22,247	31,544
Election costs and other	62,587	46,392
	<u>1,028,674</u>	<u>899,432</u>
Debt Service		
Principal	68,876	-
Interest	18,088	-
Subtotal	<u>86,964</u>	<u>-</u>
 Total Expenditures	 <u><u>\$ 11,824,861</u></u>	 <u><u>\$ 11,097,827</u></u>

Galveston County Water Control and Improvement District No. 1

TSI-3 CASH AND INVESTMENTS

For the Year Ended September 30, 2023

Funds	Identification or Certificate Number	Interest Rate (%)	Maturity Date	Balance
<u>General Fund</u>				
Investment pool - TexPool	XXXX0002	Varies	Daily	\$ 3,555,893
Checking - Amegy Bank	XXXX003656	-	N/A	3,302,396
Checking - Amegy Bank	XXXX603474	-	N/A	52,091
Checking - Amegy Bank	XXXX601318	-	N/A	19,643
Petty cash	N/A	N/A	N/A	2,799
Total General Fund				6,932,822
<u>Debt Service Fund</u>				
Investment pool - TexPool	XXXX0001	Varies	Daily	509,563
Checking - Amegy Bank	XXX4846	-	N/A	50,652
Checking - Amegy Bank	XXX4889	-	N/A	469,717
Total Debt Service Fund				1,029,932
<u>Capital Projects Fund</u>				
TexPool	XXXX0005	Varies	Daily	4,953,261
Bank OZK (escrow)	XX-XXXX-01-1	-	N/A	4,234,322
				9,187,583
Total All Funds				\$ 17,150,337

Galveston County Water Control and Improvement District No. 1

TSI-4 ANALYSIS OF TAXES LEVIED AND RECEIVABLE

For the Year Ended September 30, 2023

	General Fund	Debt Service Fund			
Taxes receivable - September 30, 2022	\$ 83,947	\$ 74,554			
FY 2023 Adjusted tax roll	1,790,628	637,642			
Total to be Accounted For	1,874,575	712,196			
Tax Collections					
Current year	1,750,892	623,493			
Prior years	20,024	7,131			
Total Collections	1,770,916	630,624			
Total Adjustments (includes principal & interest on A/R)	36,635	5,842			
Taxes Receivable - September 30, 2023	\$ 140,294	\$ 87,414			
Taxes Receivable - By Year					
2022	\$ 45,935	\$ 7,950			
2021	15,940	2,759			
2020	8,929	1,937			
2019	6,825	1,710			
2018	5,679	1,591			
Thereafter	56,991	71,467			
Taxes Receivable - September 30, 2023	\$ 140,299	\$ 87,414			
	2022	2021	2020	2019	2018
Assessed					
Property Valuations	\$ 1,788,490,526	\$ 1,579,816,427	\$ 1,359,192,659	\$ 1,182,735,898	\$ 1,059,803,116
Tax Rates (Per \$100 Valuations)					
Debt service	\$ 0.0356	\$ 0.0166	\$ 0.021	\$ 0.024	\$ 0.028
Maintenance	0.1000	0.0960	0.096	0.097	0.100
Total Tax Rate (per \$100 Valuation)	\$ 0.136	\$ 0.113	\$ 0.117	\$ 0.121	\$ 0.128
Tax Rolls**	\$ 2,425,372	\$ 1,778,968	\$ 1,584,193	\$ 1,436,776	\$ 1,356,665
For the Year Ended September 30, 2023					All Taxes
Percent of current taxes collected to current taxes levied (as adjusted)					97.9%

**** As adjusted**

Galveston County Water Control and Improvement District No. 1

TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS

September 30, 2023

Due During Fiscal Year Ending Sept 30,	Unlimited Tax Bonds - Series 2016 & 2022		
	Principal	Interest	Total
2024	\$ 400,000	\$ 242,150	\$ 642,150
2025	410,000	223,949	633,949
2026	420,000	206,787	626,787
2027	430,000	190,662	620,662
2028	440,000	174,037	614,037
2029	455,000	156,787	611,787
2030	465,000	138,655	603,655
2031	480,000	119,643	599,643
2032	285,000	105,675	390,675
2033	295,000	96,975	391,975
2034	305,000	87,975	392,975
2035	315,000	78,675	393,675
2036	320,000	69,150	389,150
2037	330,000	59,400	389,400
2038	340,000	49,350	389,350
2039	350,000	39,000	389,000
2040	365,000	28,275	393,275
2041	375,000	17,175	392,175
2042	385,000	5,775	390,775
Totals	<u><u>\$ 7,165,000</u></u>	<u><u>\$ 2,090,095</u></u>	<u><u>\$ 9,255,095</u></u>

Galveston County Water Control and Improvement District No. 1

TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS (Continued)

September 30, 2023

Due During Fiscal Year Ending Sept 30,	Notes Payable		
	Principal	Interest	Total
2024	\$ 530,803	\$ 515,554	\$ 1,046,357
2025	556,177	488,055	1,044,232
2026	592,101	459,006	1,051,107
2027	618,604	428,378	1,046,982
2028	655,716	396,141	1,051,857
2029	683,470	362,262	1,045,732
2030	716,900	326,832	1,043,732
2031	756,041	291,941	1,047,982
2032	780,932	260,275	1,041,207
2033	806,612	232,370	1,038,982
2034	833,122	205,860	1,038,982
2035	345,507	183,425	528,932
2036	363,813	165,119	528,932
2037	383,090	145,842	528,932
2038	403,387	125,545	528,932
2039	424,760	104,172	528,932
2040	447,266	81,666	528,932
2041	470,963	57,969	528,932
2042	495,917	33,015	528,932
2043	257,725	6,740	264,465
Totals	\$ 11,122,906	\$ 4,870,167	\$ 15,993,073

Due During Fiscal Year Ending Sept 30,	Lease Liability - Building		
	Principal	Interest	Total
2024	\$ 71,810	\$ 15,154	\$ 86,964
2025	74,894	12,071	86,965
2026	78,136	8,828	86,964
2027	81,544	5,420	86,964
2028	85,128	1,837	86,965
	\$ 391,512	\$ 43,310	\$ 434,822

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Galveston County Water Control and Improvement District No. 1

TSI-6 CHANGE IN LONG-TERM BONDED DEBT

For the Year Ended September 30, 2023

	Bond Issues			
	Tax Bonds - Series 2016	Rev. Refunding Bonds - Series 2020	Tax Bonds - Series 2022	Note payable
Interest rate	2.5% - 4.0%	2.0% - 5.0%	3.0% - 5.0%	5.23%
Dates interest payable	3/1; 9/1	2/1; 9/1	2/15; 8/15	6/1; 12/1
Maturity dates	5/18/2016 - 3/1/2031	8/19/2020 - 3/1/2034	3/22/2022 - 3/1/2042	12/22/2022 - 12/1/2042
Balance outstanding at beginning of current year	\$ 1,845,000	\$ 5,025,000	\$ 5,710,000	\$ -
New issuances	-	-	-	6,531,500
Debt sold or refunded	-	-	-	-
Principal retirements	(205,000)	(320,000)	(185,000)	(113,594)
Bonds Outstanding at End of Current Year	\$ 1,640,000	\$ 4,705,000	\$ 5,525,000	\$ 6,417,906
Interest Retirements	\$ 52,275	\$ 198,800	\$ 207,575	\$ 150,872
<u>Paying Agent/Registrar</u>				
Series 2016	BOKF, N.A.	Austin, Texas		
Series 2020	BOKF, N.A.	Dallas, TX		
Series 2022	BOKF, N.A.	Dallas, TX		
Bond Authority	Tax Bonds			
Amount authorized by voters	\$ 33,985,500			
Amount issued	\$ 33,985,500			
Remaining	\$ -			
Debt Service Fund cash and temporary investments balances as of September 30, 2023:			\$ 1,029,932	
Average annual debt service payment (Principal and Interest) for remaining term of all debt:			\$ 583,704	

Galveston County Water Control and Improvement District No. 1

TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES

GENERAL FUND

Last Five Years

	Amounts				
	2023	2022	2021	2020	2019
<u>General Fund Revenues</u>					
Service revenues & surcharges	\$ 10,539,634	\$ 9,047,190	\$ 7,859,090	\$ 7,871,955	\$ 6,716,074
Property taxes	1,771,202	1,508,194	1,277,555	1,144,333	1,053,282
Tap connection and fees	344,411	504,358	393,929	262,630	322,428
Penalty and interest	202,159	203,472	172,663	74,799	133,941
Grant revenues	-	-	40,933	127,592	-
Investment revenues	178,874	27,192	12,924	48,646	113,608
Miscellaneous revenues	232,777	154,144	145,572	84,264	525,846
Total Revenues	<u>13,269,057</u>	<u>11,444,550</u>	<u>9,902,666</u>	<u>9,614,219</u>	<u>8,865,179</u>
<u>General Fund Expenditures</u>					
Payroll	4,230,280	3,839,654	3,664,990	3,529,313	3,375,234
Purchased bulk water	1,791,374	1,376,228	1,433,794	1,382,221	1,393,382
Professional fees	65,612	84,177	103,423	89,652	62,523
Contracted services	648,232	735,189	911,832	338,822	276,519
Repairs and maintenance	1,293,506	1,832,764	1,498,230	996,632	911,575
Utilities	396,456	330,388	350,991	321,151	334,704
Administrative expenses	1,028,674	899,432	821,934	704,015	662,785
Debt service	86,964	-	-	-	-
Capital outlay	2,283,763	1,999,995	2,619,958	575,753	682,214
Total Expenditures	<u>11,824,861</u>	<u>11,097,827</u>	<u>11,405,152</u>	<u>7,937,559</u>	<u>7,698,936</u>
Revenues Over (Under)					
Expenditures	<u>\$ 1,444,196</u>	<u>\$ 346,723</u>	<u>\$ (1,502,486)</u>	<u>\$ 1,676,660</u>	<u>\$ 1,166,243</u>
<u>Other Financing Sources (Uses)</u>					
Transfers, net	\$ (1,352,910)	\$ (758,310)	\$ (391,510)	\$ (339,502)	\$ (590,951)
Total Other Financing Sources					
(Uses)	<u>(1,352,910)</u>	<u>(758,310)</u>	<u>(391,510)</u>	<u>(339,502)</u>	<u>(590,951)</u>
Net Change in Fund Balance	91,286	\$ (411,587)	(1,893,996)	1,337,158	575,292
Beginning Fund Balance	<u>5,823,694</u>	<u>5,607,107</u>	<u>7,501,103</u>	<u>6,163,945</u>	<u>5,588,653</u>
Ending Fund Balance	<u>\$ 5,914,980</u>	<u>\$ 5,195,520</u>	<u>\$ 5,607,107</u>	<u>\$ 7,501,103</u>	<u>\$ 6,163,945</u>

Percent of Total Fund Revenues				
2023	2022	2021	2020	2019
79.4 %	79.1 %	79.4 %	81.9 %	75.8 %
13.3	13.2	12.9	11.9	11.9
2.6	4.4	4.0	2.7	3.6
1.5	1.8	1.7	0.8	1.5
-	-	0.4	1.3	-
1.3	0.2	0.1	0.5	1.3
1.8	1.3	1.5	0.9	5.9
100.0	100.0	100.0	100.0	100.0
31.9	33.6	37.0	36.7	38.1
13.5	12.0	14.5	14.4	15.7
0	0.7	1.0	0.9	0.7
4.9	6.4	9.2	3.5	3.1
9.7	16.0	15.1	10.4	10.3
3.0	2.9	3.5	3.3	3.8
8	7.9	8.3	7.3	7.5
0.7	-	-	-	-
17.2	17.5	26.5	6.0	7.7
89.1	97.0	115.2	82.6	86.8
10.9 %	3.0 %	(15.2) %	17.4 %	13.1 %

Galveston County Water Control and Improvement District No. 1

TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES DEBT SERVICE FUND

Last Five Years

	Amounts				
	2023	2022	2021	2020	2019
<u>Debt Service Fund Revenues</u>					
Property taxes	\$ 646,434	\$ 265,078	\$ 286,450	\$ 292,957	\$ 301,211
Penalty and interest	-	17,469	26,061	16,238	14,635
Investment revenues	5,046	644	44	5,653	23,007
Total Revenues	651,480	283,191	312,555	314,848	338,853
<u>Debt Service Fund Expenditures</u>					
Tax collection expenditures	26,687	26,546	25,073	22,772	19,955
Debt service:					
Principal	823,594	205,000	210,000	795,000	790,000
Interest and fees	609,522	361,797	282,974	245,473	426,955
Bond issuance costs	-	-	-	260,570	-
Payment to escrow agent	-	-	-	955,130	-
Capital outlay	-	-	-	-	-
Total Expenditures	1,459,803	593,343	518,047	2,278,945	1,236,910
Revenues Over (Under)					
Expenditures	\$ (808,323)	\$ (310,152)	\$ (205,492)	\$ (1,964,097)	\$ (898,057)
<u>Other Financing Sources (Uses)</u>					
Transfers, net	\$ 1,352,910	\$ 423,153	\$ 391,510	\$ 339,502	\$ (159,557)
Debt issuance	-	93,722	-	5,025,000	-
Bond premium	-	-	-	995,987	-
Payment to escrow agent	-	-	-	(5,755,114)	-
Total Other Financing Sources					
(Uses)	1,352,910	516,875	391,510	605,375	(159,557)
Net Change in Fund Balance	544,587	\$ 206,723	186,018	(1,358,722)	(1,057,614)
Beginning Fund Balance	485,345	278,622	92,604	1,451,326	2,508,940
Ending Fund Balance	\$ 1,029,932	\$ 485,345	\$ 278,622	\$ 92,604	\$ 1,451,326
Total Active Retail Water and/or Sewer Connections	16,462	16,424	16,630	16,325	16,042

Percent of Total Fund Revenues				
2023	2022	2021	2020	2019
99.2 %	93.6 %	91.6 %	93.0 %	88.9 %
-	6.2	8.3	5.2	4.3
0.8	0.2	0.0	1.8	6.8
100.0	100.0	100.0	100.0	100.0
4.1	9.4	8.0	7.2	5.9
0.0	0.0	0.0	0.0	0.0
126	72.4	67.2	252.5	233.1
93.6	127.8	90.5	78.0	126.0
-	-	-	82.8	-
-	-	-	303.4	-
-	-	-	-	-
224.1	209.5	165.7	723.8	365.0
(124.1) %	(109.5) %	(65.7) %	(623.8) %	(265.1) %

